UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

Workshop on development priorities for a collective quantified goal on climate finance fit for developing countries' needs

NCQG and Global Financial Architecture Reform

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Baku, Azerbaijan

TWN
Third World Network

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Setting the scene

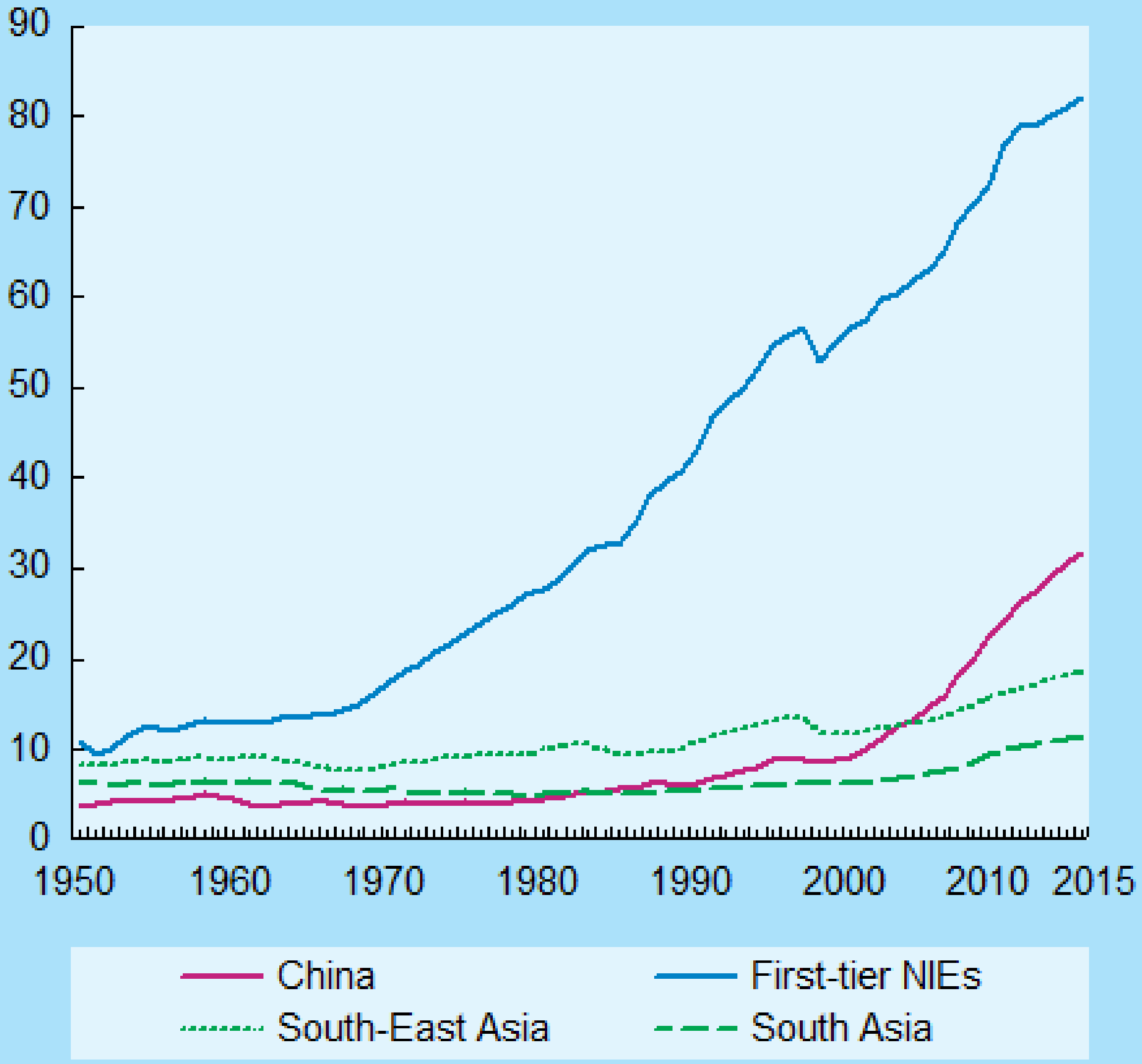
"A Moment of Truth"

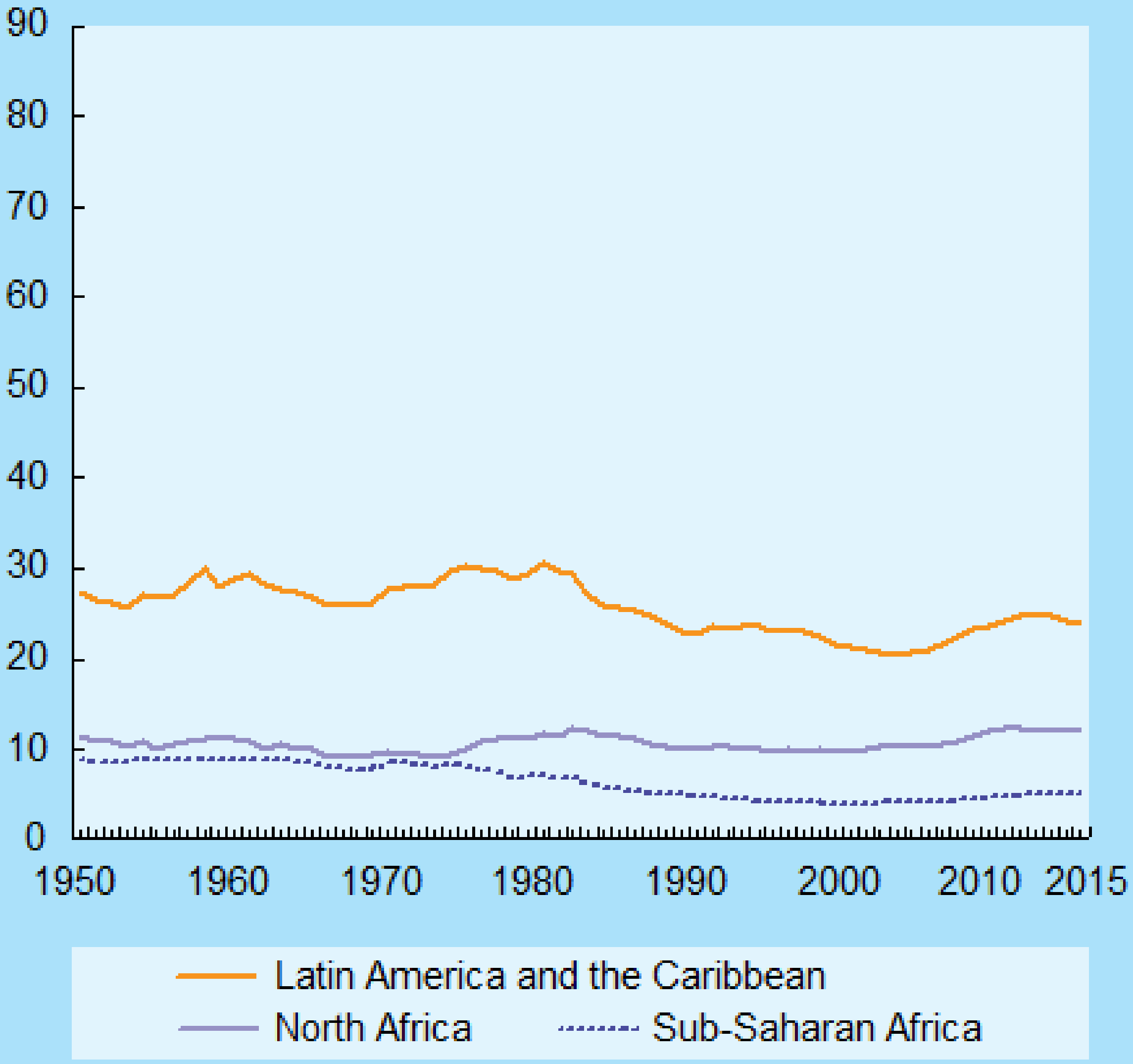
UN Secretary-General' special address on climate action, 5 June 2024

- Humanity's common challenges, but polarization, deglobalization, geopolitical tensions and weakening of multilateralism
- Climate and development goals of developing countries are equally important and equally out of reach at the moment
- UNCTAD warned of a possibility of a "lost decade" in development terms if we do not change course
- SDGs in danger – UN organizes Summit for the Future in September

Catching up is hard to do

Ratio of GDP per capita of selected countries and country groups to GDP per capita of the US, 1950–2015





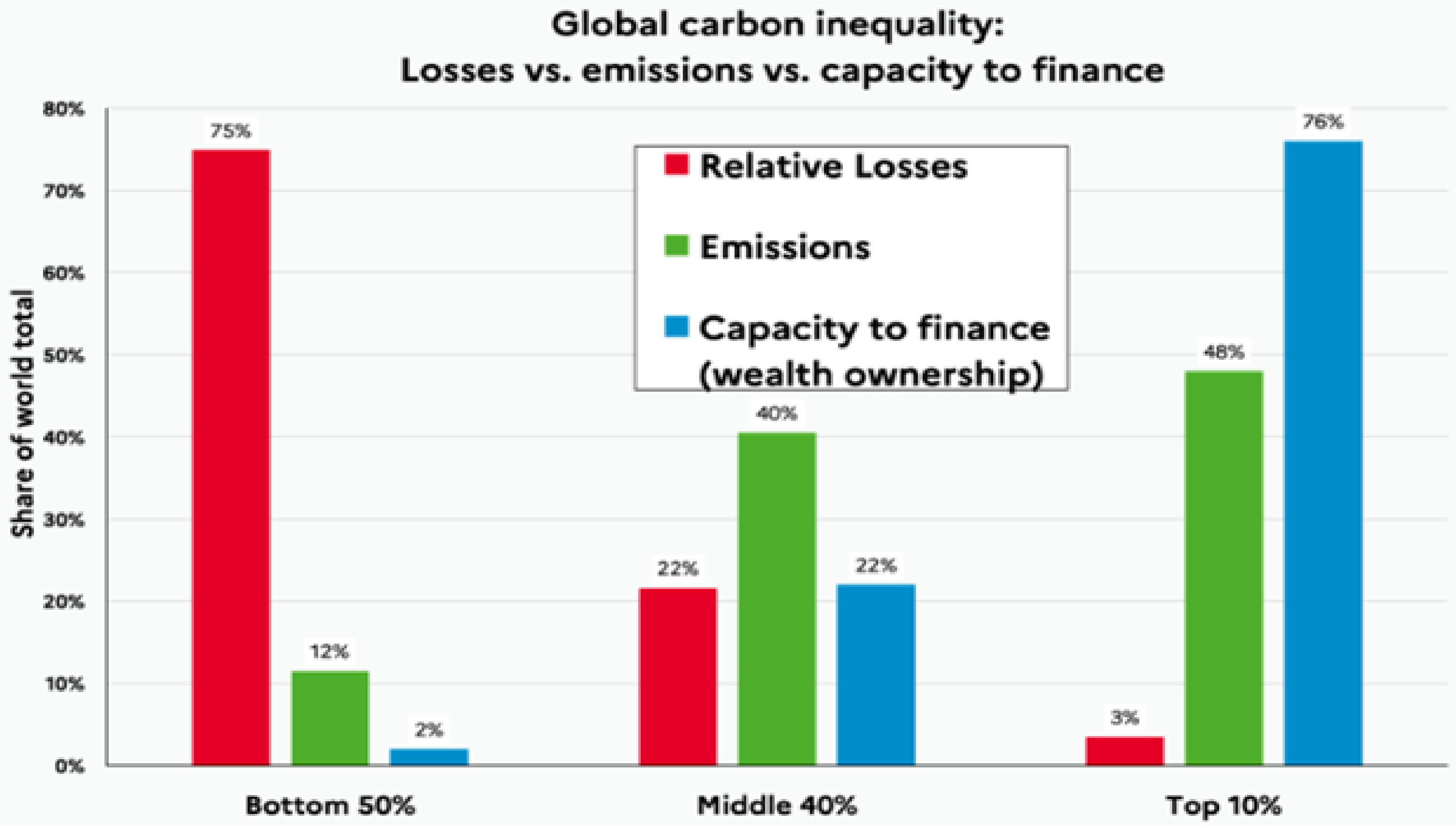


Figure A: Global climate inequality: relative losses, emissions and capacity to finance

Notes: Relative income losses due to climate change, vs. greenhouse gases emissions vs. wealth ownership. See Figure 29 for methodological details and how to read this graph.

Unequal access to finance & climate inequalities

Climate inequalities

- Top 10% of emitters generate almost half of all GHG emissions
- Top 1% of emitters emit more than the entire bottom half of the population.
- Effort required to achieve the same emission reductions significantly lower for high-emitting groups
- Extra carbon budget required to eradicate global poverty at US$5.50 and improve the livelihoods of more than three billion people is comparable to the emissions of the global top 1%.
- Inequality - in most countries, one half of the population owns around just 5% of everything there is to own.
- Poorer groups suffer the greatest human, social and economic losses from climate change: income losses from climate hazards of the bottom 40% are estimated to be 70% larger than the average.

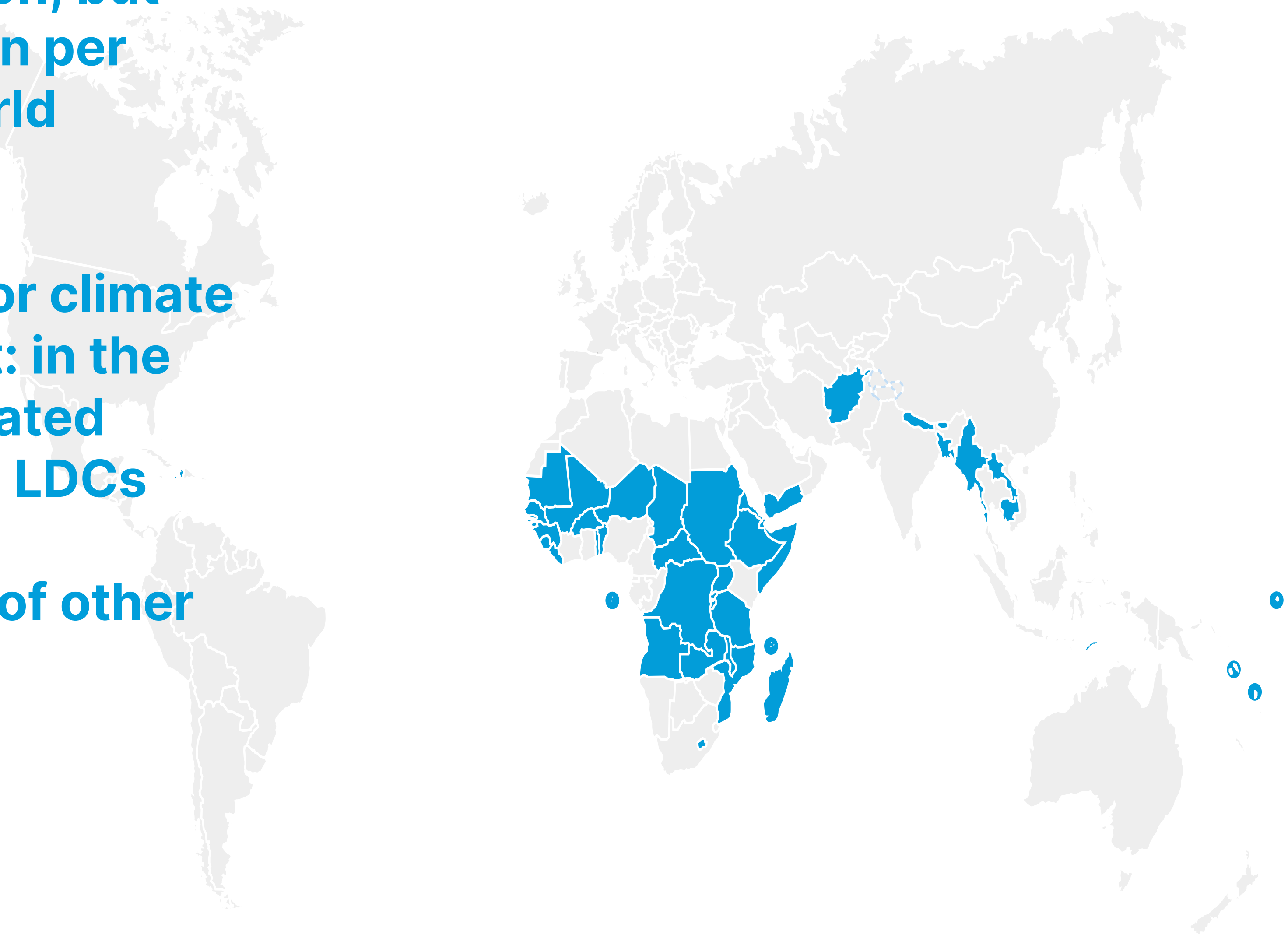
While recognising the need to keep emissions low, lifting large numbers of people out of poverty need not have a large negative effect on climate change mitigation.

Balancing climate and development hinges on balancing national and international

- **LDCs: 14% of the global population, but around 1% of carbon emissions; in per capita terms, only 10% of the world average**

- **The paradox: least responsible for climate change, but most vulnerable to it: in the last 50 years, 69% of climate-related deaths in the world have been in LDCs**

- **To a lesser extent the same true of other developing countries**



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Domestic resources for climate action? Indebtedness is high!

- Worldwide, total debt is around 250% of global GDP
- However, the biggest problem is in developing world
- Indebtedness has never been so high in developing countries, has surpassed 200% of GDP
- Combination of the effects of the pandemic, price hikes in commodities (energy and food), and tightening of the monetary policy made the situation worse

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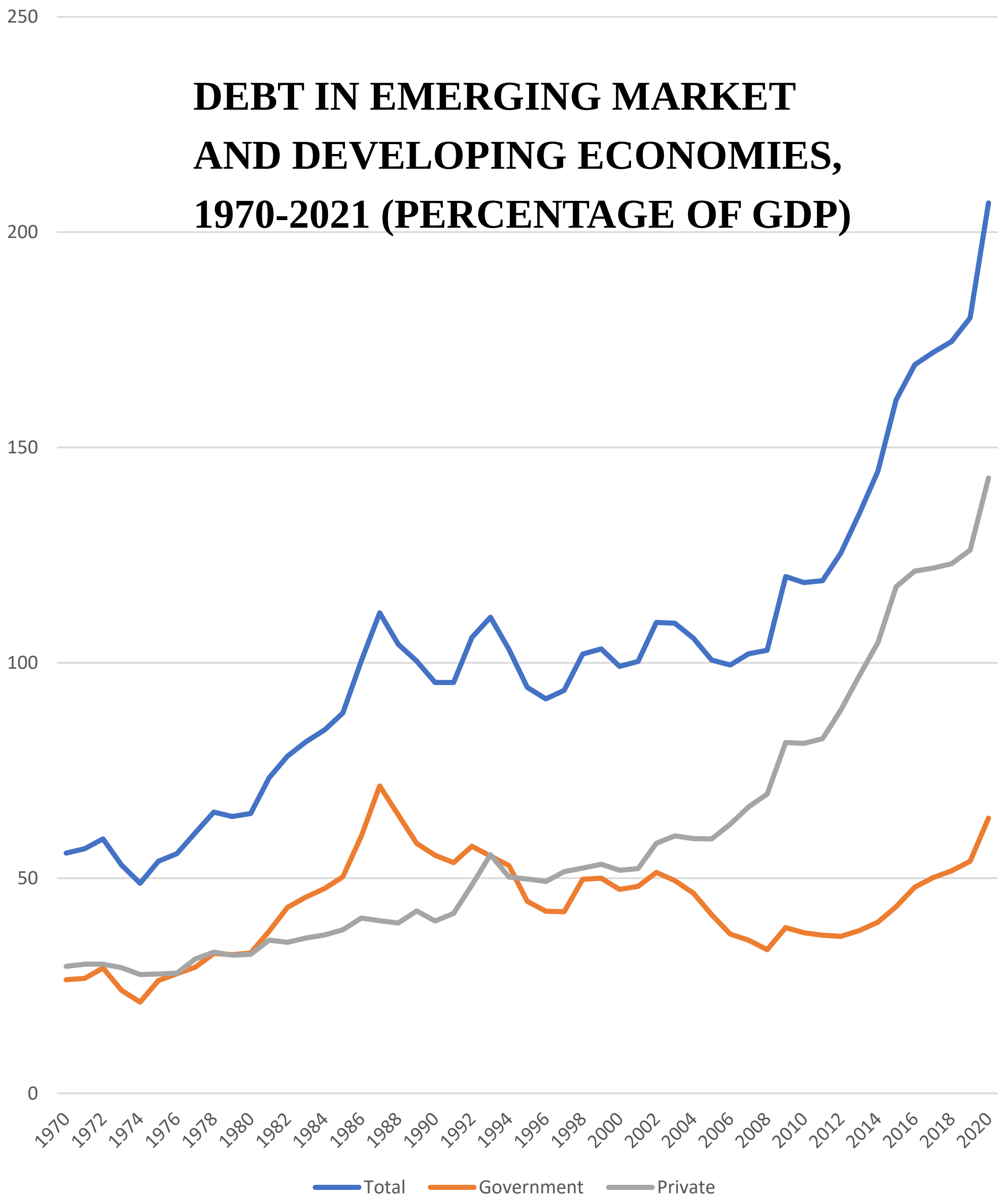

Domestic resources for climate action? - a looming debt crisis

- Macroeconomic tightening in advanced economies resulted in exchange-rate adjustments in developing countries
- The result is aggravating debt situation – not only in low-income, but also low-middle income and some upper-middle income countries
- Debt distress is high in many countries

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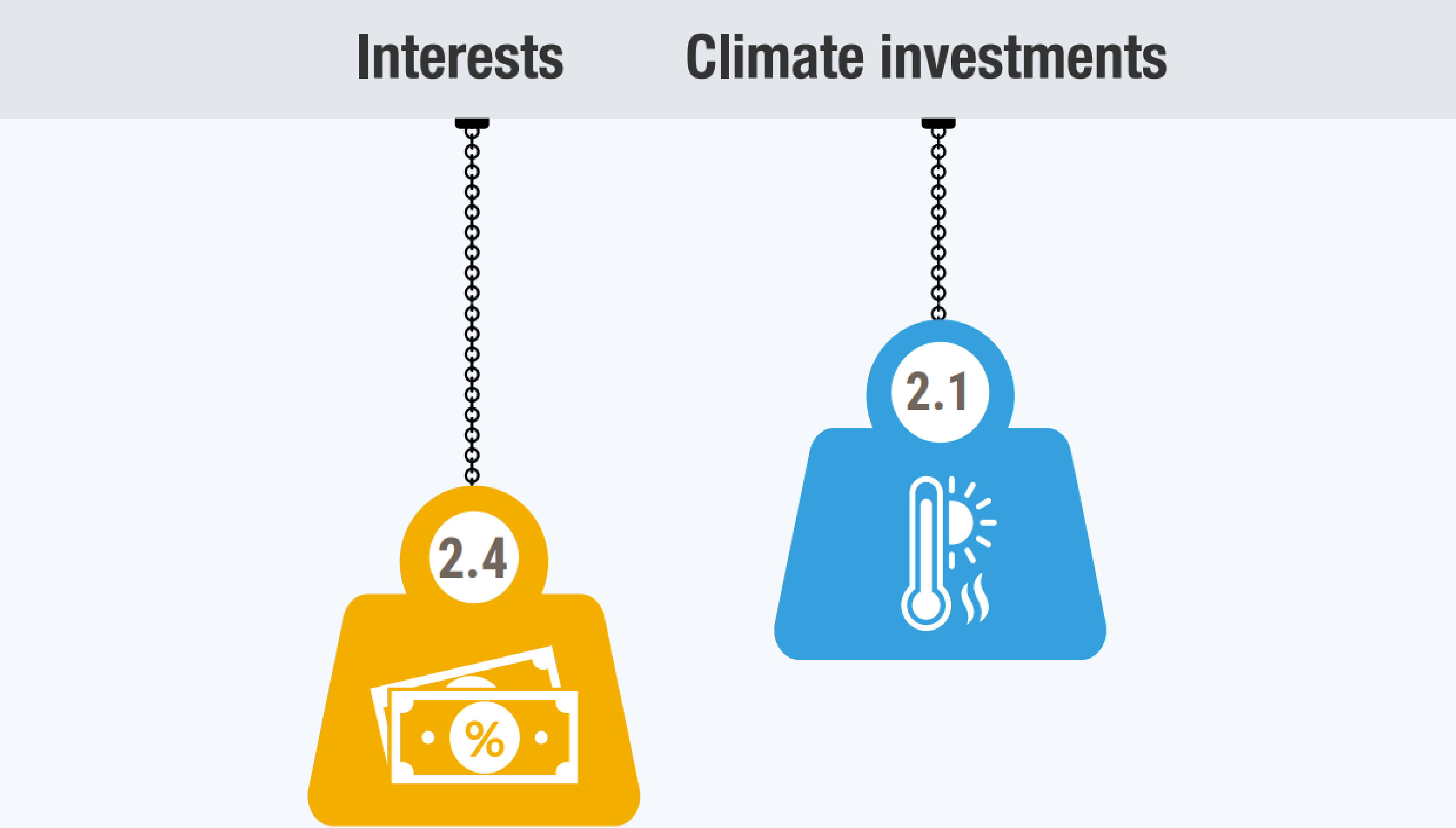
Developing countries considered in or close to debt distress, mid-2022

World Bank income classifications 2022-2023*	In default as of 30 June 2022	Undergoing sovereign debt restructuring as of 30 June 2022	External sovereign bond yields close to or above 10 percentage points relative to US 10Y Treasury bills as of 30 June 2022**	IMF debt sustainability assessments (in debt distress or at high risk of debt distress) for PRGT-eligible countries as of 31 May 2022***
Low-income countries (LICs)	Zambia	Chad, Ethiopia, Mozambique	Uganda, Zambia	Afghanistan, Burundi, Central African Republic, Chad, Republic of Congo, Ethiopia, The Gambia, Guinea-Bissau, Malawi, Mozambique, Sierra Leone, Somalia, South Sudan, Sudan
Low-middle income countries (MICs)	Lebanon, Sri Lanka		Egypt, Pakistan	Cameroon, Cabo Verde, Comoros, Djibouti, Ghana, Haiti, Kenya, Kiribati, Lao P.D.R, Mauritania, Micronesia, Papua New Guinea, Samoa, São Tomé and Príncipe, Tajikistan, Zambia, Zimbabwe
Upper-middle income countries (UMICs)	Suriname		Brazil, Colombia, Turkey	Dominica, Grenada, Maldives, Marshall Islands, St. Vincent and the Grenadines, Tonga, Tuvalu,
	Venezuela (not classified)			

Public expenditure in emerging markets and developing countries excl. China on interest and climate investments as % of GDP (2019)



Some regions spend more on servicing debt than serving their people

Public expenditure per capita on net interest, education and health in US$ (2020-2022)

	Africa	Asia and Oceania (excl. China)	Asia and Oceania	Latin America and the Caribbean
Health	39	62	147	323
Education	60	110	203	364
Interest	70	84	94	280

Fiscal space asymmetries - magnitude of fiscal stimulus measures announced in response to Covid-19 outbreak,

January 2020 to September 2021 (Per cent of GDP)

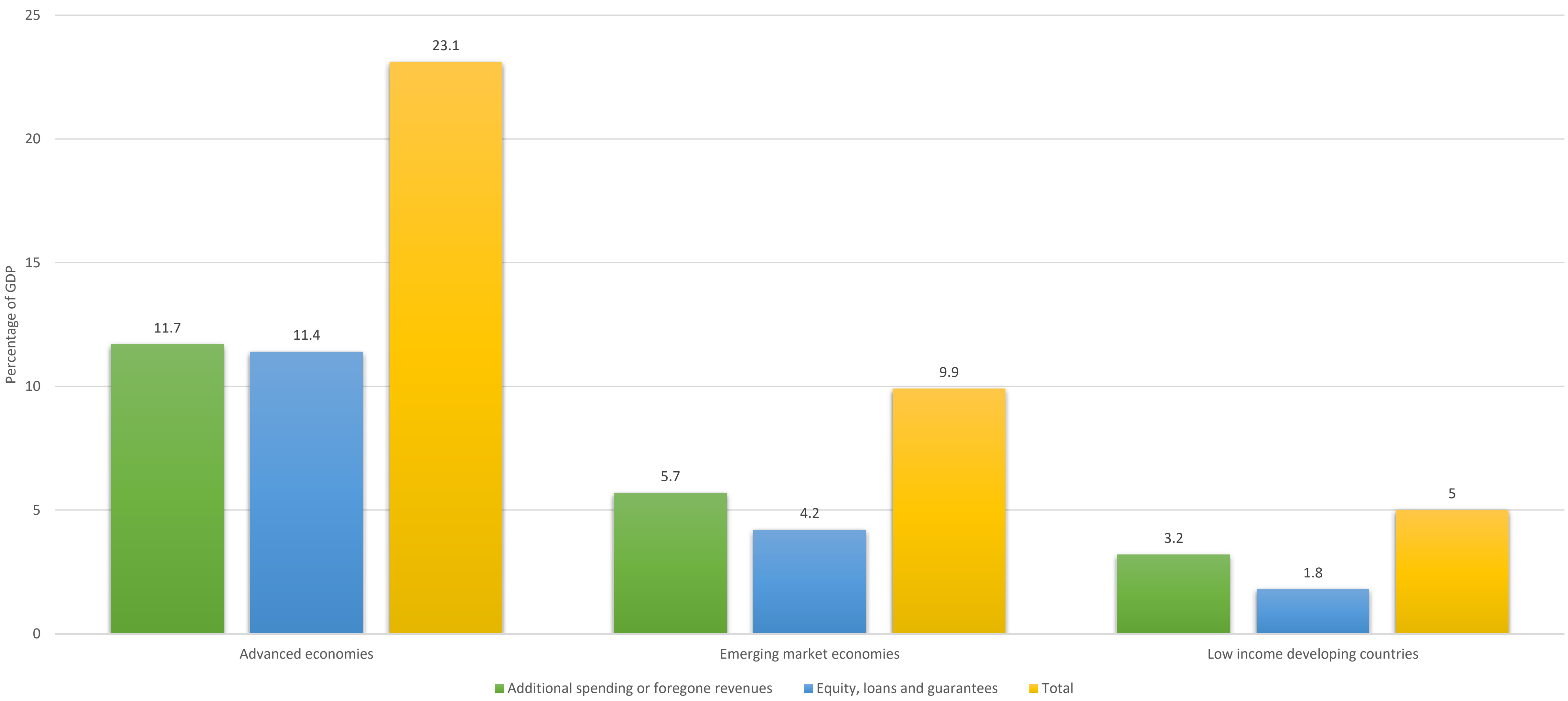
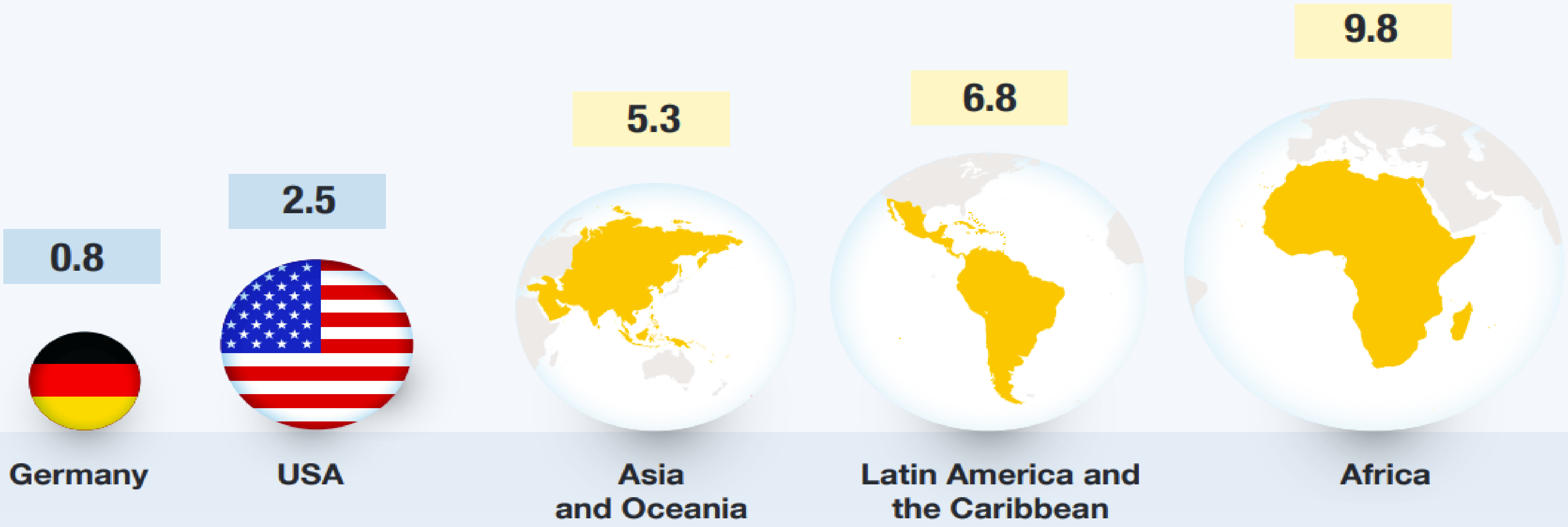


Figure 11
Borrowing costs of developing countries are way higher than those of developed ones
Bond yield ratio of developing to developed countries



Source: UN GCRG - technical team calculations, based on Refinitiv.

Note: Illustrative comparison of the average JPM EMBI Global Diversified USD bond yields per region with the 10-year bond yields of Germany and the United States from January 2020 to May 2024.

Unequal access to finance – borrowing costs

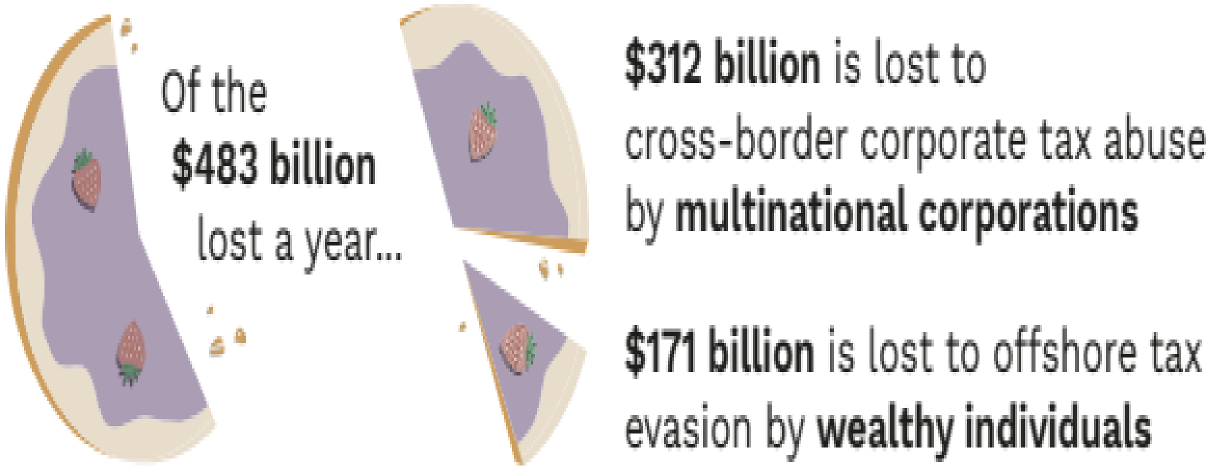
The international financial architecture is "...unfit for purpose in a world characterized by unrelenting climate change, increasing systemic risks, extreme inequality, entrenched gender bias, highly integrated financial markets vulnerable to cross-border contagion, and dramatic demographic, technological, economic and geopolitical changes"

Reform of the Global Financial Architecture

A more supportive global economic environment can provide the necessary resources for climate-resilient development and thus enable developing countries to achieve both climate and development goals.

- Realigning the Global Debt Architecture
- Global Financial Safety Net
- Increasing affordable financing by IFIs and MDBs
- Meeting ODA commitments
- Addressing Illicit Financial Flows (IFFs) and Tax Cooperation
- Private Sector Regulation
- Reform of International Financial Institutions (IFIs)

Illicit financial flows



Proposed United Nations Framework Convention on International Tax Cooperation

Reduce abusive transfer pricing, tax evasion and avoidance, trade misinvoicing

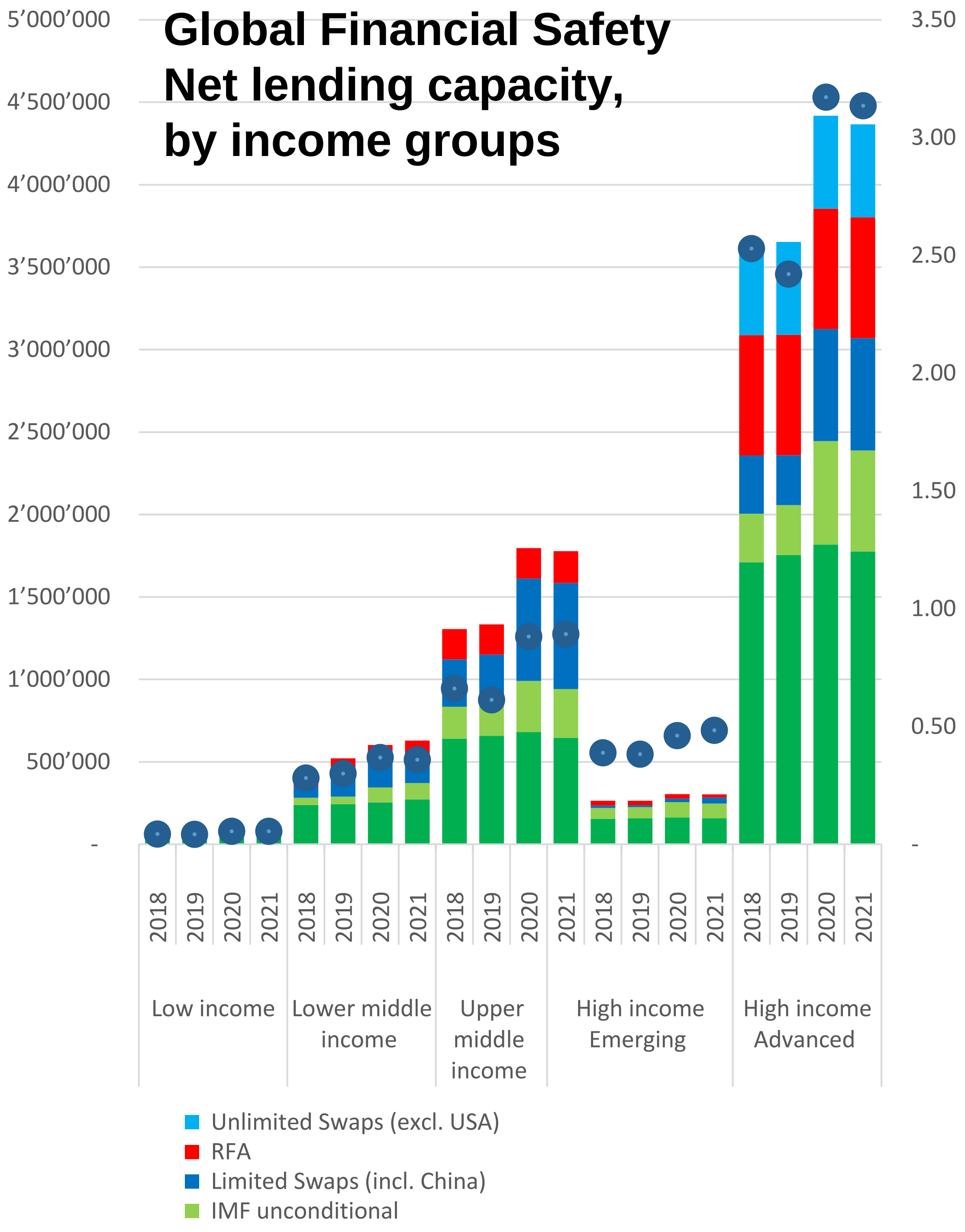
Targeting corporations and high net-worth individuals

Closing loopholes would directly benefit NCQG by increasing tax revenue in developed countries!

Would also increase revenue in developing countries, expanding DRM.

Global financial safety net – indirect benefits for climate action

- If the crisis strikes, what tools we have available to face it?
- Global Financial Safety Net (GFSN) is a set of institutions, arrangements and agreements that provide temporary balance of payments finance to countries in distress
- The total firepower of the GFSN amounted to around $3.7 trillion, or 4.5% of global GDP
- High income countries a lot of resources, more vulnerable and poorer countries have fewer choices – huge asymmetry



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Possible financing options

Some innovative finance proposals – potential annual revenue globally

- **financial transaction tax - $418 billion,**
- **fossil fuel windfall tax $300 billion,**
- **maritime levy $80 billion**
- **levies on certain GHG-intensive activities in developed countries such as airline travel $25.4 billion (See UNCTAD 2023 – Taking responsibility)**

- None of these are ideal as they have different problems such as regressive distributional impacts, non-compliance with CBDR-RC, or political feasibility

Possible financing options

More promising options – compared to other types of public expenditure

- **Special Environmental Drawing Rights (the Bridgetown Initiative) - $500 billion,**
- **MDBs up to $1000 billion,**
- **IFFs $300 billion**
- **Progressive wealth taxes $2.2 trillion (Tax Justice Network, 2024)**

- Global military expenditure $2.2 trillion
- Fossil-fuel subsidies $7 trillion
- Covid-19 pandemic fiscal support measures in 202 $11.7 trillion

Main messages

A deficit of growth, trust and hope in the world – we need to overcome these deficits by transformative collective action – NCQG can be the starting point

- Climate and development goals of developing countries are equally important and equally out of reach for many
- GFA at odds with addressing humanity's common challenges
- Reform of the GFA would provide an enabling environment for developing countries and benefit NCQG
- Financing options exist, but are subject to political will

Thank you!

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