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Climate finance for developing countries: what signals are expected at COP27?

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Because it is hosted in Africa, and because COP26 did not deliver enough on this issue, COP27 should be a milestone demonstrating a step change in climate finance flows towards vulnerable and least developed countries. But the annual climate finance flows are stagnating not much above 80 billion dollars, while the promise made in 2009 was to reach at least 100 billion \$ per year from 2020 and beyond. Developing countries lament that these flows mostly support emission reductions in relatively high-emitting countries, and only about a fourth support countries adapting to the impacts of climate change . At the same time, the same vulnerable and least developed countries are also particularly hit by the socioeconomic consequences of Covid, of the Russian war in Ukraine, and of more frequent and more catastrophic climate disasters, while they are struggling with a lack of fiscal space and unsustainable debt levels. The magnitude of their financial

needs in this long and perfect storm is thus far beyond the reach of the intended climate finance flows. This has been at the center of recent discussions among international financial institutions and public development banks, and will also be actively discussed at the G20 summit during the second week of COP27. In such a context, what kind of signals are expected from COP27?

An overhaul of multilateral development banks: saving the most vulnerable countries or saving the Bretton woods system?

What makes Mia Mottley, Prime Minister of Barbados, such a powerful player in the current state of geopolitical affairs? Certainly that she is a very strategic player and an extremely eloquent politician and speaker. Maybe also the power of the moral argument, as she speaks for a very vulnerable small island state, although one might doubt that such an argument could hold in reality, in the midst of a very tense rivalry between major powers. What makes her a central player is that she is making, on behalf of the Global South, an offer to the international financial institutions (IFIs) built after World War II, and in which western countries still dominate: the Bridgetown Agenda. What Prime Minister Mottley is offering is actually a call for a complete overhaul of these institutions (the IMF, the World Bank, but also the system of multilateral development banks) so that they can deliver massive investment capacities in countries most in need, and in particular to deal with necessary climate action.

Why is it an offer and not just a request? Because by doing so she is still trying to build a bridge with this existing system, while other countries might already be looking towards newer players or asking to build up new institutions, which would be particularly in line with the interests of the emerging power of China. This overhaul of the IFIs is thus not just vital for vulnerable, least developed and even lower middle income countries, but could also be the last chance for the institutions built after 1945: if it does not succeed in offering more balanced access to investment capacities, countries will vote with their feet and look for other cooperative arrangements—for instance, the Belt and Road initiative has its own green finance principles and its own investment norms and standards, with a dedicated dispute settlement mechanism.

Climate or development?

The Bridgetown agenda was also echoed at the Annual Meetings in Washington of the international financial system with various calls for reforms of the IFIs and the MDBs, from the US Treasury as well as from a variety of influential think tanks in the development field. At stake is not only an increase in their capacity to intervene, based on the fact that they should take more risks, but also a change in their mandate, to put at the heart of their priorities the production of global public goods and in particular climate action, both on adaptation and mitigation, as well as pandemics preparedness, for instance. Climate was thus extremely present in all discussions in Washington. This opportunity also bears a risk: all the countries desperately seeking for financial support might see the intention to refocus the mandate of MDBs on global public goods as a potential new form of conditionality to access their financial instruments.

This issue has also been at the heart of discussions at the Finance in Common Summit in Abidjan, cohosted by the European Investment Bank and the African Development Bank, and gathering a whole ecosystem of public development banks (bi- or multilateral, national, regional, subnational). Innovative practices of how these banks align with the Paris Agreement or with the Sustainable Development Goals¹ can be used to illustrate innovative approaches to alignment that are context-specific : in a given country, investment needs should be stemming from its self-defined transformation pathway to reach the SDGs and the long-term net-zero target. Of course, this

necessitates a lot of technical assistance and first and foremost in country expertise to define such a transformation pathway, but this is also a way to better define investment needs and help increase confidence of investors, private and public, in a pipe of projects that are aligned with this pathway. But public development banks have been challenged, given climate urgency, to show that their practices of alignment with the Paris Agreement in the framework of the 2030 Agenda is as demanding as a commitment of the bank to be net zero, which taken literally could lead to a potentially reductive approach where a taxonomy of brown (to be excluded) or green (to be favored) investments is established irrespective of specific national contexts.

In comparison to these innovative approaches to investment combining the long-term objectives of development and climate, by analyzing the specific national circumstances, other approaches based on exclusion lists are considered much more problematic for least developed countries, and in particular African countries. For them, development priorities hinge first and foremost on industrialization and jobs, and then resilience and adaptation. Of course, they also want to leapfrog to decarbonized patterns of development, in order not to get locked in by having invested in stranded assets, but their share of global emissions is currently so low that they resist putting mitigation as their first or even second priority.

What important signals at COP27?

Between the Washington meetings and the G20 meeting of heads of states in Bali, COP27 does need to demonstrate that Western donors are serious about their promises on climate finance flows, but they also need to demonstrate that there has been a symbolic step change in their approach to partner countries and in the substance of their announcements. Put simply: announcement should be designed starting from the needs of the recipient countries, and not from the donor countries' requests. This is even more important as Western donors (G7 countries, as well as other OECD DAC countries) might end up being blamed at this years' G20 summit because they are perceived as slowing down or halting the quest for solutions on the reform of IFIs because of their insistence on political statements against Russia in all technical to political working groups.

The potential announcements on Just Energy Transition Partnerships (the state of progress of the implementation of the South African JETP announced at COP26 last year, as well as the state of negotiation of new JETPs) are crucial in this regard, not so much on the scale of financial commitments, but about the method and the approach:

- Starting from the specific circumstances of the country, its specific needs to reach prosperity and sustainable development, as was the case in South Africa where a thorough national political debate had taken place on the objectives and measures for a just energy transition;
- The recognition that climate alignment needs to be reached within the framework of the 2030 Agenda, that is a nationally owned agenda still extremely politically valid in many Southern countries (much more than it is in domestic policy debates in developed countries);
- The recognition that what is at stake is a transformation of the energy system of the country that serves as much industrialization, development and employment objectives as it serves decarbonization, which necessitates a proper analysis of the specific pathway for the country to meet both;
- The recognition that short-term financial needs, to cope with the long current crisis, might necessitate specific interventions that are not aligned with net zero, sometimes delaying the decarbonization transition, just as it is the case in Europe with the delay in phasing out coal fired power plants; if this is the case, what matters is that these short-term investments do not lock the country in stranded assets;

- The recognition that a step change is necessary not only in the amount of money made available, but also in the nature, flexibility, and modalities of the financing arrangement, both because such changes could be more effective for triggering a decarbonized development pathway, and because such changes could make the financial partnership fairer in its process and governance.

G7 countries are actively trying to replicate the South African JETP example to pave the way for a new type of cooperative arrangement, to showcase a new methodology. If they manage to show good examples and communicate well, this could be a reassuring, trust-building exercise, showing that the potential controversies between net-zero alignment and SDG alignment can be resolved to the benefit of the countries most in need, and that G7 countries are serious about it.

While JETPs are being explored with African countries like Senegal and Asian countries like India, Vietnam or Indonesia, Asian players are actually already acting fast. In particular, the Asian Development Bank has developed an energy transition mechanism and an SDG-alignment strategy that seem both very effective both for development and climate, and at scale. [Showcasing equivalent good practices in other MDBs](#) and bilateral players from Europe is thus going to be critical, in order to keep the pace with innovative players from powerful Asian economies, and avoid that Western institutions appear obsolete.

Of course, current challenges should not be looked at only with such a competition lens, while all we need is cooperation between all players, given the magnitude of the needs. This is why dialogues to converge on practices are so important, to avoid that parallel institutions, norms and standards are developed: between MDBs and other PDBs, between massive Chinese financial players like the China Development Bank or the ExIm Bank and other banks, between new players like the New Development Bank or the Asian Infrastructure Investment Bank and more classical donors, between the West, the new non-aligned Global South and major economies in Asia. G20 presidencies by Indonesia in 2022 and India in 2023 appear to aim at building bridges between blocks rather than reinforcing divides. In such a perspective, COP27 must particularly send signals of a renewed type of cooperation and partnership.

¹ IDDDRI has worked both on public development banks' (<https://www.idddri.org/en/publications-and-events/study/scaling-public-development-banks-transformative-alignment-2030-agenda>) and multilateral development banks' (<https://www.idddri.org/en/publications-and-events/study/operationalising-multilateral-development-banks-alignment-2030-agenda>) alignment with the 2030 Agenda.

CLIMATE

GOUVERNANCE

FINANCEMENT DES ÉCONOMIES EN DÉVELOPPEMENT

COP27

PERTES ET DOMMAGES

INTERNATIONAL FINANCIAL INSTITUTIONS