Negotiator Briefing: A Needs-Based Approach to Climate Finance

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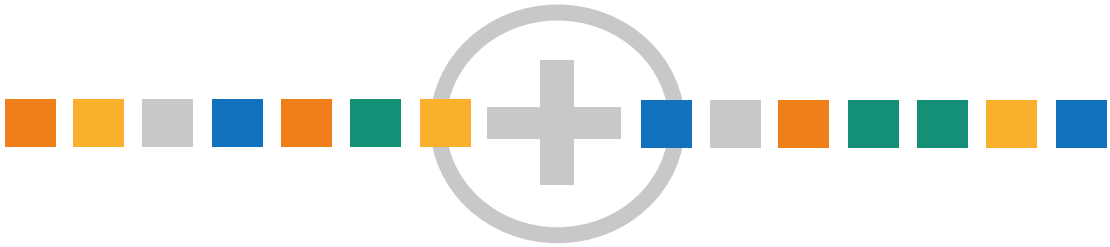

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1 The authors are the coordinators of the Equity Working Group of the Independent Global Stocktake (iGST), a consortium of independent research organisations and other civil society actors working together to support the Global Stocktake (GST). Its work is supported by the ClimateWorks Foundation. http://independentgst.org

+ Tenets of a needs-based approach to climate action

As the IPCC has highlighted, meeting the central objectives of the Paris Agreement and the Convention itself will require transformative change (IPCC WG3)[2]. Unfortunately, this calls for significantly more climate action than has yet been demonstrated (EGR, 2022[3]; AGR, 2022[4]), *which, in turn, requires building significantly more adaptive and mitigative capacity, particularly in developing countries* (IPCC WG2[5]; IPCC WG3).

To date, the overwhelming scale of unmet development needs has seriously undermined the capacity of many countries to both protect their populations from climate change and move towards low carbon development pathways rapidly and at scale. Accordingly, in order to advance toward a climate regime and global efforts that are "fit for purpose" with respect to achieving our commonly agreed climate goals, the GST must take a concrete, bottom-up, ***needs-based approach*** to collective assessment, one that holds at its core the imperative of building the necessary adaptive capacity and mitigative capacity.

A needs-based articulation of climate action is fully consistent with Article 2 of the Framework Convention on Climate Change, which insists that climate stabilization be achieved at a level that would prevent dangerous climate change and be pursued in a manner that is consistent with sustainable development. Similarly, in Article 2 of the Paris Agreement (PA), Parties agreed to pursue climate action "in the context of sustainable development and efforts to eradicate poverty." Both, very notably, explicitly tie adequate climate action to achievements of sustainable development and poverty eradication.

Therefore, any assessment of climate action from a needs-based approach would have to recognize the scope of currently existing unmet development needs and growing adaptation needs, along with systemic gaps of capacity to address these. Persistent mitigative and adaptive capacity gaps will prevent Parties from undertaking low-carbon and climate resilient development pathways that are essential for climate stabilization and for securing human well-being in a changing climate.

2 IPCC, 2022: Summary for Policymakers. In: *Climate Change 2022: Mitigation of Climate Change. Contribution of Working Group III to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change* [P.R. Shukla, J. Skea, R. Slade, A. Al Khourdajie, R. van Diemen, D. McCollum, M. Pathak, S. Some, P. Vyas, R. Fradera, M. Belkacemi, A. Hasija, G. Lisboa, S. Luz, J. Malley, (eds.)]. Cambridge University Press, Cambridge, UK and New York, NY, USA. doi:10.1017/9781009157926.001.

3 United Nations Environment Programme (2022). *Emissions Gap Report 2022: The Closing Window — Climate crisis calls for rapid transformation of societies.* Nairobi. https://www.unep.org/emissions-gap-report-2022

4 United Nations Environment Programme (2022). *Adaptation Gap Report 2022: Too Little, Too Slow – Climate adaptation failure puts world at risk*. Nairobi. https://www.unep.org/adaptation-gap-report-2022

5 IPCC, 2022: *Climate Change 2022: Impacts, Adaptation and Vulnerability*. Contribution of Working Group II to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change [H.-O. Pörtner, D.C. Roberts, M. Tignor, E.S. Poloczanska, K. Mintenbeck, A. Alegría, M. Craig, S. Langsdorf, S. Löschke, V. Möller, A. Okem, B. Rama (eds.)]. Cambridge University Press. Cambridge University Press, Cambridge, UK and New York, NY, USA, 3056 pp., doi:10.1017/9781009325844.

+ Key elements of a needs-based approach to climate finance

Assessing finance needs for a transition to a low greenhouse-gas emissions and climate-resilient development – including building the necessary adaptive and mitigative capacity to do so – differs fundamentally from the much more restricted process of calculating the finance associated with discrete project-based mitigation or adaptation activities, which are associated with marginal shifts, not transformation.

A needs-based approach to finance requires an understanding of not only the specific actions and their finance implications, but also of the appropriate institutions, instruments and mechanisms by which delivery and use of finance could be effectively carried out. As a starting point, an understanding of the required finance consistent with the 1.5°C mitigation pathway, and the associated costs for achieving resilience at that temperature goal, would not only be crucial for the GST but also for the ongoing discussion on setting a new quantified collective goal.

Understanding of finance needs however goes beyond solely quantitative assessment of financial requirements. It encompasses non-quantitative dimensions of financing as well, e.g., finance for investment in capital may require the creation of institutions for fostering community-based investments, whilst also considering the type of finance instruments in relation to equitable sustainable development context, such as indebtedness, inequality, civil and political rights, amongst others.

A needs-based approach further requires access to finance to be sufficiently straightforward and efficient to prevent prohibitive barriers to deployment. It would also entail prioritising capacity building to ensure that actors are able to access finance. This would include ensuring that community-based institutions responsible for implementing adaptation would be able to access finance. A country-driven needs-based approach will focus on outcomes over outputs.

A needs-based approach entails an understanding of the context shaping the opportunity spaces actors have to pursue low carbon and climate resilient development pathways. The GST has a mandate to use the best available science. A central message emerging from numerous scientific bodies, including the IPCC, is that contextual factors – including political, social and material factors – are fundamental in creating or constraining opportunities to mitigate and adapt.

This brief further elaborates the finance dimensions of the needs-based approach to an equitable assessment of progress under the global stocktake (Athanasiou, et al. 2022)[6]. The brief is therefore not exhaustive but identifies some of the critical elements for an equitable outcome and process for the first global stocktake, whilst noting the pervasive nature across all themes of climate finance.

6 Tom Athanasiou, Christian Holz, Fatuma Hussein, Sivan Kartha, Sonja Klinsky, Xolisa Ngwadla, Chella Rajan. 2022. *Negotiator Briefing: A Needs-based Approach to Assessment and Stocktaking*. Equity Working Group for the iGST. https://unfccc.int/documents/624844

This brief argues that the first global stocktake should address at least four areas critical for equity considerations: the quantum of finance, the development context, reforms to global finance systems and the indispensability of international cooperation and trust building for meaningful outcomes of the process. These four areas should however be addressed in accordance with some principles towards an equitable consideration of climate finance.

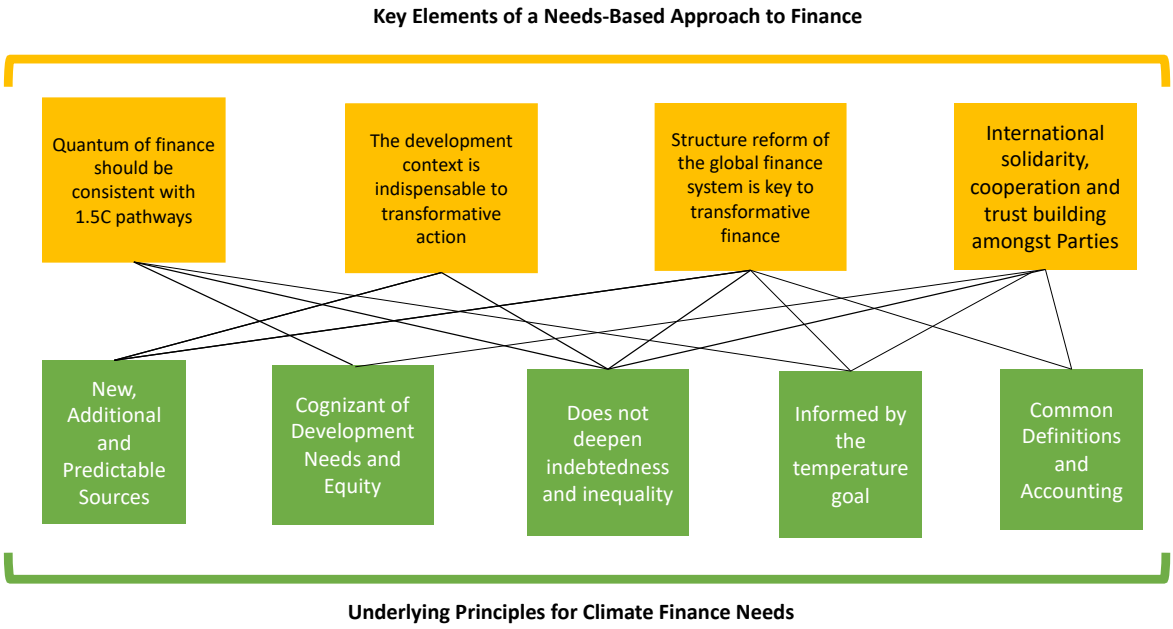


Figure 1: Key Elements and Underlying Assessment Principles for A Needs-Based Approach to Finance

+ Key elements of a need-based approach for finance

#1 Finance needs for the effective implementation of the PA and achieving its objectives should match the actual needs across all of mitigation, adaptation, loss and damage, and just transition, and other aspects of MOI in a balanced manner, given the agreed objectives in Article 2 of the Paris Agreement and the requirement to take into account finance needs of developing countries in Article 9.4. (ODA Report, iGST resource on finance).

Quantum of financial needs

- In the pre-Paris Agreement era, the provision of finance has been arbitrary and political in nature, such as the US$ 100bn pledge codified in Cancun (UNFCCC,

2010)[7]. According to the OECD (2022)[8], as of 2020, climate finance 'provided and mobilized' amounted to US$ 83 billion dollars. The 11th Joint Report of MDBs Climate finance committed in 2021 for low and middle-income countries amounted to US$ 50.6 billion (MDB, 2022)[9]. To put the figures into context, the net outflow of wealth and resources, including natural resources, from the Global South to the Global North, currently estimated at nearly US$ 2 trillion per year, dwarfs the flows of international aid and climate finance (Civil Society Equity Review, 2022)[10].

- The SCF (2021)[11] in its first report analyzing needs of developing countries based on submissions by Parties to the UNFCCC through NDCs, Adaptation Communications, National Communications, etc. suggest the expressed needs are in the order of US$ 28.2 trillion. The figures in the report are a likely under-estimation of needs due to the fact that the documents reviewed as sources are not comprehensive, do not cover all Parties, and due to data gaps and methodological inconsistencies.
- The Songwe-Stern 2022 Report[12] identified the need for a new roadmap on climate finance that can mobilize the US$ 1 trillion per year in external finance that will be needed by 2030 for emerging markets and developing countries (EMDCs) other than China. These economies need to spend around US$ 1 trillion per year by 2025 (4.1% of GDP compared with 2.2% in 2019) and around US$ 2.4 trillion per year by 2030 (6.5% of GDP).
- Adequate financing for both climate adaptation and mitigation is critical for achieving the global climate goals. The UN Intergovernmental Panel on Climate Change (IPCC) estimates that to adequately finance climate change measures, between US$ 1.6 trillion to US$ 3.8 trillion is required annually, until 2030 (1.5°C Special Report)[13].

The estimates of finance needed and provided vary widely due to approaches, methodologies and accounting rules, and fall short of expressing actual finance needs for the transition to low-carbon and climate-resilient economies. For example, the SCF 2021

7 UNFCCC, 2020. The Cancun Agreements: Outcome of the work of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention. Decision 1/CP.16 para 98.

8 OECD, 2022. Climate Finance Provided and Mobilised by Developed countries in 2016 - 2020. https://www.oecd-ilibrary.org/docserver/286dae5d-en.pdf?expires=1679486245&id=id&accname=guest&checksum=FC272F508D731331FC0C5A16D9CE5539

9 Joint Report of Multilateral Development Banks, 2022. Climate Finance. https://www.eib.org/attachments/lucalli/mdbs_joint_report_2021_en.pdf

10 Civil Society Equity Review (2022) *The Imperative of Cooperation. Steps Toward an Equitable Response to the Climate Crisis*. Manila, London, Cape Town, Washington, et al.: Civil Society Equity Review Coalition. equityreview.org/report2022

11 UNFCCC Standing Committee on Finance, 2021. First report on the determination of the needs of developing country Parties related to implementing the Convention and the Paris Agreement. https://unfccc.int/sites/default/files/resource/54307_2%20-%20UNFCCC%20First%20NDR%20technical%20report%20-%20web%20%28004%29.pdf

12 Songwe, V. Sten, N, Bhattacharya, A. 2022. Finance for Climate Action: Scaling up investment for climate and development. Report of the Independent High-level Expert Group on Climate Finance. https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2022/11/IHLEG-Finance-for-Climate-Action-1.pdf

13 IPCC, 2018: Summary for Policymakers. In: *Global Warming of 1.5°C. An IPCC Special Report on the impacts of global warming of 1.5°C above pre-industrial levels and related global greenhouse gas emission pathways, in the context of strengthening the global response to the threat of climate change, sustainable development, and efforts to eradicate poverty* [Masson-Delmotte, V., P. Zhai, H.-O. Pörtner, D. Roberts, J. Skea, P.R. Shukla, A. Pirani, W. Moufouma-Okia, C. Péan, R. Pidcock, S. Connors, J.B.R. Matthews, Y. Chen, X. Zhou, M.I. Gomis, E. Lonnoy, T. Maycock, M. Tignor, and T. Waterfield (eds.)]. Cambridge University Press, Cambridge, UK and New York, NY, USA, pp. 3-24. https://doi.org/10.1017/9781009157940.001

Report on the finance needs of developing countries, highlights a number of data, information, methodological gaps towards understanding needs, just as accounting rules used in OECD reports on 'mobilised' finance do not have universal acceptance. It is therefore critical for the UNFCCC to arrive at a process that is consistent, transparent, and appropriately reflects the intended UNFCCC & PA objectives and principles if it is to be credible and legitimate to foster solidarity and transparency.

Thematic and regional needs

- Of the US$ 83 billion dollars purportedly mobilized in partial fulfillment of the Cancun finance commitment, mitigation finance accounts for 58%, with adaptation and cross-cutting activities at 34% and 7%, respectively (OECD, 2022). MDBs on the other hand committed for low and middle-income countries US$ 33 billion for mitigation and US$ 17.6 billion for adaptation (MDB, 2022).
- The biggest quantum of expressed needs is from Asia-Pacific states where their stated needs in the SCF (2023) reports amounted to about US$ 3.2 trillion, followed by African states at about US$ 2.5 trillion, with Latin America and Caribbean states at US$ 168 billion.
- According to the SCF 2021 report, the needs attributed to mitigation by developing countries is estimated at US$ 8.3 trillion, whereas for adaptation it is at US$ 12.3 trillion, with the balance being for cross-cutting projects (SCF, 2021).
- It is important to highlight the fact that the above figures do not reflect finance needs commensurate with achievement of the Parties objectives, but rather with the activities reflected in countries' NDCs, amongst others, which are themselves markedly insufficient relative to the requirements of actually achieving the PA objectives (EGR, 2022; AGR, 2022; PGR, 2022).
- For the mitigation needs of developing countries, other global reports that use a mix of climate economic modeling for scenarios of below 2°C, set the needs as ranging from US$ 2.4 trillion to US$ 4.7 trillion in annual energy-related investment[14] alone. The UNEP Adaptation Gap Report 2022[15] estimates the adaptation finance gap in developing countries to be likely five to ten times greater than current international adaptation finance flows and continues to widen having reached US$ 28.6 billion in 2020 and pegs the gap at US$ 160-340 billion by 2030. Relative to other reports, the Adaptation Gap Report does seem to grossly underestimate adaptation needs.

14 Collum DL, Zhou W, Bertram C, et al. 2018. Energy investment needs for fulfilling the Paris Agreement and achieving the Sustainable Development Goals. Nature Energy. 3(7): pp.589–599; International Energy Agency. 2020. World Energy Model Documentation. Paris: IEA. Available at https://iea.blob.core.windows.net/assets/bc4936dc-73f1-47c3-8064-0784ae6f85a3/WEM_Documentation_WEO2020.pdf; and International Renewable Energy Agency. 2020. Global Renewables Outlook. Energy transformation 2050. Abu Dhabi: International Renewable Energy Agency. Available at https://www.irena.org/publica-tions/2020/Apr/Global-Renewables-Outlook-2020

15 UNEP Adaptation Gap Report. 2022. Too Little Too Slow. https://www.unep.org/resources/adaptation-gap-report-2022

Key policy and political messages

- Given that the current state of climate finance is markedly inconsistent with even conservative and partial estimates of needs associated with the required effort in line with Article 2 of the Paris Agreement, the discussion on Article 2.1 (c) (as well as on the New Quantified Collective Goal) should determinedly aim to recalibrate the finance discussion, setting aside both political figures (such as the $ 100 billion target) and figures that are partial by construction (such as assessments of needs associated with NDCs). Rather, the assessments, discussions, and COP decisions should focus on finance needs consistent with a pathway that reflects the scale and speed of actions in developing countries that corresponds to achieving the Paris objectives. In other words, they should be based on comprehensive needs-based assessments.
- The extent to which such scale of finance is to be deployed requires a structural and systemic change in how climate finance is mobilized and delivered, including the consideration of an initial conservative floor, which represents a 'no-regret option' judging from current finance flows, as a placeholder for more comprehensive needs-based assessments;
    - Increase flows of finance from the MDB and DFI systems are to be multiplied by three within five years, from US$ 60 billion to US$ 180 billion, including through the increased liquidity backed by Special Drawing Rights
    - bilateral official development assistance (ODA) for climate should be doubled by 2025 from its 2019 level, from US$ 30 billion to US$ 60 billion, building on the G7 Carbis Bay commitments and the Bridgetown Initiative.
    - In addressing areas that were deemed priority by developing countries, i.e. adaptation and loss & damage, target increasing adaptation finance to US$ 200-250 billion by 2030 and loss and damage finance to US$ 200-400 billion.
- Build trust through transparency and accountability of climate finance including agreement on definitions and accounting procedures which should inform, costing of needs by developing countries in their NDCs and Adaptation Communications, as well as Biennial Communications of Indicative Support and Biennial Transparency Reports by developed countries by the Standing Committee on Finance in consultation with MDBs and IFI. This can be undertaken within the context of institutional arrangements proposed in Element #3.

#2 The development context in developing countries is intrinsically linked to needs, which must be taken into account, with respect to their ability to contribute to the global effort so as to ensure an effective and fair transition to low carbon and climate resilient economies

Transition and development prognosis for developing countries

The development gap across countries of the world and inequality pose a threat to the ability for many developing countries to vigorously invest in the transition to low carbon

economies, whilst at the same time climate change impacts risk a reversal of development gains in some countries; there are only eight developing countries in the top fifty countries in the Human Development Index 2021-2022, the irony being that five of those countries are major fossil fuel exporting economies (UNDP, 2022)[16].

The priority of most developing countries is ensuring that the transition does not prejudice development opportunities, by for example deepening global inequality through uneven developmental benefits, accruing disproportionately to developed countries. According to Kanitkar, *et al*, 2022,[17] in analysing global mitigation pathways generated to explore 1.5°C with no or low overshoot in the IPCC AR6 report, GDP and consumption outcomes by 2050 show that;

- In respect of GDP outcomes, rates of GDP increase between 2020 and 2050 differ across regions. The 2020 starting point has per capita GDP in North America ~17 times higher than in Sub-Saharan Africa, and ~10 times higher than in South Asia.
    - The modelled 2050 per capita GDP (weighted averages across scenarios) for developing countries (excluding China, which has a US$ 47,000 value) ranges from US$ 9,000 to US $28,000 in 2010 PPP dollars, with Sub-Saharan Africa being the bottom of the range at US$ 9,000, thus remaining substantially below the bottom of the 2020 range for developed countries of US$ 16,000 (and remaining at a mere 1/6th of the 2020 level of North America).
    - On the other hand, 2050 values for developed countries (including economies in transition, EITs) would range from US$ 16,000 to US$ 72,000 per capita, with North American per capita GDP modelled to grow from US$ 54,000 in 2020 to US$ 72,000 in 2050.
- A similar picture emerges in respect to the inequality of consumption of goods and services. As of 2020, developing countries' (including China) consumption per capita ranged from US$ 1,000 to US$ 12,000 compared to developed countries' figures ranging from US$ 22,000 to US$ 35,000 (excluding EITs). The full range of the modelled 2050 consumption of developing countries, US$ 3,000 to US$ 17,000, remains substantially below the 2020 starting point of developed countries, in particular Sub-Saharan Africa and South Asia with the lowest per capita consumption growing from US$ 1,000 in 2020 to US$ 3,000 and US$ 4,000 by 2050, respectively. But even China's increase from US$ 5,000 to US$ 17,000, would have it remain substantially below the 2020 starting value of developed countries. Consumption in developed countries (excl. EITs), on the other hand, would nearly double to a range of US$ 52,000 to US$ 72,000 per capita, again with the upper end of the range associated with North America.

16 UNDP, 2022. Human Development Report 2021/22. https://hdr.undp.org/system/files/documents/global-report-document/hdr2021-22pdf_1.pdf

17 Kanitkar, T., Mythri, A., Jayaraman, T. 2022. Equity Assessment of Global Mitigation Pathways in the IPCC Sixth Assessment Report. https://files.osf.io/v1/resources/p46ty/providers/osfstorage/636367597baf0403156e0d8b

At the current projections, this suggests a transition that can perpetuate global inequality and maintain the relative underdevelopment of developing countries, including their ability to respond to climate impacts which may actually deepen the inequalities. The key issue in question is not whether increased consumption or GDP growth is sufficient to address development needs, rather the 'relative' implications and inequity of the transition embedded in the IPCC AR6 scenarios.

Financing the transition and indebtedness

The total external debt of developing countries reached US$ 10.6 trillion in the wake of the pandemic, and the servicing of this debt consumes resources that are now desperately needed for both development and the climate transition. In the low-income countries alone, external debt sharply increased during that pandemic, reaching US$ 860 billion in 2020. World Bank (2021)[18].

The quality of finance matters as much as quantity, because the transition cannot simply reinscribe patterns of indebtedness. This may well call for new institutions of finance and investment, restructured governance arrangements, and regulatory regimes.

- According to the 2022 MDB joint report on climate finance committed in the form of grants vs loans was at US$ 4.3 billon and US$ 36 billon respectively of the total US$ 50.7 billon; whereas the OECD 2022 report identifies climate finance mobilised towards the US$ 100 billion comprised of US$ 48.6 billion in loans (71% of the US$ 68.1billion public finance), and US$ 17.9 billions in grants (26% of the US$ 68.1 billion of public finance). Other instruments used in the financing include export credits and 'mobilised' private sector finance which added up to US$ 15 billion as of 2020 (OECD, 2022).
- According to Bloomberg's Sovereign Debt Vulnerability Ranking[19] 2022 identifies countries at risk of debt default, with developing countries at the highest risk of defaulting in the repayment of their debt obligations in 2023:
    - The top 25 countries with the highest debt default risk are all developing countries with the exception of Turkey and Mexico, of which more than 50% are African countries,
    - African economies with significant emission reduction potential by virtue of their emissions[20] are at risk of debt default; Ghana (11) ranked 2nd in likelihood of default; Tunisia (7) ranked 3rd in likelihood of default; Egypt (2) ranked 5th in risk of default; Kenya (12) ranked 6th in risk of default; South Africa (1) ranked 15th in risk of default; Nigeria (5) ranked 24th in risk of default.
- This suggests the financing of the transition requires financing models first take into account the fiscal constraints of developing countries in their ability to facilitate

18 International Debt Statistics 2022. https://documents1.worldbank.org/curated/en/552361634028314881/pdf/International-Debt-Statistics-2022.pdf

19 It's based on four underlying metrics: Government bond yields *(the weighted-average yield of the country's dollar bonds)*; 5-year credit default swap (CDS) spread; Interest expense as a percentage of GDP; Government debt as a percentage of GDP.

20 In parentheses is the ranking in terms of emissions within Africa from the World Population Review 2023.

and invest in the transition, and furthermore consider the type of financing available for the transition such that it does not lead to further indebtedness of developing countries.

The level of indebtedness is compounded by the cost of capital for developing countries, which is largely driven by perception, as such lead to higher costs of capital compared to the rest of the world, as articulated by the Chief Economist of the Africa Export-Import Bank, Fofack (2021)[21] who suggest a paradox in the case of African countries:

- Despite the region's diversity and the asymmetric nature of shocks of African economies, African corporate and sovereign entities – as sub-investment grade borrowers, African entities have issued bonds at high discounts and high interest rates – have consistently been perceived as riskier than their counterparts elsewhere in the world.
    - Ethiopia, a country with one of the highest growth rates in the world, with an external debt-to-GDP ratio of about 30.5 percent going to 2020, which is well below the IMF threshold of 60 percent for prudent debt levels remains a sub-investment grade borrower, with its 10-year sovereign bond was trading at an average of 6.6 percent, against the global benchmark of 0.74 percent at the height of the pandemic.
    - Nigeria, one of Africa's largest economies, with one of the lowest external debt-to-GDP ratios (about 15 percent) among emerging economies, its 10-year sovereign bond traded at a default-driven rate of 9.1 percent at the height of the COVID- 19 crisis.
    - Zambia's 10-year bond yield rose to 38 percent at the height of the pandemic downturn. Under these default-driven borrowing rates, Zambia's interest payments on its US$ 3 billion eurodollar bonds could push the country into a growth-crushing downward spiral.
- A comparison of borrowing rates incurred by African governments on their sovereign debt to those borne by more advanced economies, most of which have significantly higher debt-to- GDP ratios is very instructive.
    - Italy, which over the past two years recorded a debt-to-GDP ratio of 134.8 percent, was paying less than 0.91 percent on its 10-year sovereign bond at the height of the pandemic downturn, paying significantly less on its bonds compared to countries across Africa.
    - The risk perception is not even informed by a historical record of defaults; a comparison between a 10-year dollar-denominated Namibia eurobond (481.6 basis point spread) with one from Greece (222.6 basis point spread) even though both countries have similar credit ratings (Ba3), with Greece having a history of defaulting; similarly 10-year bonds with similar maturity of Mauritius (Baa1 rating) and Italy (Baa3 which is one notch above junk status) yet, Mauritius's 10-year bonds had a spread of 245 basis points,

21 Hippolyte, Fofack, 2021. The ruinous price for Africa of pernicious 'perception premiums'. Africa Growth Initiative: Brookings Institute. https://www.brookings.edu/wp-content/uploads/2021/10/21.10.07_Perception-premiums.pdf

against 92.7 basis points for Italy's whereas Italy's external debt at the height of the COVID-19 crisis totaled US$ 2.6 trillion – more than three times the combined debt owed by African countries (US$ 841.9 billion) to their external creditors at end of 2019.

Over the last two decades, Africa has consistently registered as one of the fastest-growing regions in the world (second only to East Asia); resilience in African economies manifest in that several African countries recorded output expansion during the pandemic downturn; on macroeconomic fundamentals extreme poverty levels have declined by one third with life expectancy increasing by a fifth, and real per capita income has grown by about 50 percent.

In 2020, 56 percent of rated African countries had their sovereign debt ratings downgraded, significantly above the global average of 31.8 percent, whereas downgrades were 45.4 percent in the Americas, 28 percent in Asia, and 9.2 percent in Europe. The accompanying reviews and outlook of African countries led to a revision downward for 17 African countries, in four cases from positive to stable and in the remaining thirteen from stable to negative.

Box 1: A case of the South African Just Energy Transition Package

The South African Just Energy Transition Package of US$ 8.5 billion – ZAR 128 billion – by the UK, Germany, France, US, EU triggered the development of a Just Energy Transition Implementation Plan, which identifies the need for the transition at ZAR 1.5 trillion – US$ 96.7 billion – for the country in the 5-year period of 2023 to 2027 (The Presidency, South Africa, 2022).

The type of finance instruments comprising the US$ 8.5 billion include: concessional loans (US$ 5.3 billion), grants (US$ 330 million), commercial loans at US$ 1.5 billion), guarantees (US$ 1.3 billion) with grants as such making just below 4% of the total financing (The Presidency, South Africa, 2022)[22].

To put this is in perspective the total liability for South Africa under the package is at US$ 8.2 billion dollars; meanwhile the country's debt increased from US$ 167 billion in 2017/18 to US$ 286 billion dollars in 2021/22 which translates to 71% increase in sovereign debt over the last 5 years; the JET - Package therefore constitutes almost 3% of 2021/22 debt levels; whereas the full stated needs by South Africa over the next 5 year would translate to an increase of more than 33% of sovereign debt if financed at the same ratio as the JET-P.

22 The Presidency South Africa. 2022 The Just Energy Transition Investment Plan. https://www.thepresidency.gov.za/content/south-africa%27s-just-energy-transition-investment-plan-jet-ip-2023-2027

Key political messages

Effective financing of the transition to low carbon and climate resilient pathways requires financing instruments that take into account the capacity to invest in the transition and development priorities of developing countries, through the injection of medium to long-term liquidity such as through SDR's whilst mitigating the inherent bias of SDRs towards larger economies.

Launch a process/declaration for consideration of equity principles for structuring of 'just transition' packages to ensure consistency with the development needs and economic growth of developing countries, particularly in respect of the interest burden to be borne by developing countries in financing their transition to low carbon and climate resilient economies.

In the near term characterised by a tight fiscal environment, stagnant growth, increasing inflation to keep momentum on climate action it is important to increase availability of finance for developing countries through instruments/initiatives that are not debt-linked, including a grant-loan finance mix targets, including consideration of debt-climate swaps, debt relief, debt forgiveness amongst others.

Structural reforms in the international finance system with a particular focus on the cost of borrowing to mitigate the 'perception premium' that developing countries pay; this can be achieved through an international, transparent oversight of rating agencies and exploration of an opportunity premium, rather than a risk premium in developing countries.

#3 There is enough money in the world but it is not accessible, as such not in line with needs. There is a need to look at broader global economic flows and also international organizations as climate finance sources to meet needs that should be explored beyond the UNFCCC bounds.

Environmentally destructive subsidies. governments spend significant amounts of money to subsidize the destruction of our world. If a variety of subsidies for environmentally destructive activities over and above fossil subsidies but, across a range of sectors including agriculture, forestry, water management, and fisheries (Koplow & Steenblik, 2022)[23] estimates in excess of US$ 1.8 trillion a year, or about 2% of Gross World Product (GWP). These activities lead not only to climate destabilization but also biodiversity loss, land degradation and global inequality,

- Of this US$ 1.8 trillion, about US$ 640 billion comes as *explicit* subsidies to the global fossil industry as well as consumption subsidies designed to protect the poor.

23 Koplow, D., Steenblik, R. 2022. Protecting Nature by Reforming Environmentally Harmful Subsidies: The role of business. https://www.earthtrack.net/sites/default/files/documents/EHS_Reform_Background_Report_fin.pdf

- If hidden damage costs are counted as subsidies, in 2020 the IMF calculated the real fossil subsidy to be about US$ 5.9 trillion (Parry, Black & Vernon, 2021).[24]

COVID Recovery spending. Climate change has been dubbed an emergency, and the world has a recent experience in responding to emergencies. According to the International Energy Agency (2022)[25], pandemic recovery spending, as of October of 2021, had reached US$ 16.9 trillion.

- Of the US$ 16.9 trillion, about US$ 2.3 trillion went into long-term investments, of which only about US$ 470 billion was for clean energy and sustainable recovery – about 3% of the total.
- The overall economic recovery was fantastically inequitable. According to the World Inequality Lab (2022)[26], the richest 1% of the global population have, since the beginning of the pandemic, captured 19 times more of global wealth growth than the whole of the bottom 50%.

Dynastic wealth. This is wealth passed down from generation to generation within families, and of course within castes and classes. As a case, wealth managers estimate that "nearly 45 million U.S. households will transfer a total of US$ 68.4 trillion in wealth to heirs and charity over the course of the next 25 years".

- Much of these transfers will be protected from taxation, according to Americans for Tax Fairness (2022)[27] "these wealthy families will avoid as much as US$ 8.4 trillion in estate and generation-skipping taxes between now and 2024, by using dynasty trusts and other currently legal loopholes".
- The extremity here is frankly amazing: Oxfam, in its *Inequality Kills* report, notes that "The increase in Bezos' fortune alone during the pandemic could pay for everyone on earth to be safely vaccinated" (Oxfam, 2022)[28].

Tax Avoidance.

- Globally, there are 3.6 million individuals with over US$ 5 million or more in wealth. Their total wealth is equal to US$ 75.3 trillion; There are 183,000 individuals with US$ 50 million or more with a combined wealth of US$ 36.4 trillion; There are 2,660 global billionaires with a total combined wealth of US$ 13.76 trillion as of November 30, 2021. The report suggests that taxing the world's richest could raise about US$ 2.52 trillion a year, where a wealth tax of 2% on the world's millionaires, 3%

24 Parry, I., Black, S. & Vernon, N. 2021. *Still Not Getting Energy Prices Right: A Global and Country Update of Fossil Fuel Subsidies*. IMF Working Paper WP/21/236 (International Monetary Fund, 2021).
25 IEA (2022), Government Energy Spending Tracker, IEA, Paris. https://www.iea.org/reports/government-energy-spending-tracker-2
26 World Inequality Lab. 2022. World Inequality Report 2022. https://wir2022.wid.world/www-site/uploads/2021/12/WorldInequalityReport2022_Full_Report.pdf
27 Americans for Tax Fairness. 2022. Dynasty Trusts: Giant Loopholes that supercharge wealth accumulation. https://americansfortaxfairness.org/wp-content/uploads/DT-PRINT-2.2.pdf
28 Oxfam, 2022. I*nequality Kills: The Unparalleled Action Needed to Combat Unprecedented Inequality in the Wake of COVID-19*. Oxford: Oxfam International. https://doi.org/10.21201/2022.8465

on those with wealth above US$ 50million, and 5% on the world's billionaires is levied[29].

- Wealth which is shielded by tax havens and secrecy laws, and has now been estimated to be about 8% of the world's household financial wealth, or 10% of GWP. In 2007, this came to about US$ 5.7 trillion. The wealth of the US billionaire class increased by an estimated US$ 1.7 trillion since the beginning of the COVID pandemic, and that, under current laws, almost none of this new wealth will ever be taxed. (Civil Society Equity Review, 2022)[30]
- Illicit financial flows from the African region are estimated at US$ 88.6 billion from 2013-2015. During the same period, tax revenues foregone from corporate tax avoidance ranged from 2-3% of GDP in the African subregions:
    - 2% in Southern Africa, 2.3% in Western Africa, and 2.7% in Middle, Northern, and Eastern Africa combined.
    - More recent estimates from The State of Tax Justice Report 2021 indicate that Africa loses at least US$ 17 billion annually from corporate tax abuses and offshore wealth.

Quantitative easing and bailout of banks; the central banks have engaged in US$ 25 trillion of quantitative easing in the last 13 years. Of that, US$ 9 trillion was in the last 18 months to fight the pandemic," and then called for "an annual increase in the SDRs of US$ 500 billion a year for 20 years, put in a trust to finance the transition." She also noted that US$ 500 billion is "just 2 percent of the US$ 25 trillion" that the central banks have conjured out of thin air in the last 13 years. (Civil Society Equity Review, 2022)

Financing instruments for climate change action; Opportunities for a structural change in global finance, e.g., recycling of SDRs to MDBs and Regional Banks, asset management company balance sheets, etc.

Key political messages

There are taxation-based options with immediate impact that can be considered in augmenting climate finance including progressive consumption taxes (e.g., carbon, aviation, sin-taxes, etc.) to windfall profits taxes, wealth taxes, and financial transaction taxes to debt cancellation to green bond financing schemes. This would include the closing of corporate taxation loopholes – building on the OECD proposal of a minimum tax rate[31] which is promoted by the G7 and G20 – through a negotiation of a new UN Tax Convention, and/or a UN Intergovernmental Global Tax Body.

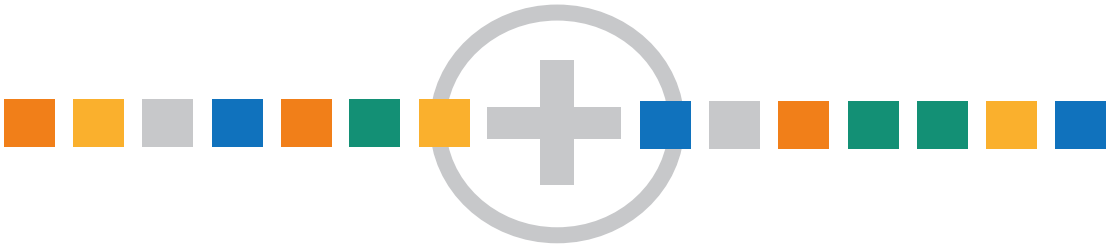
29 Oxfam, 2022. Taxing extreme wealth. Factsheet Report https://ips-dc.org/wp-content/uploads/2022/01/Report-Taxing-Extreme-Wealth-What-It-Would-Raise-What-It-Could-Pay-For.pdf

30 Civil Society Equity Review (2022) *The Imperative of Cooperation. Steps Toward an Equitable Response to the Climate Crisis*. Manila, London, Cape Town, Washington, et al.: Civil Society Equity Review Coalition. equityreview.org/report2022

31 Such a minimum rate should take into account that the global average corporate income tax rate is 23.54%. Africa has the highest regional average rate at 27.97% with Asia having the lowest regional average rate, it is at 19.62%; determines how and where increased revenues will be collected is overwhelmingly most beneficial to a handful of rich countries in the North.

‘Quantitative easing for climate’ through a creative use of *IMF Special Drawing Rights (SDRs)* building on the “Bridgetown Initiative' to create a sustainable and adequately scaled stream of public finance. Access to such an initiative should however be based on a country’s need, rather in proportion to the size of their economies, as such potentially deepens global inequality, e.g., of the US$ 650 billion SDR allocation in 2021, only US$ 275 billion went to “emerging and developing economies.” which can make such an initiative inequitable. It is a question of political will.

The UNFCCC system requires in-country and multilateral institutional arrangements for needs determination to address towards a needs-based regime that would have a chance of ensuring achievement of objectives. Such institutional arrangements should be funded through the UNFCCC Finance Mechanism, covering various aspects including methodologies and supporting the reporting through National Communications and the Biennial Transparency Reports.



Contact Us:

This brief is intended to contribute to ongoing learning-by-doing efforts to conduct the Global Stocktake in the manner most effective for generating its mandated outcome, to help Parties in updating and enhancing, in a nationally determined manner, their action and support, while at the same time foregrounding the needs of Parties and communities.

Please do not hesitate to contact us for further discussion of these ideas. All errors and omissions are the authors' responsibility.

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