CIVIL SOCIETY FINANCING FOR DEVELOPMENT MECHANISM

CLIMATE FINANCE MYTH BUSTING

There is a lot of talk about climate finance today. But many assumptions are made with little understanding of all the complexities hidden behind this term. The myth busters are here to bust the main myths around this cryptic issue![1]

Myth #1
Lack of financing is the main obstacle to address the ecological crises.

Reality:
More money to fuel a system that is destructive by design will not resolve all environmental crises we face.

- While there is a need to urgently address the climate emergency and Global South countries are owed reparations, the fundamental challenge is systemic.
- The current capitalistic system based on the systematic plundering of resources and concentration of wealth for the few, has led us to transgress 7 out of 9 planetary boundaries.[2]
- We need to shift the entire economic and financial system: a) to transform the way we produce and consume, while investing in vibrant local economies centred on the wellbeing of people and the planet; and b) reconstitute the ecological balance.

Myth #2
Climate finance is about the generosity of wealthy countries towards developing countries.

Reality:
Climate finance is part of a larger agenda of justice, reparations, and restitution for those who have been the most impacted but the least responsible for causing the ecological crises.

- Wealthy countries are responsible for 92% of the excess global carbon emissions, turning this climate emergency into a de-facto atmospheric colonization.[3]
- Delivering finance for mitigation, adaptation, loss and damage, and the entire ecological agenda must be included as part of larger commitments from wealthy countries, who are so far failing in delivering climate finance.
- Wealthy countries committed to pay for their historical responsibility in causing climate and environmental crises by binding instruments and must be held accountable for their promises, which they have not yet fulfilled.[4]
- Climate and environmental finance must be scaled up and commitments met in their entirety, while funding should be additional to already existing Official Development Assistance (ODA) commitments. Unfortunately, some developed countries continue to count their climate funds as part of ODA[5] in the absence of a unique climate finance definition and methodology.

Myth #3
Current climate finance governance arrangement is fair to all countries

Reality:
Existing global climate finance governance unfairly demands an energy transition for countries in the Global South, while leaving intact the ecocidal economic dynamics that benefit the wealthy.

- This is evident if we see how most international climate finance flows are funding mitigation projects instead of adaptation, that should be the priority in the Global South.[6]
- It is time for a notion of climate finance that centers on Common But Differentiated Responsibilities (CBDR), equity, human rights, gender equality, ecological integrity and system change, and that guarantees direct access windows, especially for those groups that are in the frontline of the climate crisis.
- When climate finance is understood solely as "support" delivered by Global North countries to Global South countries, it poses a smokescreen on where and what the real climate action should focus on: addressing the inequitable and unaccountable extraction and overconsumption by the Global North.
- There is an urgent need to carry out structural measures to degrow Global North's and corporations' extraction and exploitation of energy, material resources, land, labor and time, especially those carried out in the Global South, while being accountable to the negative impacts of the climate and ecological crises in communities who suffer structural and intersecting forms of discrimination.
- Centering the Global North's responsibility for internal transformation while accounting for extraterritorial impacts are more effective ways to ensure a framework of reparations and restitution. If all countries were to consume as developed countries do, we would need 4 planets![7]

Myth #4
Private finance mobilization and 'de-risking' private investments is the only way out because there is not enough public money to address the environmental crises.

Reality:
Private investors and lenders' focus on obtaining profits cannot be expected to deliver public goods or to respond to adaptation and loss and damage (L&D) needs, which are priorities for the Global South.

- Private finance and blended mechanisms i.e. Public Private Partnerships (PPPs), are promoted as the silver bullet to close the financial gaps for the 2030 Agenda for Sustainable Development, the Paris Agreement and other environmental agendas. But so far, development and/or climate investments are not steered by necessity, but by what projects and investment schemes are most profitable to investors.
- This is where governments and Multilateral Development Banks (MDBs) are expected to undertake de-risking investments i.e to absorb potential losses and mitigating the risks of doing business. This approach undermines the role of the government and of MDBs, because instead of promoting the wellbeing of people and the health of the planet, their efforts are focused on making deals be financially attractive for private investors.
- On the other hand, though public funding tends to be more reliable, a lot of public resources are being diverted to sectors that are harming people and the planet (military expenditures, investments in extractive sectors, etc.). In addition, every year, billions of dollars go from the Global South to the Global North in unjust flows,[8] such as corporate and ultra-wealthy individuals' tax abuse or payment for servicing of debt imposed on unfair terms.
- We therefore need a reform of the global financial architecture to recover resources lost by financial secrecy and shift the current direction of financial flows and channel them to prioritize people and the planet over profit.

Myth #5
The debt crisis is not related to the climate emergency and we should not conflate the issues.

Reality:
The climate emergency is a debt crisis because of the Global North's historical responsibility in the global ecological destruction.

- The interlinkages between debt and the climate crises have been recognized by many actors in the economic justice arena as a dangerous vicious circle that harms the most vulnerable groups of Global South countries who suffer huge economic costs due to disasters.[9]
- Within the unfulfilled 100-billion-dollar annual pledge, climate finance is unfairly increasing debt levels in Global South countries as 71% of international public climate finance is being delivered through loans tied to conditionalities with high interest rates.[10]
- We don't need more loans to address the environmental crises. Rather, we need debt restructuring, debt cancellation, and public grants.
- We join social movements around the world in calling for a fair, transparent, binding, and multilateral legal framework for debt crisis resolution under the auspices of the UN as opposed to the Paris Club, the G20 Common Framework and other initiatives led by rich countries.[11]

Myth #6
Developing countries need to lower taxes as an incentive for private investment on climate solutions.

Reality:
Reducing corporate taxes to compete for attracting private investors comes at the expense of workers, indigenous communities, and the environment.[12]

- Lowering taxes to attract private investors has been prescribed by institutions such as the World Bank and the IMF for decades.
- These measures not only represent a huge loss of resources for states, but in fact have contributed to furthering foreign exploitation of natural resources by multinationals in environmentally damaging sectors such as mining, oil, and forestry.
- Instead of reducing domestic resource mobilization by cutting taxes for foreign investors, sectors that pollute the most and earn the highest profits should be regulated and pay their fair share in taxes.
- All countries should back a truly universal, intergovernmentally negotiated UN Tax Convention. Such a tax convention would comprehensively address tax havens, tax abuse by multinational corporations and individuals and other illicit financial flows that obstruct redistribution and drain crucial resources to tackle the climate emergency and reduce inequalities.

Myth #7
Market-based mechanisms are the solution to tackle the environmental crises

Reality:
These mechanisms have proven to be false solutions to effectively reduce CO_2 emissions worldwide and have failed to halt destructive business models.[13]

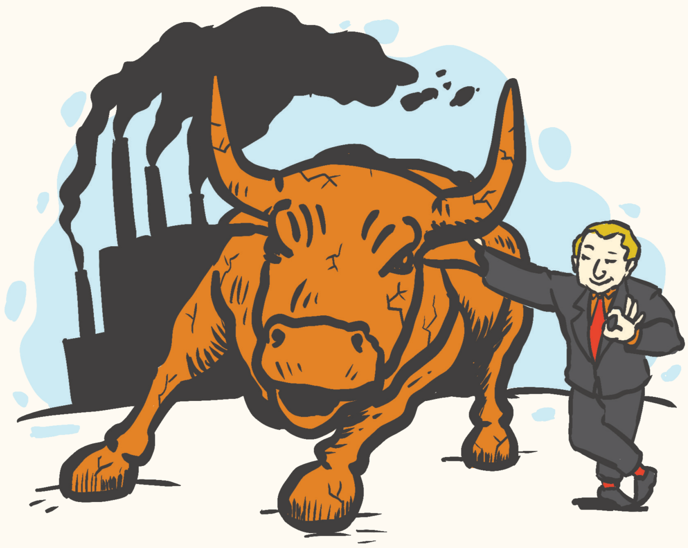
- There is a boom in promoting market-based mechanisms (like carbon markets and bio credits, green and blue bonds) as the best solutions for the climate crises. But these tools operate under the same capitalist logic that caused the ecological crises in the first place.
- These mechanisms over-rely on financial instruments rather than addressing the roots of the problem. In fact, turning carbon emissions into new financial assets allows wealthy countries and corporations to pay and trade their way out of stricter social and environmental regulations while burdening communities in the Global South with the harsh consequences of nature's depletion.
- Turning emissions into a commodity also exposes local communities to financial interests competing for land, water, metal, and forests.[14]
- Most importantly, these false solutions ignore the differentiated responsibility between countries and population groups when it comes to historical emissions and resource extraction. It avoids dealing with an urgently needed real reduction in overall consumption and carbon emissions from the Global North.

Myth #8
We can "green" our extractive economy as a way out of the climate crisis, including through investing in "clean" fossil fuels

Reality:
"Green solutions" or "techno-fixes" that are market and profit-based while maintaining extractive and predatory practices will destroy the fragile ecosystem's integrity.

- The current economic system is predatory to the ecological balance and is the main driver of global inequalities. Efforts of "greening the economy" have not proven to be effective in reducing carbon emissions.
- Rather, disguised under the pretence of "green economic activities", such as "low-carbon/clean energy technologies", there is an expansion of mining and metal extraction from the Global South and increased energy base and resource consumption by wealthy countries, affecting rights of the communities and risking increasing inequalities between Global North and South.[15]
- There are no "clean" fossil fuels, and the regulation of the financial sector is key to halt investments in fossil fuels. Private financial entities, including asset managers and commercial banks, are pouring trillions every year to the fossil fuels industry in an indiscriminate manner.
- The only solution is a deep system change.

Myth #9
There's no need for a reform of the Global Financial Architecture because Global North countries are developing Green New Deals (GNDs)



Reality:
GNDs are causing a new era of mineral and resources extraction on steroids, in land and ocean, in the Global South through unfair trade agreements.[16]

- To maintain the over-consumption of materials and energy in the Global North, these countries are not replacing fossil fuels with renewable energies but expanding their energy base.
- Unless this massive extraction stops, this process cannot be considered a fair energy transition. Rather, in the end it will destroy biodiversity integrity, leading to surpass tipping points, while displacing Indigenous Peoples and local communities, exacerbating extreme events, and bringing catastrophic results.
- Trade justice is key, as well as urgently promoting degrowth for the wealthy while expanding fiscal space for developing countries.

Myth #10
The G7, G20, OECD, Paris Club, and International Financial Institutions (IFIs) will find the solutions we all need for the climate emergency.

Reality:
Global North institutions have shaped and benefited from an unjust global economic system and decolonizing the global economy needs to be the key priority.

- Global North institutions have repeatedly proven not to have the political will to change the status quo.
- Since their establishment, IFIs have been characterized by their undemocratic governance, in which Global South countries have minimal voice and participation in the decision-making process. This is evident in the way IFIs have been imposing unfair conditionalities tied to the loans they provide,[17] which in the case of climate finance are mostly non-concessional loans.[18]
- We urgently need systemic solutions to fix the broken global economic architecture that reinforces a global and sexual division of labor focused on the extraction of wealth and resources from the Global South, and the value of labor of women and other communities.
- We need a Fourth Financing for Development Conference under the auspices of the UN, as it remains the only place where developing countries are at the table with equal voice and vote.

Endnotes

1 This document is based on collective work from the Civil Society FfD Mechanism (including the Women's Working Group on FfD). Find out more here: https://csoforffd.org

2 See: https://www.stockholmresilience.org/research/planetary-boundaries.html

3 Hickel, Jason. "Quantifying national responsibility for climate breakdown: an equality-based attribution approach for carbon dioxide emissions in excess of the planetary boundary", The Lancet Planetary Health, https://www.sciencedirect.com/science/article/pii/S2542519620301960

4 In 2009, in COP15, wealthy countries committed to mobilize 100 billion dollars yearly by 2020, which has not been fulfilled yet. For instance, in 2020, international climate finance merely reached 83.3 billion dollars (OECD, 2022).

5 According to new research (Hattle & Norbo, 2022) Developed countries reported USD 220 billion of public climate finance across the 8 years from 2011 to 2018. Yet only USD 14 billion or 6% of this amount can be considered strongly additional. USD 99 billion or 45% per cent of the reported climate finance can be considered having weak additionality. More than half of this amount is questionable since they represent development finance rebadged with climate change objectives when it should have been on top of any support for development.

6 In 2020, 62% of international climate finance went to mitigation projects, and only 24% to adaptation, which should be a priority in the global South (OECD, 2022).

7 https://www.bbc.com/news/magazine-33133712#

8 https://taxjustice.net/reports/the-state-of-tax-justice-2021/

9 https://unctad.org/news/global-debt-and-climate-crises-are-intertwined-heres-how-tackle-both and https://www.eurodad.org/debt_climate_connection#:~:text=In%20conclusion%2C%20the%20countries%20that,it%20creates%20a%20vicious%20circle.

10 OECD (2022), Climate Finance Provided and Mobilised by Developed Countries in 2016-2020: Insights from Disaggregated Analysis, Climate Finance and the USD 100 Billion Goal, OECD Publishing, Paris, https://doi.org/10.1787/286dae5d-en

11 https://debtgwa.net/

12 https://taxjustice.net/topics/tax-competition-and-the-race-to-the-bottom/

13 https://www.theguardian.com/environment/2023/jan/18/revealed-forest-carbon-offsets-biggest-provider-worthless-verra-aoe

14 This type of short-term solution to offset emissions ignores social and environmental consequences, such as forced displacement and disrespect for traditional livelihood practices, already documented in relation to carbon-capture projects such as tree plantations.

15 https://foreignpolicy.com/2020/06/18/green-energy-dirty-side-effects-renewable-transition-climate-change-cobalt-mining-human-rights-inequality/

16 https://www.twn.my/title2/wto.info/2023/ti230608.htm

17 https://link.springer.com/article/10.1057/s41268-022-00263-1

18 In 2020, 91% of climate finance was delivered through loans from MDBs, of which 75% were non-concessional, or in other words, not cheap (OECD, 2022).

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