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At least 2% of global GDP needed annually for climate/sustainable development ambition– says UNCTAD

Penang, 24 June (Evelyn Teh) – At an event held under the UNFCCC's Subsidiary Bodies (SBs) first week of June, governments were told that a minimum of 2 per cent of global GDP annually (upwards of USD 1.7 trillion) for the next few decades will be needed, with much of it for the developing world in order to deliver on the ambitions set out in the UN Agenda 2030 and the Paris Agreement (PA).

This was revealed by **Dr. Richard Kozul-Wright**, who is **Director** of the **Globalisation and Development Strategies Division** of **UNCTAD**, who said that "with less than a decade to meet the ambitions set out in the Agenda 2030 and the PA, most countries, already falling behind before Covid-19 struck, have been blown further off course by the pandemic."

He added that "delivering on those ambitions now depends on a coordinated investment programme on an unprecedented scale, across a series of deeply interconnected economic, social and environmental challenges and covering the entire global commons and that estimates of the required additional investments are subject to all kinds of caveats but will amount at a minimum to 2 per cent of global GDP annually (upwards of USD 1.7 trillion) for the next few decades, much of it in long-term projects, and with a growing proportion in the developing world."

These remarks were made at the 2nd session of the 1st meeting of the Structured Expert Dialogue (SED) under the 2nd Periodic Review of the long-term global goal (LTGG) and the progress towards achieving it (PR2) that was held over three days from the 3rd to 5th June at the recently concluded meetings of the UNFCCC's SBs.

In his presentation, UNCTAD's **Dr. Richard Kozul-Wright**, referring to the USD 1.7 trillion, said that "the numbers, which include public and private investment, can seem daunting; but they were commonplace in the 1970s and 1980s, adding that the Covid-19 crisis has served as a reminder that, when countries can fully use their policy space, public financing mechanisms are unmatched in their power to mobilize resources in the face of a crisis."

Kozul-Wright stressed that "the climate crisis is of an order of magnitude, in scale and scope, considerably greater than the Covid-19 pandemic and that the pandemic has revealed a sharp difference between advanced and developing countries when it comes to mobilising fiscal resources and accessing necessary technologies." He said further that the current "dominant economic model, and the vested interests behind it, have entrenched a misplaced faith in the recuperative powers of market competition and the free movement of capital, a combination that has not only nurtured a destructive approach to the natural environment but has also failed to deliver a healthy investment climate."

He cautioned further that "relying on deregulated financial markets, footloose capital and rent-seeking financial institutions will not only shorten investment horizons but also perpetuate a pro-cyclical and inherently volatile economic environment which works against productive investment, in both the private and public sectors and this is the opposite of what the climate crisis requires."

Kozul-Wright called for "an ambitious programme of financial and fiscal reform", required "to shift investment horizons from the short-term to the long-term and from speculative to productive investments to decarbonise economies. The first order of business is abandoning austerity as the default macroeconomic adjustment policy", he said, adding that "Covid-19 has already moved advanced economies in this direction (at least for the time being). This was however not the case in many developing countries, where creditors (including multilateral financial institutions) retain a misplaced faith in fiscal rectitude."

According to Kozul-Wright, UNCTAD's research in the Trade and Development Report has shown that "significant, well-planned and stable patterns of public expenditure can crowd-in private investment, support employment creation, boost wages, and trigger technological advances for a 'green' productive transformation, all the while helping States grow out of debt burdens. Further, an active public sector can help lift supply constraints, especially in developing economies, and ensure that credit creation and financial conditions serve the real economy, rather than the other way round".

He added that "significant investments will be needed to improve energy efficiency and reduce the carbon intensity of economic growth but also to ensure a just transition through job creation, retraining and expanded health care."

Kozul-Wright said that what is needed is a globally coordinated investment strategy, with a focus on structural transformation and environmental recovery in the developing world, which he describes as a 'Global Green New Deal'.

He said further that "the responsibility to lead a big investment push lies with the world's richest economies, whose prosperity rests on a century or more of high carbon growth and, more recently, from offshoring their emissions-intensive manufacturing activities. That responsibility extends to meaningful financial support to help developing countries decarbonize their growth regimes without compromising efforts to raise living standards and the welfare of their populations, including support to mitigate accelerating loss and damage and to meet the adaptation challenge, already stretching resources in many climate-vulnerable countries."

"For many developing economies, servicing their external debts constrains resource mobilization for productive investment; and when environmental disaster strikes any hope of meeting the Sustainable Development Goals by 2030 is extinguished. A multilateral mechanism for restructuring sovereign debt is therefore integral to meeting the investment demands of a Global Green New Deal", elaborated Kozul-Wright.

He also said that "we must also learn from failed approaches to the financing challenge. The available evidence on public private partnerships suggests that de-risking measures have been unable to attract private capital on the scale promised, let alone required. Moreover, such financing tends to be more expensive than more traditional public financing arrangements as the public sector assumes the risks that should be borne by private investors, with the extra burden falling on poorer sections of society."

Kozul-Wright explained that UNCTAD's research indicates that, "despite the large amounts of public money received since the financial crisis, private banks and other financial institutions have continued to finance dirty industries and have been reluctant to finance large-scale climate-related investments, particularly in the developing world."

"Development banks across the world can provide more reliable sources of finance for sustainable infrastructure projects, can help countries to identify low-carbon, high-productivity activities and to design complementary industrial policies to support a just transition for workers and communities," he said further adding that "in our own proposals to advance a public financing agenda we have drawn lessons from the Marshall Plan to support a more coordinated response".

He also pointed out that "over the past 30 years restricting policy space has worked to the advantage of corporate monopolies with detrimental effects on the global commons. The pandemic, in particular around access to vaccines, has highlighted the way existing trade rules, such as trade-related intellectual property protections, perpetuate technological asymmetries and generate sub-optimal global outcomes. Excessive protection of intellectual property, if left in place, will compromise effective responses to the climate crisis."

"Accordingly, a Global Green New Deal will require a thorough audit of trade and investment rules and, where necessary, rolling back of free trade agreements and bilateral investment treaties, including their mechanisms to settle disputes. A plan such as this for a Global Green New Deal has the potential for generating the required income and employment growth across all countries as well as ensuring climate stabilisation, cleaner air and other environmental benefits. This process can drive developed countries closer to full and decent employment and help achieve more diversified economies and improved working conditions in developing countries", stressed Kozul-Wright further. "Doing too little too late is not an option in the face of the catastrophic consequences of rising global temperatures. Rather, and in step with Martin Luther King at another transformative moment, this is a time for vigorous and positive action," he concluded.

To highlight some of the key takeaways relating to means of implementation, **Dr. Sara Traerup** from **UNEP-DTU** said that the current annual adaptation costs in the developing countries are estimated at USD70 billion and are expected to rise to USD140-300 billion by 2030. This figure is anticipated to increase to USD280-500 billion by 2050. However, the total tracked adaptation finance is currently at USD30 billion, and has remained around a mere 5% of total climate finance since 2015. Hence, Traerup stressed that there is a real risk that adaptation costs will increase faster than adaptation finance, and therefore, further ambition is required in this regard. Economic and financial challenges are the most frequently reported challenge for technology transfer and diffusion across all adaptation and mitigation technologies, mostly due to the high up-front cost of technologies, the difficulties in obtaining loans, uncertainties regarding returns on investments, and a general lack of financial resources, she said further.

During the question and answer session, **India** speaking for the **Like-minded developing countries (LMDC)** said that while the SED presentations were very much welcomed, the sessions have left several questions unanswered with regards to the assessment of the effectiveness of steps taken by Parties. There was a lack of analysis of the progress made, as there should be information on the effectiveness of policies, identification of best practices and technology needs. India also mentioned that there was no mention of the scaling up of ambition by developed countries, considering that they continue to increase their emissions as evidenced in the compilation of the synthesis report produced by the Secretariat.

India also mentioned that there were no answers on how or where the Parties will see the committed USD1 trillion mobilized and provided (USD 100b per year by 2020 from 2009), including the status of Adaptation Fund, and where are the new and additional sources of funding over and above what that has been committed. Meanwhile there has been a considerable slowdown on the technology development from the Annex 1 countries across sectors, on the registration of new technologies and their development. In view of this, India asked how the transfer of technology to developing countries will be undertaken.

In addition, India also said that the presentations which focused on the future in terms of several decades forward, have shifted the attention away from the review in the immediate term. Given that the emissions of developed countries are considerably distanced from the 1990 levels, in the context of existing and committed scenarios, it asked how the discussion can go back to the immediate need for emissions reduction, instead of focusing on future carbon neutrality predictions.

China raised a question on the need for a common understanding regarding the LTGG, that if we are to have it below 1.5°C according to the PA, what are the means of implementation required to achieve this, in terms of finance and technology transfer.

Saudi Arabia, also referred to the LTTG in its intervention, by raising a concern of how Parties can achieve these goals in an equitable way, taking into consideration the historical emissions and common but differentiated responsibility and respective capabilities (CBDRRC), and the need for development imperatives to be met.

In response to some of the questions, Kozul-Wright from UNCTAD said that the debt constraints in many developing countries was profound. "Unless there is a serious initiative to alleviate the debt, which essentially means to restructure and relieve on a significant scale, most of the developing countries cannot generate the resources required to meet the kind of investment challenges that we are talking about in terms of climate and development goals. Unless we take that constraint seriously, it is difficult to see a way forward" he said.

He added further that "the debt service suspension initiative launched by the G20 is inadequate compared to the pressures that these countries are

actually facing, up to USD5 – 10 billion. This is not debt relief, but debt suspension which is insignificant compared to the pressure that it is putting on public finances."
In a more encouraging note, Kozul-Wright referred to the issuance by the International Monetary Fund of Special Drawing Rights (SDR) in a few months, in the order of USD650 billion. "This is an important liquidity generating tool, although there will be a debate on whether we can use the SDRs for long term type investment project, including climate, as it can release significant amount of resources to meet this challenge."

The UNCTAD representative explained further that "the current structure of SDR is quota-based for developing countries. That's why we propose greater support for development banks, including the multilateral development banks (MDBs), as they need more resources and scaled up significantly." Kozul-Wright said further that he was "worried about policy conditionality, and undue policy conditionality that many developing countries feel is unhelpful when lending comes from MDBs."

In response to India's question about technology transfer, the UNCTAD representative said that in the past, the institution tried to fashion a code of conduct for technology transfer which did not come to anything. "There is a case to be made for reviving this initiative for climate related technologies," he said further.
The SED sessions were co-chaired by **Gao Xiang (China)** and **Tara Shine (Ireland)** and were organized as a fact-finding exchange of views between experts and Parties. Experts from various international organisations were invited to give their presentations on the work done by their organisations, including some findings from their latest reports.

Some of these included presentations on the 1st day by the **World Meteorological Organisation (WMO**) on the current state of climate and progress in providing climate services; while the **United Nations Environmental Programme (UNEP)** presented on the new scenarios compatible with the LTGG, and information on mitigation and adaptation gaps. The **International Energy Agency (IEA)** also presented its findings from its recently launched report, 'Net Zero by 2050: A Roadmap for the Global Energy Sector', while the **Food and Agriculture Organization (FAO)** presented on agriculture, food security and the LTTG.

On the 2nd day, representatives from the secretariats of the **Convention of Biological Diversity (CBD)** presented lessons from the 5th edition of the Global Biodiversity Outlook (GBO-5); the **United Nations Convention to Combat Desertification (UNCCD) Secretariat** spoke on the topic of desertification and land degradation and their impact on natural ecosystems and food security; and supporting climate action with systemic impacts by the **Global Environment Facility (GEF)** as well as the **World Health Organisation**. The final day saw officials and experts from the **Green Climate Finance (GCF)**, **World Bank, United Nations Conference on Trade and Development (UNCTAD), UNEP/Denmark Technical University (UNEP-DTU)** and **United Nations Industrial Development Organization (UNIDO)** who gave their perspectives on their organisation's contributions in the context of climate change.

More information about the outcomes and negotiations at UNFCCC from 2007 to 2019: https://tinyurl.com/3p6tw5vx