Ninety Third Sovereign Debt News Update: Macron's Global South Climate Summit: Stepping Up on Private Climate Finance to Climate Vulnerable Countries – What's the Allure of Private Climate Finance About?

By:

The African Sovereign Debt Justice Network

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This update is divided in two-parts. It is a continuation of the first one found here.

Following President of France's Emmanuel Macron Summit for a New Global Financial Pact held in Paris on June 22-23, 2023, the African Sovereign Debt Justice Network prepared a commentary largely criticising the roadmap for the reform of the world's public finance institutions, including the World Bank, and of overseas aid and climate finance. A draft of the roadmap titled '*A green transition that leaves no one behind*' sets out a number of proposals for delivery at carefully choreographed points up to September 2024. This update continues this discussion by critiquing the role of private climate capital to developing countries.

The virtues of private sector financing in climate change are widely promoted: it supports countries in bridging their climate financing deficit, helps countries diversify their financing portfolio, brings climate projects online quicker, and often respects countries' sovereignty by not imposing conditionalities. Yet much research glosses over the shortcomings of private capital investment in climate change. The underlying message throughout Macron's June 2023 summit was that developing countries urgently need mass financing to tackle the climate and biodiversity emergency. And yet these countries lack the fiscal capacity to do so. Unfortunately, the misleading narrative that the only way to fill this gap is to 'leverage' more private finance also persisted. In fact, according to the Paris Agenda for People and Planet, "meeting global challenges will depend on the scaling up of private capital flows."

Whereas the financing gap to deliver on the sustainable development goals is very real, the neat narrative buttressing private capital obscures several lived realities, especially in Africa. Foremost, reliance on private capital as the much-needed saviour appears to be steeped in capitalist realism. It is believed to be impossible for the African public sector to deliver the scale of financing needed to address the climate and development crisis. Unfortunately, such capitalist realism is a concept heavily promoted by international financial institutions. For example, the World Bank's Cascade paradigm, launched in 2017, emphasises incentivising the private sector into development whenever feasible, doubling down on the same "private-sector solutionism" that has proved ineffective in stimulating much-needed "economic transformation" in developing countries. As a result, the market-based approach inherent in the development paradigms promoted by the Bank has systematically constrained Global South states of their Right to Development, such as the ability to use industrial policy measures that were essential to the success of countries in the Global North. It has eroded the social contract of the state to fulfil the human rights of citizens, contributing to growing corporate capture, authoritarianism, fragility and closing civic space in many states and regions. It has had a particularly negative impact on women and girls, with the elimination of state services and the fragmentation of public social safety nets, significantly increasing women's unpaid care work, poverty levels and indebtedness, as women act as involuntary shock absorbers for the Bank's neoliberal policy prescriptions.

Secondly, private climate finance okays the developed countries' lack of political will to deliver on agreed commitments, from the 0.7 per cent of Gross National Income in development aid made in 1970 to the US$100 billion per year climate financing agreed in 2009. These rich countries have become less keen to provide pure grants, as such, Official Development Assistance (ODA) is becoming more loans than grants. That means that African countries are borrowing more, and their debt stock is increasing rapidly. This is a concern because many of the African countries are now heavily indebted. At the same time, concessional ODA from Organization for Economic Cooperation and Development donors have continuously fallen over the years. Besides, most of the ODA coming to developing countries focuses on a limited number of countries, and about 70% of the assistance goes to the social sector, with about 20-25% going to the productive sector.

Thirdly, the ongoing systemic wealth drain from Africa to rich countries. Since 1982, Developing countries have transferred an estimated US$4.2 trillion in interest payments to global north-based creditors since 1982, far outstripping aid flows and concessional lending during the same period. This, in most cases, is done at the expense of realization of other human rights obligations by these countries. The adverse implications may occur through diversion of resources from fundamental social services to servicing of loans procured from private climate finance instruments. This has consequential impacts on the issuer's sustainable development objectives.

Fourthly, there is also widespread scepticism about the actual ability of private climate finance to achieve their environmental conservation goals. Environment, Social, and Governance (ESG) frameworks might embed an inherent bias towards developed market sovereign issuers, leading to increased financing costs for emerging markets like those in Africa. On a more structural level, from a development perspective, there is fear that the rise of private climate finance will reduce the role of official lenders such as the International

Monetary Fund (IMF) or the World Bank and increase the influence of private markets.

According to Daniela Gabor, there is a paradigmatic change in the development agenda posed by sustainable finance, which progressively transfers to private investors the sustainable development functions played by official lenders, otherwise defined as the 'Wall Street Consensus'. Gabor argues that the shift from official finance to sovereign sustainable financing instruments such as climate bonds might expose emerging and least-developed sovereign borrowers to undue pressure from private markets. This is due to a combination of factors which include the lack of accountability mechanisms and institutional back-ups in sovereign sustainable finance as those present in official sector finance. This is especially important in the event of a sovereign debt restructuring. Indeed, the pressure on borrowers from the developing world to implement creditor-friendly structural reforms could give private investors a disproportionate power but without the political checks that official lenders are subjected to. This sustainable investors' increased power to influence domestic policies could be seen as a new form of private conditionality which they could indeed use to force borrowers to implement ESG policies as a condition for their lending or during a restructuring. For example, during the 2021 Belize restructuring, there was a portion of the restructured bonds that was used to fund Belize's marine conservation projects.

Additionally, with MDBs creating new avenues to accommodate private sector investment such as the World Bank's Private Sector Investment Lab, it is clear that these avenues seek to make investment more profitable for the private sector. The (optimistic) rationale of these avenues is the need to 'incentivise' private capital to 'crowd in' economic growth and climate, biodiversity and development financing. However, this assumes that it is possible to equate commercial goals and the public interest, which is not always the case without creating financial barriers that undermine access to public services, such as user fees. Indeed, the World Bank's promotion of 'Washington Consensus' policies during the 1980s and 1990s, and continued promotion of privatisation and private finance interests in the intervening years, helped to create the conditions for the current crisis of development, including by contributing to the reduction of state capacity and legitimacy through enforced privatisation and slashing of state budgets, including essential public services and subsidies; and contributing to corporate concentration in key sectors, including in global climate and other commodities.

Therefore, with these realities in mind, it is clear that the ways in which the mythology of the effectiveness of private climate finance is construed dangerously fails to appreciate the concrete reforms for historical economic justice and state sovereignty that the global south are demanding. This disjuncture calls for a clear-eyed questioning of the allure of private climate finance, because in it lies the difference between new forms of extraction as opposed to change towards redistributive justice. And as emphasised by the African Sovereign Debt Justice Network, there is need for placing public interest, democratic governance, and a community-led, rights-based approach to development at the centre of the global private capital architecture and its approach to country engagement, including through the development of an adequate human rights policy. This must be accompanied by an overhaul of the global debt and financial architecture where developing countries currently participate in key decision-making processes on unequal footing with their Global North peers.

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