European Green Deal, EU's Global Gateway, and Financing for (un)just green transitions

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Introduction

In this contribution, we demonstrate how the so-called Green Deals initiatives which espouse an increasing drive to "catalyze" private financing by using public resources, including development assistance, may create perverse impacts on sustainable development in developing countries. The move may mean an overarching shift towards reliance on private sector to provide public infrastructure and services in ways that ensure a return for the private sector through buy-back guarantees and favourable contractual conditions. Such moves may create contingent liabilities on developing countries in addition to diverting public resources towards the private sector, including foreign investors, and undermining public oversight.

In the Global North, Green Deals are seen as policy frameworks which are key to sustainable economic growth by facilitating public investments in private sectors in order to accelerate the green transition. The European Union (EU)'s European Green Deal (EGD) is one such flagship initiative.

The EU's objective to achieve climate neutrality by 2050 and the Sustainable Development Goals has practical implications for the Global South. For example, the EU Critical Raw Materials (CRM) risks exacerbating the global inequality between EU countries that benefit from global value chains and mineral-rich developing countries, particularly in Africa, who may be set on a new path of dependency.

Green Deals initiatives in the North also have important consequences on the development path in the Global South by (re)shaping global policy and finance structures regarding climate neutrality and the broader sustainable development agenda. The EGD follows the current international cooperation policy and finance frameworks that rely on a strong 'private turn'. The private turn emphasizes mobilizing both public and private finance and more so using public funds to catalyse private sector investments in developing countries through innovative financing mechanisms such as blended finance and loan syndication. In effect, these market oriented approaches towards climate actions and sustainable development risk sinking the already burdened developing countries into increasingly unsustainable debt.

Against this background, we analyse how these Global North initiatives shape the development and green transition financing packages offered to developing countries, by using the EGD and the Global Gateway Strategy as a springboard for discussion.

EU's Green Deal's emphasis on private finance and its implications for just green transition in the developing countries

Peculiar to Global North visions of post-2015 development and climate related finance is the near universal turn to deploying public sector resources, including Official Development Assistance, to 'catalyse' or 'unlock' private sector investments.

The EGD for example heavily leans towards mobilizing additional private finance for green transition initiatives that transcend borders. It heavily borrows the Addis Ababa Action Agenda 2015's use of public finance to "…unlock additional finance through blended or pooled financing and risk mitigation notably for infrastructure and other investments that support private sector development" (Para. 54). This assumes that private investments and finance will fill the sustainable development financing gap that stands at over USD 3.5 trillion and global infrastructure investment financing gap estimated at €15 trillion by 2040.

Although a representative of the EU's pathway to climate neutrality, the explicit international dimension of the EGD rests on a balance of employing EU's various resources and of reinforcing its position in the global markets. This will likely have strong implications on the financial architecture in partnerships and arrangements concluded between the EU and its "partners." (The EGD Section 1, p. 2).

To illustrate this, the EGD aims at "convincing and supporting others" in tackling climate change and environmental challenges as a way of promoting 'Green Deal Diplomacy.' This includes through "diplomacy, trade policy, development support and other external policies." (Section 3. P.20). It is imperative the EU is highly likely to influence the green transition path taken by its developing countries "partners" for example in Africa noting that creating stronger partnerships with Africa is among the EU's top priorities.

The Global Gateway, the EU's external investment strategy launched in 2021, provides a good example of how the EGD's emphasis on catalysing private finance towards climate neutrality can influence developing countries green transition path through the 'development support' arm. The Global Gateway is linked to the EGD and external development initiatives under this strategy are crafted under 'green growth' banner that strategically allows the EU to continue growing while turning their economies and energy sources 'green.' It expressly provides that it will invest in green and climate resilient infrastructure (Section 1, p. 3).

One key instrument that will support the Global Gateway Strategy is the European Fund for Sustainable Development Plus (EFSD+), which provides de-risking instruments such as guarantees, blended and syndicated finance for private sector investments in sustainable development. The EU plans to mobilize €300 billion in public and private investments between 2021-2027 through EFSD+ instruments and technical assistance. Specifically, the EFSD+ will mobilize €135 billion in investments with €40 billion as guarantees (€26.7 billion from EIB and €13 billion from EFSD+ infrastructure window), €18 billion as EU Grants and €145 billion from investments by the members states' budgets and Development Finance Institutions. Additionally, NDICI-Global Europe proposes a European Export Credit Facility to further strengthen the EU businesses' global competitiveness abroad.

Specifically targeting Africa is the EU-Africa Global Gateway Investment Package (Euro 150 billion in investments). The EU aims to deliver this package through Team Europe approach through "concrete and transformational projects" in the priority areas that include green transition and sustainable growth. The EU and its member states will finance this package through aid, grants and loans.

One of the notable projects of focus towards green transition in Africa under the African-EU Energy Partnership is the production of green hydrogen for both Africa and the EU to meet part of half of the EU's estimated annual demand of 20 million tonnes of hydrogen by 2030. Consequently, the EU has entered into partnerships in this regard with countries such as Morocco, Namibia and Egypt. Additionally, African Green Hydrogen Alliance with pioneer members being Kenya, Egypt, Morocco, Namibia, Mauritania and South Africa has been established to promote collaboration and spearhead related projects in the continent.

The Global Gateway, as an external companion of the EGD further entrenches private sector-driven sustainable development, largely in line with World Bank's Maximizing Finance for Development (MFD) agenda. However, as Van Waeyenberge underscores (p. 31) there is no empirical evidence or policy rationale that dictates preference of financing private sector-based development over public sector investments and why public resources should be deployed in 'attracting' the private sector through guarantees, incentives and concessions. Dafermos, Gabor and Michell (2021) warn that policies and plans that hinge on de-risking private investment and divert public financing from creating solutions through “industrial policies, social policies, public procurement and public investment”, “undermine[…] the financial position of national governments in the Global South and creates profitability opportunities for institutional investors and wealthy individuals in countries that have the key responsibility for the climate crisis.” (p. 247).

On paper, the Global Gateway purports to “offer a values-based option for partner countries when deciding how to meet their infrastructure development needs’ (Section 1, p. 3). This ‘values-based option’ contains elements including the rule of law and respect for property rights (this time, specifically intellectual property) (p. 2) and strongly echo the heavily criticised World Bank’s Good Governance Agenda from the 1990s onwards. Similarly, the good governance and transparency principles not only incorporate traditional elements of conditionality such as ‘transparency, accountability and financial sustainability,’ ‘open access to public procurement and a level playing field for potential investors’ and ‘results-based financing’ but also refer to the rights of project-affected communities. These rights include ‘proper public consultations’, ‘civil society involvement’ and ‘affordable and equal access to [project] benefits’ including for ‘women and girls and those at risk of disadvantage or exclusion’ (p. 3). However, this maybe far from reality as partnerships entered with international private investors and financiers majorly from the developed countries risks further shrinking the national policy space available to developing countries in relation to planning and utilization of the development finance, loans and grants under such arrangements.

By way of an example, the Memorandum of Understanding between the EU and Namibia is currently being implemented under the Global Gateway. Namibia adopted the Green Hydrogen Industrial Strategy (with funding of Euro 2 million from the German Federal Research Ministry). Based on this Strategy, Namibia launched a Green Hydrogen Pilot Project (USD 9.4 billion). Gabor and Sylla (2023) identifies the approach adopted in the implementation of the pilot projects as ‘industrialization-by-derisking.’ (p.9).

SDG Namibia One was established in 2022 to facilitate the financing of the project (see summary of project by Gabor and Sylla). This is a blended finance vehicle that combines private, public and philanthropic financing and influencing policy and regulatory measures on hydrogen production. The same is run by derisking specialists, namely the Climate Fund Managers and Invest International (owned by Ministry of Finance and FMO- Netherlands Development Bank) as partners with the Namibian government owned Environmental Investment Fund of Namibia. Later, SDG Namibia One Fund (USD 1 billion) was also launched at COP27. Hyphen (joint venture between a private equity company-Nicholas Holding Limited and the German renewable energy supplier ENERTRAG) run the pilot project. Among the financiers are the European Investment Bank (EIB) (Euro 500 million concessional loan and Euro 25 million in grant). The Government of Namibia will join as a minority equity partner and will fund its stake through green bonds (up to 24% of the project). (Gabor and Sylla p.19) The government will also provide necessary land for the project for a period of 40 years and support construction of ports, terminals, pipelines, which are core project infrastructure. (Gabor and Sylla p.16)

According to Gabor and Sylla (2023), the financing model as well as the regulatory and policy interventions by the government of Namibia leads to a situation whereby the "…(foreign) capital… dominates the state–capital relationship…" and the national policy space is heavily shaped by the needs and interests of the powerful investors and the developed governments (p.4). This way the developing countries' governments loses control over the private investors behaviour which are majorly concerned with return on their investments. Other concerns that arise when development path takes "private investments de-risking path" relates to the actual beneficiaries in such partnerships. For example, in the above MoU, who are the beneficiaries? Is the beneficiary Namibia, or are the beneficiaries the EU and its member states and the private investors? Moreover, the local populations will experience the negative environmental and social issues that result from the project.

The EGD and Global Gateway's renewed and intensified push towards more private financing and capital-incentivizing policies assume that mobilizing additional private finance and strong private sector investments will accelerate the journey towards climate neutrality and fill the existing infrastructure financing deficits in the developing countries. As Sial and Sol note whether using public finance to catalyse private financing will solve the existing sustainable development and infrastructure financing deficits in the developing countries remains to be an assumption. (P.16).

States' power should not be reduced so that it only entails facilitating private investments through legal, regulatory and fiscal policies. Noting that the EU proceeds from the standpoint of 'transition' to carbon free energy sources, while energy access in Africa and particularly Sub-Saharan Africa is the lowest in the world, true partnership requires that the EGD and Global Gateway actually support developing countries to leapfrog to green economies through sustainable financing, capacity building and transfer of technology.

Concluding remarks

The EGD and the Global Gateway offer EU's vision for a green economy in the EU and, as an extension of EU interests, the world. While the EU regards the Global Gateway as a 'positive offer' and a means to promote EU Green Deal Diplomacy through EU's '…influence, expertise and financial resources…' towards the journey to climate neutrality globally, many commentators consider it as a restatement of the existing development funds and a geopolitical tool used to advance EU's interests globally.

In addition, the heavy emphasis placed on the private finance and private sector investments by the EGD and the Global Gateway potentially creates additional risks. First, difficulties in distinguishing public funds (Official Development Assistance) from private funds and gauging additionality created by the de-risking of private investments through public financing point to accountability deficits. Second, focus on return on investments can come at the expense of the positive impacts of the green transition projects on sustainable development of the EU's developing partners and divert financing to bankable projects as opposed to the types of projects most needed by local communities in partner countries.

Whether green transition financing mechanisms offered through Global North deals such as the EGD and its Global Gateway based heavily on de-risking private investments will mean 'just transitions' for vulnerable countries and peoples severely impacted by climate change in the rest of the world remains uncertain. The risk remains that these mechanisms will be converted into financial tools to advance geopolitical agendas while sidestepping more structural public financing and legal solutions towards a green and sustainable development. In light of the foregoing, the efforts to implement the Global Gateway should be cautious against diverting public funds away from priority actions towards achieving sustainable development and addressing the impacts of the climate crisis particularly in developing countries.

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