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CAN THE NEW GLOBAL FINANCING PACT SUMMIT DELIVER ON CLIMATE JUSTICE?

CAN BRIEFING

Climate Action Network

Briefing: Can The New Global Financing Pact Summit Deliver on Climate Justice

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Climate Action Network (CAN) is a global network of more than 1,900 civil society organisations in over 130 countries driving collective and sustainable action to fight the climate crisis and to achieve social and racial justice.

Background:

Today's global financial system is failing people and the planet. Many governments, financial institutions, intergovernmental organisations and incumbent economic systems continue to accelerate the climate and biodiversity crises, exacerbate poverty, entrench inequality and injustice and are unfit to fund the transformation urgently needed to address these compounding and interlocking crises.

The provision of grant-based assistance from developed to developing countries is inadequate. Many developed countries have yet to meet the annual 0.7% (of their GDP) for development assistance, a target agreed prior to the UNCED conference in Rio de Janeiro 1992 or deliver on the UNFCCC goal of USD 100 billion for adaptation and mitigation in poor countries. In reality, much higher targets for grant-based and other assistance flows from developed countries are needed for climate and development.

In November 2022, following Bridgetown-inspired discussions at COP27 in Egypt on the need for global architecture reform, French President Emmanuel Macron announced that Paris will host a conference on "a new financial pact with the global South". This Summit is taking place on 22nd and 23rd June 2023.

The Summit's framing centers on the ideas for the need for significant scaled-up financing for climate change, sustainability and poverty reduction. Against a backdrop of other global processes and decision-making taking place on these questions, the Summit has been designed as a 'stepping stone' or 'boost' on these issues to build consensus and provide a 'wide platform' for discussions. The overarching objective is to "set up an architecture that will be robust enough to deliver more resources, protect them from economic or geopolitical shocks, and meet the strongest standards of fairness in the international community, resuming a steady long-term trend towards global poverty reduction[1]."

While we share the French government's concerns about urgent development and climate financing needs and global economic architecture reform, it has and continues to expressly and consistently reject transformative proposals for global economic architecture reform and financing for development called for by coalitions of governments of the global South and Southern social justice movements. Instead, it is championing solutions that only deepen the status quo.

The Summit for a New Global Financial Pact in Paris is an iteration of that approach, platforming proposals that largely rely on instruments that create or further intensify sovereign debt, deepen privatization and financialization of development and climate finance and are rooted in a market-based, extractive ideology. These proposals ultimately entrench the illegitimately-gained power of major creditors and polluters, as well as empower deeply undemocratic international finance institutions.

The Summit for a New Global Financial Pact and other global processes – how legitimate are they?
In order to achieve a new global financial pact - and to identify solutions to address these multiple crises - a meaningful transformation in the current international financial system is urgently needed. We need a fit for purpose system based on principles of access, equity and justice and based on more equitable global economic governance.

We won't achieve climate justice, if we don't tackle debt justice, tax justice and wider economic justice issues linked to the Financing for Development agenda. It is questionable what the New Global Finance Pact Summit in Paris in June can achieve given its limited mandate as a stand alone event outside of established international processes, such as under the UN.

We are also concerned by the very limited role played by low-income countries in the definition of the program and scope and preparatory policy discussions for the summit, and the even less meaningful role of civil society, marginalized groups, and affected communities.

The summit is not inclusive and does not seek to advance initiatives that have been led by the global South such as on debt cancellation, the establishment of a UN tax body to create fair global tax rules, and the fulfillment of grant-based climate finance. Instead the work heavily focuses on enhancing private sector finance, market-based solutions and increasing lending from IFIs (e.g. debt-inducing instruments). Absent other reforms, these 'solutions' risk deepening inequalities within the global financial architecture and can further erode trust between rich countries and developing countries.

Rebranding or reshaping the global financial architecture?
In preparation for the Summit, the French government has established four working groups on specific policy contributions towards the final outcome, they are:

- WG1: Ensuring more fiscal space for the most affected countries;
- WG2: Financing the private sector in low-income economies;
- WG3: Increasing investment in green infrastructures in emerging and developing markets;
- WG4: Developing innovative solutions to provide additional resources in support of countries vulnerable to climate change;

However, given the limited genuine engagement of southern governments and civil society and an unclear mandate for Macron, this summit's policy proposals might actually hinder and not help advance the policies needed for a financial system transformation to deliver a new global financing pact.

MDBs are unsuited for an expanding role in climate finance: Climate change is a new and additional challenge that is a further barrier to low- and middle-income countries' opportunities to thrive. It is a matter of justice that high-income countries and companies who bear the historic responsibility for climate change and have the financial capacity (wealth generated from a fossil fuel-based economy) to provide resources as grant finance to those least responsible and now unfairly burdened with the consequences of the climate crisis. Climate finance architecture has been established under the UNFCCC to channel new, additional, adequate, and predictable financial resources to developing countries. In the Green Climate Fund, as a channel to deliver climate finance, contributing and recipient countries have equal voice and vote on the Board, distinct from the status quo of non-transparent, “donor-driven”, and ineffective governance structures at other financial structures, including MDBs and the IMF.

Unlike Bretton Woods Institutions or MDBs, developing countries have greater voice and representation in economic decision making in UN forums. In addition, the majority of climate finance that MDBs already provide is as loans (91% in 2020), often with harmful economic conditions attached, and is not transparent or inclusive. As a result, MDBs hold around one third of global South debts (and a bigger percentage in most impoverished countries), while refusing any possibility of debt cancellation of multilateral debts.

In addition, most MDBs, apart from the European Investment Bank, are still major financiers of fossil fuels, and fail to protect human rights. MDBs, and in particular the World Bank, usually privilege market-based solutions and the private sector, rather than strengthening the public sector to deliver on public goods. Major reforms are essential to ensure MDBs ‘do no harm’ and take a human-rights based approach. Before even starting to talk about increasing their firepower, a major shift in their approach to development is essential. This makes MDBs wholly unsuited for an expanded role in climate finance, and instead greater focus is needed on increasing sources of additional grant finance channeled through institutions with equal governance structures and representation of affected communities, Indigenous Peoples, and civil society.

A. No climate justice without debt justice: Addressing the debt crisis must go hand in hand with addressing the climate crisis, however current proposals do not go far enough:

1) **Climate resilient debt clauses are limited:** While they may help to temporarily alleviate the burden of debt payments in the event of future disasters, they will do nothing to address the debt crisis now;
2) **Debt Swaps are ineffective:** they have been shown to do little to positively impact debt sustainability levels in the past, or liberate enough funds to meaningfully contribute to climate change or nature goals. They also present a number of risks including conditionality, undermining citizen participation and democratic ownership, can have high transaction costs and can legitimize illegitimate debt.
3) **Increasing lending to low-income countries:** Debt-inducing instruments should not be the drivers of further development finance and climate action. Countries facing both the debt and climate crises cannot afford to take on more debt to pay for the climate crisis, and - in line with the principle of common but differentiated responsibilities - should not have to borrow to cover the costs of the climate crisis which they have done little to cause, particularly for adapting to climate change and addressing the costs of loss and damage from impacts. Costs of borrowing for lower-income countries are likely to be high, especially from the private sector, as financial markets have already begun charging more for their loans because of the climate vulnerability lower-income countries experience. The blended finance model has been particularly ineffective in low-income countries. Without debt restructuring and cancellation, new lending (even if at concessional rates) will have to be used to repay existing debts owed, largely to private creditors (effectively bailing out these private creditors), and cannot be used to address the climate crisis. Furthermore, if much of these new loans come from MDBs, MDBs will end up being owed a larger share of lower income country debt. As a result, when debt relief inevitably does take place in the coming years, it will fall exclusively on public institutions and the taxpayers of global north governments, instead of sharing the burden with private lenders.
4) **Ambitious and immediate debt cancellation for all countries in need, and an independent debt work-out mechanism**. An initiative to free developing countries from unsustainable

debt (in many cases inherited from the colonial period), without conditions, covering all countries that need it and delivered by all creditors (multilateral, bilateral and private), giving them the fiscal space to pursue climate and development goals. Immediate and unconditional debt cancellation for all countries in need, and from all lenders, to enable people to deal with the multiple crises. In the short run, existing debt relief initiatives must be strengthened and extended to all countries that need it. As nearly all lower income countries loans from external private creditors are given under English and New York law, the UK and the USA can play a leading role in strengthening debt relief processes by introducing legislation that would compel private sector participation in debt relief negotiations. In the long-run, we need an independent debt work-out mechanism and a multilateral initiative to free developing countries from unsustainable debt (in many cases inherited from the colonial period) giving them the fiscal space to pursue climate and development goals

B. Special Drawing Rights (SDRs): IMF Special Drawing Rights (SDRs) are an important source of finance. We are calling for:

1. **The urgent channeling of at least USD $100 billion of unused SDRs** as promised by the G20, in ways that are consistent with the civil society Principles for Fair SDR Channeling including via providing debt-free financing, and ceasing the IMF's requirement for borrowing countries to undertake climate and economic conditionalities in order to access financing from SDR-backed trusts. We also call for countries to ensure that SDR contributions are additional to existing ODA and climate finance commitments, unless channeled as grants. Include transparency and accountability safeguards and be accessible to middle-income countries. So far the main rechanneling instrument has been the Resilience and Sustainability Trust (RST), which have been conditional on fiscal consolidation (e.g. Bangladesh), which is in complete contradiction to the aim of providing more fiscal space for climate action
2. **Suport for a new IMF general allocation of an additional USD $2.5 trillion in SDRs** to meet urgent financing needs and take several steps to reform the current and proposed systems for rechannelling them such as without conditions and additional debt burdens, and changing the rules governing their distribution, as currently the majority of them go to advanced economies that do not need them.
3. Urgently begin a fundamental review process to **reform the SDR system**, as per the UN Secretary General's HLAB's report, including a review of the IMF's SDR mechanism to explore the use of regular allocations of SDRs to give developing countries more fiscal space to achieve their climate change and development goals.

C. Tax Justice and additional sources of finance: More money is flowing out of the global South to global North than vice-versa. Not only due to the debt burden, but due to tax avoidance and evasion of multinationals and billionaires to the tune of almost half a trillion a year.

1. **Process towards a UN Tax Convention:** A range of measures could prevent this such as financial transparency and the establishment of a UN tax convention to create fair global tax rules as demanded by Southern governments. If the summit were to address "financing needed to address the multiple crisis", taxation must be on the cards and European leaders should speak out in favor of a new global tax regime within the UN.
2. **New and innovative finance mechanisms** must raise truly additional public money for developing countries, including a focus on greatly increasing public flows. Governments should work together to agree global mechanisms in line with the polluter pays principle which support climate goals, with instruments designed to support global equity and according to common but differentiated responsibilities and respective capabilities. In the absence of global mechanisms on certain issues, national or regional governments can move

forward the agenda and introduce measures within their remit. Instruments should target the biggest polluters and avoid regressive impacts in both developed and developing countries. Multiple arrangements could be established by governments such as:

- **Wealth taxes** progressive taxation can be used to fulfill governments' public needs, including fair share of the L&D fund and wider climate finance commitments based on common but differentiated responsibilities and capabilities. A Carbon Wealth tax would fulfill a similar purpose.
- **Fossil fuel company taxation** based on polluters pay principle. We are calling for polluters to pay for the damage they have caused.
- **Taxes and levies on polluting transport:** countries should agree at the International Maritime Organisation to implement ambitious targets and taxes in the form of a universal mandatory levy, set at an ambitious carbon price according to a ship's GHG emissions. Equity must guide any new form of tax, and disproportionate negative impacts must be effectively and objectively addressed by the IMO. Small Island Developing States, for example, will be negatively and disproportionately affected by the tax, primarily because their economies and living conditions are fundamentally dependent on international shipping. Taking account of the CBDR & RC principle must therefore be satisfied, for example, by channeling part of the revenues collected by the tax as a priority to countries that are particularly vulnerable because of their socio-economic situation and the fact that they would face higher shipping costs than other countries, but also because they are the countries most vulnerable to the negative impacts of climate change, which the GHG tax should help to combat.
- **Other taxation:** countries can reserve an (increased) share of proceeds from existing carbon taxes and emissions trading systems; implement financial transaction taxes (e.g. France); windfall taxes; digital taxes; taxes on luxury consumption and transportation etc.

D. A more equitable system of global economic governance; The global South has and continues to be structurally under-represented in the system of global economic decision-making, which maintains uneven global power relations that are rooted in colonial legacies. This undermines the ability of Southern governments to chart their own development course and make economic decisions in the interests of their people, while unfairly keeping powerful countries in the driver's seat. Current proposals for reform - including the World Bank's 'evolution roadmap' - rely on these existing structures rather than making concrete proposals to democratize and improve processes so that global South countries and impacted communities have a larger seat at the table. **The current 16th IMF's quotas review** is an opportunity to move the global architecture reform agenda to enable more voice and participation of the global south. If countries in the North, and especially France, are serious about the decolonisation agenda, they should stop blocking ambitious reform. **We call for the 16th IMF quota review to result in a significant increase in the vote share of the Global South** in general, and specifically for it to go beyond protecting the votes of the poorest and most vulnerable to enhance the vote shares of low-income countries, Sub-Saharan Africa, and countries most threatened by climate change as groups that have been structurally under-represented in IMF decision-making.

E. Ending fossil fuels: As the primary source of the climate emergency, the need of the hour is to dismantle fossil fuel industries and fund a just and equitable transition to a fossil fuel free world. There can be no acceptable outcomes or proposals to transform the global financial system that do not catalyze shifting finance out of fossil fuels as a prerequisite for an equitable and climate safe system. Science has demonstrated again and again that there can be no further expansion of fossil fuels if we are to limit global warming to 1.5°C. As these institutions and governments meet in Paris itself, they cannot ignore the imperative to ensure alignment with the Paris Agreement and promote a clean, just, equitable energy transition. Furthermore, there is no rationale for governments committing to climate action whilst continuing to prop up the fossil fuel industry.

Fossil fuel subsidies in the form of international public finance flows and domestic public finance should be redirected to support the just and clean energy transition. An equitable approach should be implemented which takes into account specific needs of developing countries, diverts funds into support for and scaling up renewable energy access, the just transition, and supports people living in poverty, affected communities and workers. Alongside production, it is important to recognise the predominance of fossil fuel consumption subsidies in many developing countries. Any reform of consumption subsidies must pay attention to development goals, poverty reduction, gendered impacts and protection to poor and vulnerable communities.

While making efforts to advance a just transition and reduce emissions,governments must urgently make time-bound commitments to end fossil fuel subsidies while scaling up investments in renewable energy and energy efficiency. Vulnerable consumers must be shielded from eventual price hikes following the removal of consumer fossil fuel subsidies. Governments should also use their regulatory powers to take action against private sector investments and financial services that bolster fossil fuel expansion, eg. from pension funds, banks and insurance companies.

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