

## COP27 High-Level Event Series

### Background Note

# A Global Just Transition

## Climate and development goals in a world of extreme inequalities

### Executive Summary

Securing prosperity and decent jobs while delivering climate goals is the crux of just transition ambition. When Parties included the delivery of a ‘just transition’ in the Paris Agreement, they thus signalled that moving towards an environmentally sustainable economy needs to be managed, rather than left to market forces, to minimize economic and social disruption, and to contribute to the goals of decent work for all, social inclusion, and the eradication of poverty.

Every transition will necessarily be context-specific because every country has their own economic, social, and environmental conditions. However, there are common challenges facing developing countries that hold them back from realizing a just transition. These challenges span the Paris Agreement means of implementation: finance, technology and capacity-building.

To overcome these challenges and deliver the promise of a just transition for all, global cooperation will be necessary, including accelerating mitigation, sharing green technologies and coordinating expansionary fiscal and monetary policies to deliver needed investment. Building these conditions requires nothing short of a renewal of our multilateral system: while a successful just transition will always primarily be a question of local implementation, without an enabling multilateral system, many transitions will forever be stalled.

## Defining the Just Transition: a concept in motion?

The Paris Agreement emphasized in its preamble a close connection between climate action, sustainable development and a just transition of the workforce<sup>1</sup>. Parties to the agreement thus signaled that moving towards an environmentally sustainable economy needs to be managed, rather than left to market forces, to minimize economic and social disruption, and should contribute to the goals of decent work for all, social inclusion, and the eradication of poverty.<sup>2</sup>

There is growing recognition that transitioning towards a low-carbon economy will most forcefully affect workers in carbon-intensive industries. Energy employs 65 million people worldwide and accounts for 2 per cent of global employment, relatively evenly distributed across fuel supply, power sector, and end uses.<sup>3</sup> Workers and communities who rely on these jobs will need support to retrain, reskill and reintegrate into 'greener' sectors, but this in turn will depend on national and regional capacity to diversify economies away from dependence on carbon-intensive industries. Countries in every region continue to build out fossil fuel infrastructure, which risks not only future stranded assets, but stranded jobs and stranded communities.<sup>4</sup>

Considering the centrality of fossil fuels to the global economy and the deep integration of almost all sectors and societies with the carbon value chain, a just transition is not just relevant to those working directly in energy. Decarbonization entails systemic transformation of the economy and society, thus "just transition" is an important principle for the delivery of all climate goals, whether mitigation or adaptation, at every level of governance. For example, mitigation actions such as decarbonizing housing stock, transport and land use can increase or decrease inequality and poverty depending on their delivery. Similarly, adaptation action such as building flood defenses or adapting agriculture practices to a changing climate have the potential to impact millions of lives and livelihoods, both for the better and the worse.

Therefore, to deliver a just transition, as well as measures to support affected workers, governments will need to deploy just transition-aligned developmental strategies that can tune the achievement of all climate goals to improved social and economic outcomes.<sup>5</sup> If led by this objective, countries can better achieve the potential opportunities and positive multiplier effects of climate actions, as well as fairly managing their costs.

## A World of Extremes: transition in a time of polarizing inequality

Growing inequality is a particularly important obstacle for repairing the social contract on which inclusive and sustainable outcomes can emerge. From 1995 to 2021, the top 1 per cent of the world population captured 38 per cent of all additional wealth accumulated, while the bottom 50 per cent received only 2 per cent.<sup>6</sup> At the same time, trade, foreign direct investment and global finance have grown by orders of magnitude.<sup>7</sup> But while financialization has become dominant across the global economy, the big promise that this would generate a dynamic investment climate and full employment has not materialized. Moreover, as private capital has moved production and investment around the globe, the bargaining power of capital has increased greatly compared to that of labor. This has allowed corporations to repress wages and working conditions in both developed and developing countries.

Vast inequality has consequences on the respective responsibilities and capabilities of individuals, communities and countries to respond to the climate challenge. The richest 1 per cent of the world population accounts for 17 per cent of total emissions.<sup>8</sup> The next 9 per cent accounts for 31.8 per cent; the middle 40 per cent accounts

<sup>1</sup> United Nations, 2015. Paris Agreement.

<sup>2</sup> See [https://www.ilo.org/wcmsp5/groups/public/@ed\\_emp/@emp\\_ent/documents/publication/wcms\\_432859.pdf](https://www.ilo.org/wcmsp5/groups/public/@ed_emp/@emp_ent/documents/publication/wcms_432859.pdf)

<sup>3</sup> International Energy Agency, 2021. Net zero by 2050 – A roadmap for the Global Energy Sector

<sup>4</sup> See <https://www.lse.ac.uk/granthaminstitute/news/no-one-should-get-left-behind/>

<sup>5</sup> UNCTAD, 2021. Trade and Development Report 2021.

<sup>6</sup> World Inequality Lab, 2022. World Inequality Report 2022.

<sup>7</sup> UNCTAD, 2021. Reforming the international trading system for recovery, resilience and inclusive development, UNCTAD Research Paper 65.

<sup>8</sup> World Inequality Lab, 2022. World Inequality Report 2022.

for 40 per cent of total emissions; while at only 12 per cent of total emissions, the poorest 50 per cent of the world population emits the least but are most likely to face the harshest consequences of climate change with the least means.<sup>9</sup>

The link between income and emissions is also reflected across different country groups: while developing countries have increased their emissions in recent years as they attempt to build sustainable development, per capita emissions of people living in advanced economies continues to far outstrip most developing country counterparts.<sup>10</sup>

This 'carbon inequality' has a direct bearing on just transition potential in developing countries: as long as the remaining carbon budget continues to be stretched by wealthy individuals and stalled mitigation in advanced economies, there will be little room for necessary developmental activities. The reality is that for developing countries to be able to mount an ambitious program of green structural transformation and deliver the 2030 Agenda, they will have to increase their emissions in the short term even with the help of the most efficient technologies.<sup>11</sup> Delivering a just transition at the global level, therefore, requires tackling inequality and in particular curtailing the consumption of the world's super rich and bringing down emissions in advanced economies.

## View from below: contours of transition in the South

Just transitions are necessarily context-specific given the vast range of economic, social and environmental conditions across different countries. However, many developing countries share common challenges that shed light on the policy solutions needed for them to turn climate action into an economic and social development opportunity. A useful rubric to understand these challenges is the three pillars of the Means of Implementation outlined in the Paris Agreement: finance, technology and capacity-building. This is by no means an exhaustive list of challenges, but is instead focused on the commonalities between a broad range of developing countries.

## FINANCE

### 1. Limited multilateral support to meet financing need

Projected costs for less than half of developing countries' Nationally Determined Contributions (NDCs) amount to USD 5.8 trillion up to 2030.<sup>12</sup> In contrast, only USD 83.3 billion was provided and mobilized by developed countries for climate initiatives in developing countries in 2020, USD 16.7 billion short of the annual USD 100 billion goal.<sup>13</sup> As well as continuing to fall short of this commitment and the realistic financing need, the majority (71 per cent) of this finance continues to come in the form of loans and is primarily channeled into mitigation. While international financial institutions (IFIs) have made progress, for example with increased climate financing and coordination from Multilateral Development Banks (MDBs), a Special Drawing Rights (SDR) allocation in 2021, and a new Resilient and Sustainability Trust (RST) from the International Monetary Fund (IMF), IFIs have also been slow to release their financial firepower to meet the demonstrated need.<sup>14</sup>

### 2. Lack of fiscal space to scale up climate investments

The COVID crisis and more recent economic shocks have put severe pressure on fiscal space in developing countries, where compounding crises and monetary tightening in advanced economies has led to skyrocketing debt servicing costs across regions. Sixty per cent of low-income countries and thirty per cent of emerging

<sup>9</sup> Ibid.

<sup>10</sup> See <https://ourworldindata.org/grapher/co-emissions-per-capita>

<sup>11</sup> See <https://www.bu.edu/gdp/2022/03/22/the-risks-of-the-wrong-climate-policy-for-developing-countries/>

<sup>12</sup> 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.

<sup>13</sup> See <https://www.oecd.org/dac/financing-sustainable-development/development-finance-topics/climate-change.htm>

<sup>14</sup> An Independent Review of Multilateral Development Banks' Capital Adequacy Frameworks, 2022. Boosting MDBs' investing capacity. <https://g20.org/wp-content/uploads/2022/07/CAF-Review-Report.pdf>

market economies are now in or on the edge of debt distress.<sup>15</sup> With many developing countries in a prolonged status of surviving from bond issue to bond issue, there is limited capacity to look beyond short-term financing needs to longer-term climate resilience.

### 3. Exposure to financial volatility

The relaxation of national controls on international capital mobility has led to an explosion of cross-border capital over the last three decades and has marked a fundamental break with the post-war Bretton Woods system.<sup>16</sup> The highly volatile nature of these flows has had a direct bearing on the economic prospects of developing countries through boom-bust cycles in international financial markets, as can be witnessed most recently in the dire impacts of monetary tightening and commodity speculation in 2022.<sup>17</sup> This has led to tax erosion undercutting public infrastructure projects, export strategies centered on cheap labor sectors and debt-fueled investment concentrating in sectors that contribute little to the sort of structural transformation and productivity growth that is crucial for developing countries to achieve a just transition, but does reverse needed flows from developing countries towards advanced economies.<sup>18</sup>

### 4. Expensive external financing

Access to low-cost finance is uneven as the cost of capital differs substantially between regions, with developing countries often paying an interest rate many times more to private creditors than other official creditors.<sup>19</sup> Risk perceptions generate higher premiums, increasing the cost of capital for low-carbon investments, thus delaying transition and mitigation in developing regions.<sup>20</sup> Despite the longer-term impact delayed action has on future national and global economic outcomes, financing does not reach where it is needed most.

## TECHNOLOGY

### 1. Concentrated ownership of intellectual property

Since the advent of formalizing intellectual property (IP) rules in the global trade architecture, the bulk of IP royalties have flowed to advanced economies.<sup>21</sup> The concentration of IP ownership in advanced economies makes it difficult for many developing countries to be able to get a foot on the ladder of green technology innovation, leaving them stuck in inferior positions in Global Value Chains, or dependent on higher entry costs to establish domestic capacities.

### 2. Barriers to green technology transfer

Despite the clear imperative to eradicate COVID-19, those countries hosting companies with successful vaccine candidates were unwilling to compel them to share the technology necessary for other countries to make their own vaccines.<sup>22</sup> This prolonged the pandemic and caused unnecessary tensions at a time when the world needed solidarity and cooperation. In the similar yet less immediately pressing scenario of climate technologies, we can envision a similar divide where countries hosting IP are unwilling to share it lest they lose their dominant position within emerging green supply chains, despite the urgency for global intervention.

<sup>15</sup> See <https://www.devex.com/news/imf-chief-sees-growing-risk-of-a-debt-crisis-103628>.

<sup>16</sup> UNCTAD and Global Development Policy Center, 2019. A New Multilateralism for Shared Prosperity: Geneva Principles for a Global Green New Deal.

<sup>17</sup> UNCTAD, 2022. Trade and Development Report 2022.

<sup>18</sup> UNCTAD, 2021. Reforming the international trading system for recovery, resilience and inclusive development, UNCTAD Research Paper 65.

<sup>19</sup> Eurodad, 2021. Sleep now in the fire: Sovereign Bonds and the Covid-19 Debt Crisis. [https://www.eurodad.org/sovereign\\_bonds\\_covid19](https://www.eurodad.org/sovereign_bonds_covid19);

<sup>20</sup> See <https://www.nature.com/articles/s41467-021-24305-3>

<sup>21</sup> South Center, 2022. Direct Monetary Costs of Intellectual property for Developing Countries – A changing Balance for TRIPS?

<sup>22</sup> See <https://www.msf.org/lack-real-ip-waiver-covid-19-tools-disappointing-failure-people>

### 3. Risk of Stranded Assets

An estimated 60 per cent of oil and gas reserves and 90 per cent of known coal reserves should remain unused in order to limit global warming to 1.5°degrees.<sup>23</sup> In this scenario, the world would be left with substantial stranded assets: fossil fuel resources that cannot be burned and fossil fuel infrastructure that is no longer used and may end up as a liability before the end of its anticipated economic lifetime. For a variety of reasons including comparatively recently developed energy sectors, high capital costs of renewables and limited diversification, developing countries are more exposed to stranded assets.<sup>24</sup> This presents a lose-lose dilemma where speeding up fossil fuel exploitation to raise resource accelerates climate breakdown but also locks them into fossil fuel dependency.

## CAPACITY

### 1. Informal Labor Market

Stalled diversification along with the pressure for labor market deregulation have weakened the prospects of full-time, formal employment in many developing countries. In general, the majority of workers across developing countries are working informally with limited social protection coverage.<sup>25</sup>

### 2. Restricted Energy Access

940 million people in the world - 13 per cent of global population - do not have access to electricity.<sup>26</sup> Unsurprisingly, these people are in developing countries. Expanding energy access is thus a critical development priority, particularly in Sub-Saharan Africa. Connecting these many millions to electricity will inevitably increase emissions, bringing poverty alleviation into tension with climate goals.

### 3. Governance of land use, agriculture, natural resource management and biodiversity

Land rights are generally less clearly defined, regulated or recognized in the Global South, so land-related transitions can leave some people particularly vulnerable.<sup>27</sup> Furthermore, access to natural resources, such as forests and coastal waters, play a crucial role in fulfilling the material and social needs of some communities, which can be negatively impacted by climate measures which restrict access.

### 4. Restricted policy space for green structural transformation

Trade and investment rules can exert a policy chill on the sort of industrial policy interventions that are necessary to mount a green structural transformation.<sup>28</sup> Developing countries can be disproportionately impacted by these effects for a variety of reasons including fear of costly disruptive disputes and limited legal and policy capacity.

### 5. Emerging Spillover Impacts

The initiation of 'just transition' ambition in one part of the world can have negative spillover effects elsewhere considering potential labor adjustments and changing trade and financial relationships. For example, the European Union's plan for a Carbon Border Adjustment Mechanism (CBAM) which imposes a carbon tariff on imports into the EU from certain high-emitting sectors is projected to reduce global carbon emissions by not more than 0.1 per cent but could decrease global real income by USD3.4 billion, with developed countries income rising by USD2.5 billion while developing countries' incomes fall by USD5.9 billion.<sup>29</sup>

<sup>23</sup> International Energy Agency, 2021. Net zero by 2050 – A roadmap for the Global Energy Sector.

<sup>24</sup> See <https://unctad.org/news/least-developed-countries-cannot-afford-strand-their-assets-given-their-development-challenges>

<sup>25</sup> International Labour Organization, 2021. World Social Protection Report 2020-2022.

<sup>26</sup> See <https://ourworldindata.org/energy-access>

<sup>27</sup> The South to South Just Transitions research consortium, 2022. Exploring Just Transition in the Global South.

<sup>28</sup> See UNCTAD, 2021, Reforming the international trading system for recovery, resilience and inclusive development, UNCTAD Research Paper 65; and Kyla Tienhaara, 2017, Regulatory Chill in a Warming World: The Threat to Climate Policy Posed by Investor-State Dispute Settlement, Transnational Environmental Law 7(2).

<sup>29</sup> UNCTAD, 2021. A European Union Carbon Border Adjustment Mechanism: Implications for developing countries.

## Enabling Conditions for a Just Transition

The consequences of rising global temperatures reflect, and are amplified by, existing structural inequalities within and across countries. Persistent poverty, high unemployment and informality, exposure to global financial instability and energy access gaps, are common features in many developing countries, and this socio-economic context makes implementing climate policy in a just way even more complex. While the Just Transition commitment made by several Parties at COP26 makes progress in bringing countries together around common priorities, achieving goals such as supporting all workers in the transition to new jobs and creating decent and sustainable jobs for all will clearly demand addressing the underpinning structural imbalances that hold back development and therefore climate goals.<sup>30</sup>

Parties committed to enabling multiple and connected just transitions in every nation and region will thus need to work together in new ways to create enabling conditions for green structural transformation in developing countries. To this end, a serious attempt at achieving the sustainable development goals (SDGs) and combatting climate change simultaneously would require four broad conditions<sup>31</sup>:

### Accelerate emissions reduction in advanced economies

For many developing countries, rising global temperatures are already compounding a vicious development cycle that has been constraining resource mobilization, weakening their productive capacity and widening income gaps for decades. Any chance of a just transition in developing countries will depend on accelerated mitigation efforts by all countries, but particularly by advanced economies to limit global warming well below 2 degrees. The current policy trajectory leads to an anticipated increase of 2.7 degrees, while with current pledges and targets, the projected increase is around 2.4 degrees by 2100.<sup>32</sup>

### Expansionary domestic fiscal and monetary policies, coordinated across countries

Accelerated mitigation cannot be accomplished without an expansionary economic recovery as it implies a large investment effort of both public and private sectors at the global level. Large investment needed to move the economy from “brown” sectors to “green” sectors will push up the long-term trajectory of economic growth. In the process, total productivity, employment and real wages is projected to increase while inequality decreases to achieve just transition outcomes.<sup>33</sup> Fiscal space will also increase because of the positive effects of investment on growth, employment and tax revenue. However, achieving this globally will depend on systemically important economies reversing the current trend of monetary tightening, which when paired with austerity, will stall transition globally.<sup>34</sup>

### The green technologies needed to prevent climate collapse are made affordable to all countries

Developing countries have vast renewable potential, but are unable to realize it as long as they are constrained by lack of access to green technologies. Without access to environmentally sound technologies, developing countries in particular least developed countries, will not be able to meet mitigation targets and will be forced to continue using carbon-intensive technologies for much longer than is sustainable, leaving them with stranded assets in the process. Transfer of green technologies on commercial terms works well between developed countries, however, between countries of different development levels the commercial transfer of technology is less feasible. Adoption of green technologies is difficult even when they are in the public domain due to challenges in absorption capacity. Green technology transfer to developing countries thus has to be a deliberate process of removing IP barriers and sharing knowledge based on the principle of common but differentiated responsibilities.<sup>35</sup>

<sup>30</sup> See <https://ukcop26.org/supporting-the-conditions-for-a-just-transition-internationally/>

<sup>31</sup> See <https://www.bu.edu/gdp/2022/03/22/the-risks-of-the-wrong-climate-policy-for-developing-countries/>

<sup>32</sup> See <https://climateactiontracker.org/global/temperatures/>

<sup>33</sup> See example of South Africa in <https://www.bu.edu/gdp/2022/03/22/the-risks-of-the-wrong-climate-policy-for-developing-countries/>

<sup>34</sup> Systemically important countries are those which emit reserve currencies and can borrow unlimited quantities in their own currency.

<sup>35</sup> UNCTAD, 2021. Trade and Development Report 2021.

## IFIs ease developing countries' constraints by providing sufficient finance and enabling technology transfer

As detailed above, developing countries are much more constrained than developed countries in terms of policy and fiscal space to implement an expansionary economic recovery.<sup>36</sup> The former lack adequate financial resources, cannot pursue expansionary monetary policy without jeopardizing the stability of their exchange rate, face balance-of-payment constraints, and are subject to the whims of international capital movements. Therefore, the responsibility for implementing an expansionary economic recovery lies predominantly with systemically important developed countries and with international financial institutions that can use their role to both increase climate financing and make the necessary reforms to global economic governance to tackle prolonged structural challenges. At the same time, it has become clear that in a globalized world with interconnected economies, uncoordinated policymaking inevitably leads to sub-optimal results. Macroeconomic coordination is necessary to provide a climate-sensitive reflation of the global economy that can trigger a positive effect on the growth trajectory of developing countries while advancing full employment in developed countries.

Taking these enabling conditions together, it is clear that a more development- and climate-friendly global economic governance is needed to unlock just transitions in the South, requiring nothing short of a renewal of our multilateral system. While a successful just transition will always primarily be a question of local and national implementation, without an alignment of a more enabling multilateral system, many transitions will forever be stalled.

<sup>36</sup> It is illustrative to note that the announced average magnitude of fiscal stimulus measures in response to the Covid-19 pandemic reached 23.1 per cent of GDP in developed countries, 9.9 per cent of GDP in middle-income countries and only 5 per cent in low-income countries. For a more detailed discussion see UNCTAD's Trade and Development Report 2020.

## Recommendations

### Advanced Economies

- Lead the way in **accelerating mitigation and transition** toward an inclusive and green labour market, with adequate support and training for workers.
- **Transfer low-carbon technologies** to developing economies most at risk of climate crisis or that are transitioning away from a fossil fuel-dependent economic model. This needs to include encouraging green technology transfer globally, for example by revising bilateral and multilateral trade agreements that present a barrier to transfer initiatives.
- **Scale up financial support**, including meeting climate finance and Official Development Assistance targets, and working together to deliver debt relief in debt-distressed countries.
- **Coordinate economic and financial policies** at the global level to move away from boom-and-bust cycles that trigger capital flight from developing economies and create uncertainty regarding long-term investments.

### Developing Countries

- Incorporate the objective of **just transition across national development planning**. National development plans should guide necessary climate action and sectoral transitions, with an **explicit objective to deliver diversification and structural transformation** using industrial policy tools such as taxes, subsidies, regulation, and public procurement. Policymakers need to deploy National Climate Funds to ensure resource delivers context-specific transition strategies and should **rigorously cost their plans** to understand the real financing gap.
- **Use complementary fiscal and monetary policies to advance an expansionary strategy** for just transition that can lead to sustained, productive investment in low-carbon development. This will include aiming for a relatively low and stable real interest rate to encourage and fortify real investment and a sustainable, competitive and “stable” real exchange rate. Achieving these goals in the face of financial market pressures requires both an effective international financial safety net and domestic capital account regulation.
- **Expand and future-proof energy access** to prevent stranded assets. In order to ensure delivery of global mitigation goals, developing countries will need to drive investment towards building a renewable energy infrastructure that can serve their populations into the future and not drive further climate breakdown.
- Use domestic resource mobilization to **better resource and strengthen social infrastructure** – education, health, care and social protection – to support all populations through transition adjustments
- While not sufficient on its own, **stronger South-South cooperation** can support countries to develop the technical and financial capacity to achieve a just transition and can better address the specific challenges of developing economies. Developing countries should also coordinate to **develop a common agenda for multilateral institutions** to work in support of a just transition.



## Multilateral Institutions

- At the multilateral level, renewed consideration should be given to **substantially increasing SDRs** as a source of development finance. To ensure these resources are channeled to where they are needed most, consideration should be given to delinking the issuance of SDRs from the IMF quota system for new SDR asset classes with specific purposes, such as achieving the SDGs and a just transition.
- **Climate finance from MDBs should be scaled up** and should not only target the technical part of transitions, but also support communities with managing socio-economic impacts and addressing inequality more broadly. This will require enabling more lending with current capital levels as well as expanding MDBs' capital base.
- **Expand policy space for climate action**, for example with the use of a carefully designed Climate Waiver or Peace Clauses at the WTO, that can open the door to ambitious climate intervention while protecting the preferences of developing countries to avoid deepening global asymmetries.

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