

Economic justice civil society's joint submission to the UNFCCC consultation for the Seventh Technical Expert Dialogue on the New Collective Quantified Goal on climate finance

Key messages

Unsustainable debt burdens are threatening to jeopardise the very integrity of the Paris Agreement and the objective of limiting global temperature rise below 1.5°. Unsustainable debt burdens are preventing meaningful efforts to implement mitigation and adaptation measures, as well as derailing measures to avert, minimise and address loss and damage, particularly for countries in the global south.

- The Seventh Technical Expert Dialogue (TED 7) on the New Collective Quantified Goal on climate finance (NCQG) needs to integrate considerations about the vicious cycle of escalating debt and climate crises to protect the integrity of the Paris Agreement.
- The process of setting an NCQG should not result in further indebtedness from climate finance in the global south and thus should follow the principle of Common but Differentiated Responsibilities, and adopt a climate justice perspective.
- Access to high-quality, new, public and additional, debt-free, pro-poor, gender-responsive, climate finance grants that are free from economic conditions must be prioritised.
- All climate finance contributions must be aligned with the Paris Agreement's goal to limit global temperature rise to 1.5°C, and must also be aligned with a human-rights and a feminist gender-responsive approach.
- An automatic debt service suspension mechanism must be included in future multilateral, bilateral, financial intermediary and private loans.
- Unconditional debt cancellation must be ensured for all countries that need it, across all creditors (bilateral, multilateral and private).
- A longer term goal should be to establish a multilateral debt workout process under the auspices of the United Nations that can help countries break the vicious cycle of escalating debt and climate crises.
- Loan and investment contracts (bilateral, multilateral, private and intermediary) must be designed in a participatory manner, and lending terms must be publicly disclosed.
- All climate finance contributors must follow responsible borrowing and lending principles.

Introduction

Countries in the global south have historically contributed the least when it comes to causing climate change, yet they are impacted most by the impacts of global warming.¹ Their additional over-exposure to ongoing loss and damage is harming their ability to finance climate and development measures, because they are sucked into a cycle of climate-induced debt and fiscal deficits. This in turn inhibits their ability to tackle climate change and pursue the Sustainable Development Goals (SDG), which becomes a vicious cycle that repeats.^{2,3} Climate finance is a part of the solution. However, by using financing mechanisms that exacerbate the polycrises of climate change, debt and inequalities, climate finance contributors are not supporting global climate action or enabling climate justice.

Climate justice is about recognising that the climate crisis has been caused by the global north (including through resource exploitation in the global south).⁴ This means that the global north has a far greater responsibility to act first and to act quickly. However, the existing global climate finance goal of US\$100 billion per year has never been met, and currently 71 per cent of public climate finance is being delivered through loans.⁵ Moreover, countries in the global south that are highly vulnerable to climate change also include many middle-income countries, which are often not eligible for other forms of grant or concessional climate-related development finance due to their income status.^{6,7}

It is this inverse relationship between climate risk/vulnerability on the one hand, and responsibility on the other, that forms the basis of climate justice debates.⁸ The United Nations Framework Convention on Climate Change (UNFCCC) recognises the inequity of the climate crisis. Its framework is structured so that countries with the biggest historical responsibility for causing climate change – namely countries in the global north – have the lead responsibility in tackling climate change, which includes providing finance to support the journey of countries in the global south to achieve economic growth that is not rooted in high greenhouse gas (GHG)-based economies.⁹ All of this is underpinned by the UNFCCC's principle of Common but Differentiated Responsibilities (CBDR).¹⁰ Article 9 of the Agreement enshrines the right to climate finance for developing countries. This also materialises in the Convention under the classification of countries in Annex 1, Annex 2 and non-Annex countries.¹¹

The process to set up a post-2025 New Collective Quantified Goal on climate finance (NCQG)¹² is an opportunity to rebuild trust on climate finance and to embed principles of economic equity within climate finance, addressing not only quantum matters, but also quality issues. With such high climate finance needs and such high debt burdens, it is important that the process to set an NCQG does not result in further indebtedness from climate finance. This public consultation response from economic justice civil society organisations highlights the impacts of debt and indebtedness from debt-generating financial mechanisms, in relation to the quality and transparency of climate finance, and outlines recommendations for reducing the debt burden from climate finance flows. **This public consultation response was developed by Eurodad, Debt Justice, Jubilee USA, ActionAid, Latindadd, Debt Justice Norway, and the Bretton Woods Project. It is additionally supported by 38 civil society organisations (CSOs), including environmental and climate CSOs, human rights CSOs, and gender CSOs.** A full list of CSOs supporting this submission can be found in Annex 1.

Q. What specific issues should be proposed for in-depth discussion at the seventh technical expert dialogue with a view to identifying clear options regarding:

Q. The qualitative scope of the goal

The urgent need to discuss debt relief options

Irresponsible climate lending is exacerbating the global south's exposure to climate change and global economic shocks. The majority of climate finance is provided as loans that must be repaid. In 2020, US\$48.6 billion, or 71 per cent,¹³ of public climate finance attributable to global north countries was in the form of non-concessional and concessional loans. Meanwhile grants totalled just US\$17.9 billion (26 per cent) of climate finance.¹⁴ However, in spite of their urgent climate finance needs, lower income countries spent five times more on debt repayments in 2021 than on tackling climate change.¹⁵ Both low- and middle-income countries spent US\$372 billion on debt repayments in the same year.¹⁶

Any additional debt, in the form of climate finance loans, imposes an additional barrier to them being able to implement robust climate measures. Indeed, research¹⁷ for the International Monetary Fund (IMF) concludes that small climate-vulnerable states' debt levels increase quickly after climate-related events. This is a result of the impact on their economies, and because they can only take on new debt at high interest (their climate vulnerability means they are deemed to be high risk) in order to finance reconstruction.

Furthermore, the repayment of such loans impacts countries' ability to provide high-quality public services, such as access to clean drinking water after a climate event. The most heavily indebted nations are expected to reduce public expenditure by 3 per cent on average between 2019 and 2023.¹⁸ This in turn has implications on, for example, eradicating poverty, increasing gender parity and achieving higher education goals, which in turn negatively affects the fulfilment of the 2030 agenda for Sustainable Development.

Clearly, climate change acts as a multiplier of debt burdens, and it is these high debt burdens that are impacting the global south's ability to tackle climate change and phase-out of fossil fuels. Indeed, the need to raise foreign currency to repay debts compels many countries in the global south to rely even more on fossil fuel and extractive industries or industrial agriculture oriented for export – thereby further accelerating the climate crisis.¹⁹ The climate crisis and debt crisis thus mutually reinforce each other – entrenching an unsustainable global economic system.²⁰

In the context of widespread debt crises, new lending to global south countries is often allocated to servicing existing debt repayments largely owed to private creditors, effectively bailing out these creditors²¹ rather than being allocated to addressing the climate crisis. This will exacerbate the debt crisis, prevent countries from responding to the climate crisis, and cause a further debt crisis down the road when these new loans eventually fall due. This effectively undermines the ability of countries in the global south to respond to their own national needs, including the climate crisis. It also challenges the very "new and additional"²² character of climate finance, if new loans and grants finance are dedicated to existing debt repayment. That is why debt restructuring and relief must go hand in hand with the provision of climate finance.

Multilateral Development Banks (MDBs) unfairly favour non-concessional climate finance

As climate vulnerabilities have increased for countries in the global south, so has these countries' need to access long-term concessional finance. As a result, Multilateral Development Banks (MDBs) and International Financial Institutions (IFIs) have played an increasing role in the delivery of climate finance. However, MDBs and IFIs often have strict eligibility requirements to access finance – based, for example, on the Gross Domestic Product (GDP) criteria of eligible countries. They usually prioritise loans over grants;²³ apply austerity based policy conditions to their finance (which have been shown to have harmful outcomes for countries and communities in the global south, including increasing poverty and inequality);²⁴ lack transparency; and finance projects that cause climate change, including fossil fuel projects.^{25,26} Countries in the global north attributed

US\$36.9 billion of their climate finance to multilateral finance institutions in 2020, and 91 per cent of multilateral public climate finance (excluding multilateral climate funds) was provided in the form of loans.²⁷ What is more, between 2016 and 2020, only approximately 23 per cent of MDBs' climate finance loans were concessional,²⁸ and these were provided based on a country's income level, creditworthiness and debt sustainability analysis (DSA).

However, these metrics do not take into account the overwhelming impact of climate change on a country's income, debt levels or industries. For instance, a study by researchers in India concludes that the "higher economic dependency on climate-sensitive sectors makes [global south] countries more susceptible to climate change".²⁹ This makes clear the need for alternative measures of vulnerability and financing needs, such as the multi-vulnerability index being developed by the UN for Small Island Developing States (SIDS).³⁰ The ability to finance the implementation of climate measures is crucial for overall sustainable development. This is evidenced by an International Monetary Fund (IMF) working paper, which states, "[q]uasi-continuous post-disaster reconstruction and emergency repairs of climate-vulnerable infrastructure also impose strains on the availability of financing for other development goals".³¹

The lack of access to highly concessional finance from MDBs means that countries in the global south are often indebted to MDBs. A total of 91 countries in the global south already owe 30 per cent of their external debt to multilateral institutions,³² all while having estimated financing needs of between US\$5.8 trillion and US\$5.9 trillion to implement their (public and private sector) Paris Agreement climate action plans by 2030.³³ It is clear that, as countries in the global north seek to expand the climate finance contributors' base and share their responsibility for meeting climate finance goals with multilateral financial institutions, the global south's exposure to more non-concessional loans and debt increases. Meanwhile, the hold these institutions have over the global south's climate action and economic priorities also increases.

As highlighted above, without debt restructuring and relief, any new loans to countries in the global south will likely have to be used to repay existing creditors as opposed to being allocated to climate action. The World Bank already holds 20 per cent out of US\$686.3 billion³⁴ of the Vulnerable Group of Twenty (V20) climate vulnerable countries' external public debt, while other MDBs hold an additional 20 per cent. Thus, if a high proportion of the new loans for climate finance come from MDBs, an even larger share of lower income country debt will be owed to MDBs. This will further impact the global south's ability to implement robust climate measures. Additionally, when debt relief inevitably does take place in

the coming years, it will fall exclusively on public institutions and governments in the global north, instead of sharing the burden with private lenders. This will mean that it will be far more expensive for public finances than if private lenders were compelled to provide debt relief now.

The international, institutional and legal framework that regulates climate policy and climate finance sits within the UNFCCC, as do the Financial Mechanisms that serve the UNFCCC and its Agreements e.g. the Paris Agreement. As such, to ensure that all financial flows support the objectives agreed within the UNFCCC's multilateral fora, climate finance provided outside of the auspices of the UNFCCC – such as via MDBs and IFIs – should be grounded in the principles of the UNFCCC.

The private finance debt trap

The high debt level of many countries in the global south makes it hard to raise capital, particularly for projects with low profit margins such as adaptation projects, or to cover the economic loss and damage derived from climate change. Under the current narrative, which emphasises the need for trillions of dollars to tackle the climate crisis and the excuse that there is not enough public money, private finance is often promoted as a solution, and is portrayed as a sector that can help fill financing gaps. Indeed, the private sector is already capturing the bulk of climate finance. Averages for 2019/20 show that the private sector received 2.5 times more climate finance globally than the public sector and public-private sector combined.³⁵

Worryingly, public money is increasingly being used to balance the perceived risk of the private sector investing in infrastructure that supports the energy transition in the global south, notably via public-private partnerships (PPP) and guarantees. However, a 2020 study³⁶ shows that, amongst other things, PPPs create hidden debt that private finance costs more than government borrowing, and public authorities often bear the risk of project failures (i.e. contingent liabilities). Moreover, an IMF staff note states that "[g]reater private finance for infrastructure exposes poor households to higher costs for services".³⁷ Privately financed water or energy infrastructure could impact the ability of vulnerable communities and poorer households to access these vital basic services in the wake of a climate impact, due to being unable to afford the market prices to access vital services, possibly as a result of lost livelihoods caused by a climate impact. This would be disastrous for communities, impacting local and/or regional economies, and exacerbating inequalities within countries. The private sector typically prioritises wealth generation and profit, and thus lacks the incentive to fund high-quality, accessible public services, climate resilience, adaptation measures and loss and damage. There is also a risk of greenwashing, which needs regulatory oversight and binding standards.

Using private finance and involving private sector stakeholders in project implementation fails to recognise how private sector practices have exacerbated financial and climate vulnerabilities, and how they compound each other. For instance, research from Imperial College London shows that “for every US\$10 [global south] countries spend on interest payments, an additional dollar of interest is added due to climate vulnerability”.³⁸ It is clear that finance from the private sector is a costly expense for countries in the global south, a practice that traps these countries in financial deficit, as they often slash public expenditure in order to service public debt.³⁹ The shrinking space for public climate finance that communities, regions and civil society can access⁴⁰ risks leaving entire communities behind, as the world seeks to address climate change.

This year, the UNFCCC Secretariat published a Recognition and Accountability Framework for non-Party stakeholder climate action⁴¹ to create greater accountability of such stakeholders’ climate action. In principle, this would also cover private sector engagement in climate action. However, as outlined above, using the private sector as a climate finance contributor comes with risks, and the dispersed nature of the private sector (different international, national, regional, local regulations and laws) will make it very difficult to ensure that commitments from this sector fall under the auspices of the UNFCCC.

Recognising that the UNFCCC does not have the mandate to take decisions on global economic policy, the NCQG must be a space to be proactive about preventing further indebtedness from climate finance in the global south. This is vital to protect the very integrity of the Paris Agreement. As such, we, the undersigned, make the following recommendations on the scope of the NCGQ goal, and request that the following options are discussed in detail during the Seventh Technical Expert Dialogue.

Key recommendations

In the context of the NCQG, countries should agree to discuss the following:

- How TED 7 can fully integrate considerations about the vicious cycle of escalating debt and climate crises to protect the integrity of the Paris Agreement. Particularly as unsustainable debt burdens have the capacity to jeopardise the very integrity of the Paris Agreement and the objective of limiting global temperature rise to below 1.5°. This is because unsustainable debt burdens can prevent meaningful efforts to implement mitigation and adaptation measures, as well as measures to avert, minimise and address loss and damage, particularly for countries in the global south.
- How to implement measures to limit the economic impacts of debt-generating instruments by prioritising access to

high-quality, public, new and additional, debt-free, pro-poor, gender-responsive climate finance grants that are free from economic conditions.

- How to align all climate finance contributions with the Paris Agreement’s goal to limit temperature rise to 1.5°C, and how to ensure a human-rights and a feminist gender-responsive approach to all financed climate action activities, to ensure society wide transformation. Any finance provided must uphold the rights of all marginalised groups, including women and non-gendered communities, children, indigenous groups and rural communities, racialised and ethnic groups, the disabled community and all other marginalised groups.
- How to provide automatic debt service suspension and restructuring mechanisms in future multilateral, bilateral, financial intermediary and private loans to be activated in the immediate aftermath of climate disasters and climate-related shocks. This should go alongside the provision of grant-based climate finance. During the suspension period, all payment obligations to all external creditors would be suspended and no legal action could be taken against the borrowing country to enforce debt service, thereby reducing the build-up of surcharges and other borrowing costs on unpaid debt.
- How to comprehensively cancel debt by all creditors (bilateral, multilateral and private) for all countries in the global south that need it, and that have unsustainable and illegitimate debts, including debt generated by fossil fuel projects.
- How to work with the UN to establish a multilateral debt workout process under the auspices of the UN that can help countries to break the vicious cycle of escalating debt and climate crises.
- How to integrate climate risks, vulnerabilities and impacts into debt sustainability analyses (DSA) to ensure that countries have access to highly concessional finance based on their specific and multi-varied country circumstances, not just based on their economic circumstances.

Q. The transparency arrangements under the NCQG

The predictability of climate finance requires policies to guide the development and implementation of climate finance strategies in a fair, transparent and just manner. As such, for post-2025 climate finance flows to be effective there must be full transparency, accountability and good governance of total climate finance flows. While the NCQG process is separate from the Enhanced Transparency Framework (ETF) process, there is an opportunity for countries to discuss and agree relevant debt transparency

and fairness needs that are currently missing from the UNFCCC's transparency process (ETF). Public awareness of climate finance loans and investment contracts is crucial for rebuilding trust and confidence that the needs of countries and vulnerable communities are being addressed through climate finance flows – flows that are currently overwhelmingly composed of inequitable loans and other debt-generating instruments.

As such, we, the undersigned, make the following recommendations on the transparency arrangements of the NCGQ goal, and request that the following options are discussed in detail during the Seventh Technical Expert Dialogue.

Key recommendations

Transparency and fairness

- An agreement that loan and investment contracts (bilateral, multilateral, private and intermediary), including climate-technology transfer and export agreements, are designed in a participatory manner, and allow for fair risk-sharing and shared accountability amongst all concerned Parties. This includes ensuring public consultations are held so that communities can engage in the development of fair agreements and terms.
- An agreement to publicly disclose lending terms (including on loan roll-overs, maturity of loans and term length), risk categories and type of transaction of loan or investment agreement. All of this should be reported in a global debt registry. This is crucial to understanding debtors' (recipient countries') capacity to take up a loan and at what levels of concessionality. Loans should be disclosed within 90 days of being agreed.
- The terms of PPPs must be published before agreement between governments and the private sector, and a public consultation should be held to ensure that communities can engage in the development of fair agreements and terms.
- The interest rate on loans should be disclosed.
- Responsible lending and borrowing principles must be followed – for instance, the United Nations Conference on Trade and Development (UNCTAD)'s Principles on Promoting Responsible Sovereign Lending and Borrowing.⁴² Additionally, several civil society organisations, including Eurodad, have developed relevant principles. Debt Justice Norway (SLUG) published Best Practice Guidelines for Responsible Private Investments,⁴³ and analysed existing responsible lending and borrowing principles from the UN, the Organisation for Economic Co-operation and Development (OECD), civil society and others, and presented recommendations on how to strengthen them.

- To ensure full transparency, civil society should be involved in the decision-making processes to set and review the NCGQ; they should have full access to documents, and all information should be publicly accessible.
- All climate finance contributors (public, private, multilateral and intermediaries) must submit data to the UNFCCC to support efforts to collate and publish aggregate data.

On an obligatory basis, countries in the global north should:

- Report on the grant equivalent of finance. This will help to create an understanding of the level of indebtedness from international climate finance flows.

The UNFCCC Standing Committee on Finance (SCF) should:

- Aggregate data on disbursement to create disbursement rates of climate finance over time, and to identify the ratio of grant versus loans disbursements. This will help to create a greater understanding of indebtedness from climate finance flows.

Review cycles of the NCGQ should, at a minimum, include:

- A review of how it is functioning and being implemented, and progress towards achieving its goals.
- A review of the amount of grants versus loans, and reflections on the impact of loans on a country's ability to remain fiscally stable and sustainable.
- Account for the submitted needs of countries in the global south and analyses from the UNFCCC First Report on the Determination of the Needs of Developing Country Parties (NDR).⁴⁴
- Outcomes of the reviews should be published and should include recommendations for increasing the effectiveness of the goal.

Annex 1: List of Civil Society Organisations that support this submission

International

Global Policy Forum Europe
ADRA Canada
Dette du climat
Oxfam
Heinrich Böll Stiftung Washington, DC
The Loss and Damage Collaboration (L&DC)
YOUNGO

Africa

Southern and Eastern Africa Trade Information and Negotiations Institute (SEATINI) Uganda
AbibiNsroma Foundation
CLMATE ACTION NETWORK ZIMBABWE
Go green Sudan
The IMAL Initiative for Climate and Development
Budget Advocacy Network

Middle-East

Arab youth Climate Movement-Lebanon

Asia-Pacific

Indigenous Peoples' Organisation-Australia

Oceania

Climate Action Network Australia
Pacific Islands Climate Action Network

Europe

Lithuanian NGDO Platform
Electra Energy Cooperative
erlassjahr.de
Spire
CNCD-11.11.11
erlassjahr.de - Entwicklung braucht Entschuldung e. V.
(Jubilee Germany)
Act Church of Sweden
Finnish Development NGOs - Fingo
Recourse
SCIAF
Klimadelegation e.V.
World Economy, Ecology & Development - WEED
Christian Aid
Jubilee Scotland
Global Witness

North America

Equidad de Género: Ciudadanía, Trabajo y Familia
Climate and Community Project
AidWatch Canada
Grandmothers Advocacy Network (GRAN)

South America

Asociación Ambiente y Sociedad

Central America

La Ruta del Clima

Authors: Leia Achampong and Iolanda Fresnillo (Eurodad), Tess Woolfenden (Debt Justice), Aldo Caliarì (Jubilee USA), Carola Mejía (Latindadd), Hamdi Benslama (ActionAid International), Julie Rødje (Debt Justice Norway).

Acknowledgements: Jean Saldanha (Eurodad), David Archer (ActionAid International), Tim Jones (Debt Justice), and Jon Sward (Bretton Woods Project).

Copy editing: Vicky Anning.



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