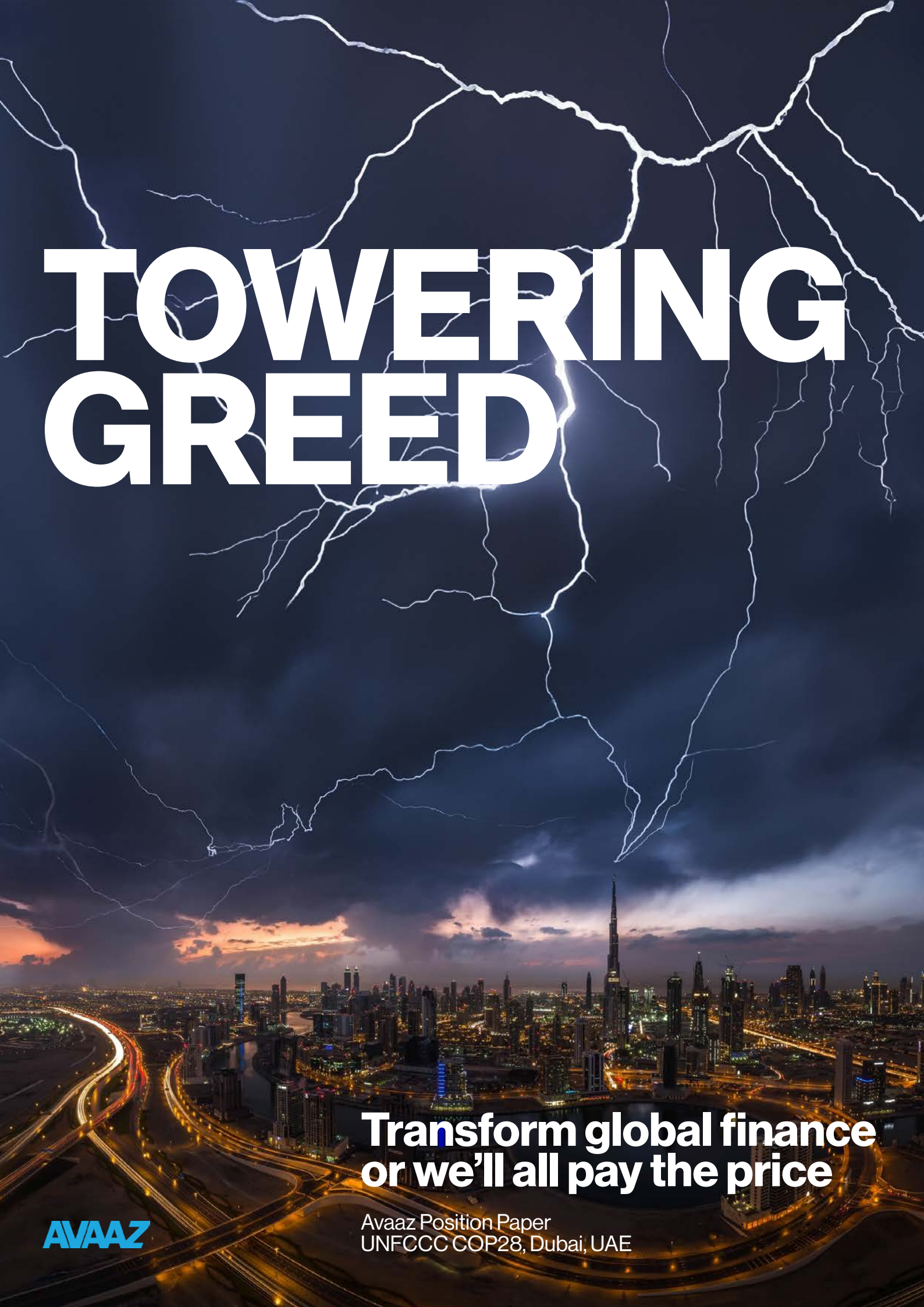


TOWERING GREED

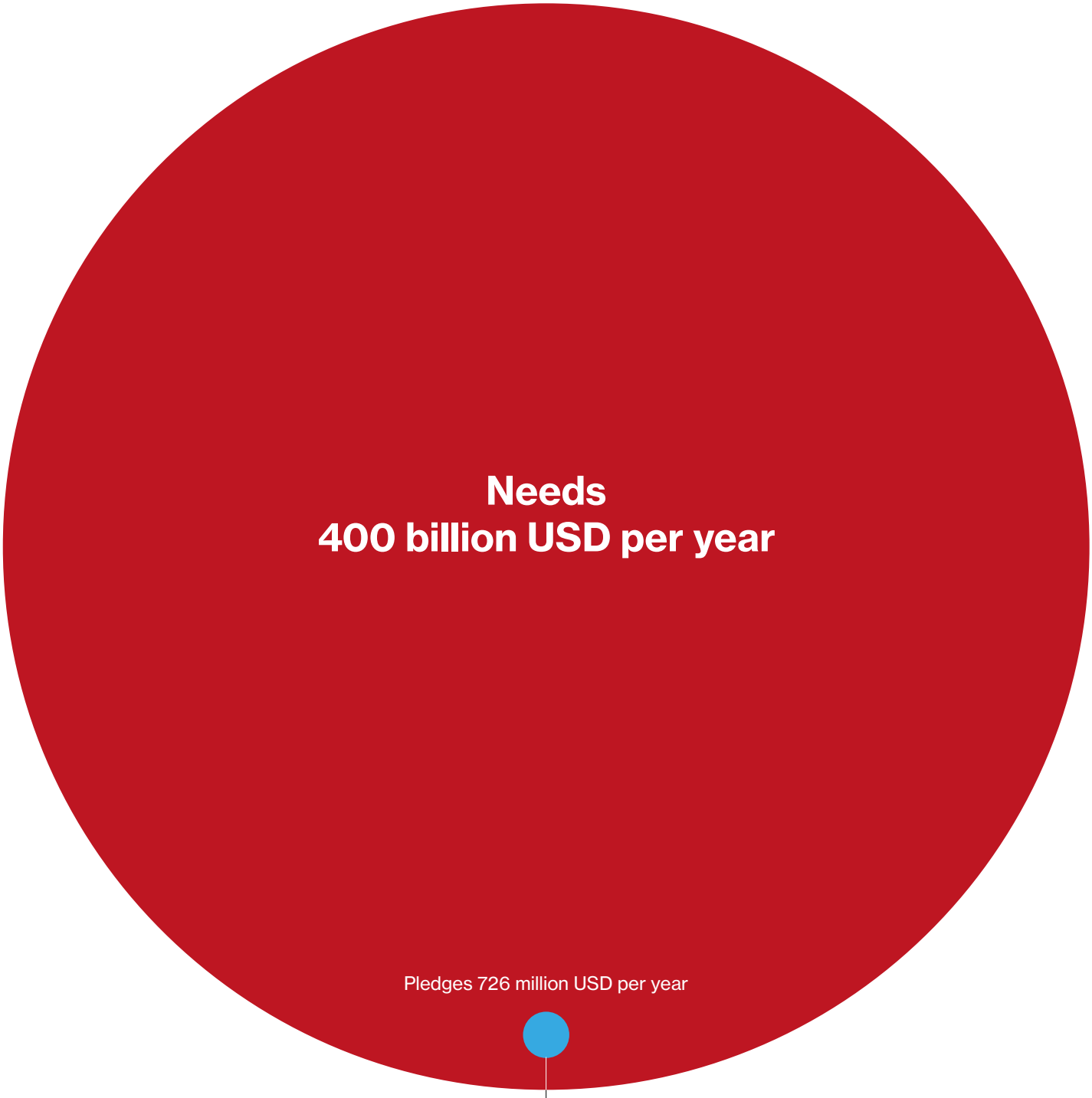
Transform global finance or we'll all pay the price

Avaaz Position Paper
UNFCCC COP28, Dubai, UAE

AVAAZ

This is not a glitch

This is a representation at scale of the total amount of pledges to the Loss and Damage Fund (blue) and the financial needs for loss and damage (red). Oh, and the needs are going to be at least this big every year. The pledges are a one-off. Sources: needs, pledges.



France **108**
Italy **108**
Germany **100**

UAE **100**
UK **70**
Denmark **50**

Others **28.6**
EU **27**
Ireland **27**

Norway **25**
Spain **21.8**
USA **17.5**

Netherlands **16.3**
Canada **12**
Japan **10**

Finland **3.3**
Slovenia **1.5**

Introduction – Get the trillions

Get the trillionsMany things went wrong at COP28, but the lack of substantial conversation on finance was a major mistake. Hoping for an ambitious outcome while neglecting the financial part of the deal was a recipe for disaster, particularly given the current context of deep distrust and fragmentation.

In a world plagued by injustice and unfairness, the poorest bear the brunt, while the wealthiest profit despite (and from) global tragedies. We have to face an unprecedented convergence of crises: surging poverty and hunger, interlinked climate change, biodiversity loss, and land degradation driving ecological collapse, alongside health emergencies, geopolitical tensions, soaring cost of living, and a debt crisis in developing and transitioning economies.

There is a storm of injustices fueling despair and anger and pushing many, everywhere, towards authoritarianism, nationalism and different forms of populisms. While geopolitical tensions reach new levels, climate disasters break records and entire generations look ahead with heavy hearts. Since 2022, debates around the reform of the international financial system have gained momentum as a promising route to finding solutions to these interlinked crises at scale.

After rather strong language in the decisions of climate COP27 and biodiversity COP15, there are now several threads and processes addressing the transformation that is needed on debt, aid, and tax cooperation. The High-level Meetings on the 78th session of the UN General Assembly have confirmed that these topics have reached the highest political levels: some hard truths about the injustice of the global economic system are finally being admitted openly by political leaders, from developing countries in particular.

However, action has not followed. Despite ambitious rhetoric, it is mostly tweaks that have been proposed or decided in 2023, during the Paris Summit, at the UN, or in Marrakech for the IMF and World Bank Annual Meetings. Granted, we might be at the beginning of a sequence of reforms that may lead us through 2025 and beyond, with the Fourth International Conference on Financing for Development (in Spain) and COP30 of the UNFCCC (Brazil).

COP28 confirmed that postures and theatrics still dominate this topic, with all kinds of announcements being paraded as breakthroughs while the pledged sums remain embarrassingly low compared to the needs. Nothing illustrates this better than the establishment of the Loss and Damage Fund (LDF), which was applauded by many at the opening of COP28. However, there remain many questionable points in its governance and design, in particular when it comes to how and how much financing it will manage, and the voluntary or binding nature of (developed) countries' contribution to it.

The LDF pledges made so far are only a ridiculous fraction of how much climate change impacts cost annually, as noted early on by some observers (see graph on this page and the figure page 2). While the estimated minimum need is already higher than 400 billion USD per year (and will increase in the coming years and decades), the current pledges amount to about 700 million USD (and not per year - *in total*). The difference is in the three powers of ten in magnitude (we're at about 0.2% of the needs), and nothing indicates how this gap would be bridged, nor how to ensure sufficient funding on a yearly basis. In the meantime, climate disasters are increasing and quickly escalating costs (see Figure 1 for some examples of the costs of recent disasters).

After doing a quick recap of the numbers at play, we present here three topics - debt, taxes, and subsidies - on which governments should ramp up their game if we want to move toward meaningful climate action with adequate levels of solidarity and reparative justice.



1. We're really – really – not at scale

The most recent estimates show that current global finance for climate has grown up to 1.3 trillion USD in 2022, but still falls far short of the amount needed, particularly in developing countries. Looking at the rest of this decade, 2.4 trillion USD per year by 2030 is needed to meet the climate goals in emerging markets and developing countries other than China, with 1 trillion USD coming from developed countries. Also, as recognized in latest climate COP decisions since Glasgow, conserving and restoring biodiversity is crucial to achieve the long-term temperature goal of the Paris Agreement. To meet the biodiversity goals, 1 trillion USD per year is needed. The growing consequences of climate change call for an acceleration of adaptation measures. And yet, only 63 billion USD per year is spent on adaptation, while the adaptation finance needs are estimated at 387 billion USD per year.

Climate finance - like biodiversity finance - is unevenly distributed across the world as most financing remains in wealthy countries. Meanwhile, the developing countries most affected by the increasing severity of climate change are receiving a small share of the financial resources - only 19% according to the latest research.

Right before UNFCCC COP26 (Glasgow), two activists demonstrate in Rome to ask G20 leaders from developed countries to honor their commitment on climate finance, including the shortfall.

1. We're really – really – not at scale

The distribution of resources across climate objectives is also uneven: 90% of total finance is destined for mitigation while only 10% goes to adaptation, and there are no international financial resources channeled to cope with the increasing and more recurrent impacts of climate change. The V20 countries are estimated to have lost a fifth of their wealth over the past two decades due to those effects.

A new report suggests that the cost of loss and damage due to climate-related catastrophic events in 2022 was, at a bare minimum, 109 billion USD per year, and that a more accurate estimate is above 400 billion USD per year.

The numbers are clear: developed countries have failed to contribute their fair share in global climate finance. These countries have a moral and legal responsibility to close this gap, as they consistently failed to undertake mitigation actions while benefiting economically from the fossil fuel their economies have relied on. In particular, fossil fuel industries in developed countries have a major responsibility to contribute given that, in recent years, they have seen their profits soar as a result of the war in Ukraine. In 2022, oil companies such as ExxonMobil, Shell, Chevron, TotalEnergies and BP made 200 USD billion in profits. British oil giant Shell recorded its highest-ever annual profit of 39.9 USD billion for the full year 2021. For 2023, forecasts of big oil profits are optimistic: according to the World Bank, oil prices could rise to more than $150 a barrel if the conflict in the Middle East escalates.

If we zoom out of climate and think about sustainable development in general, the scale of the investment needs becomes clearer. Estimating the funding needed to achieve the Sustainable Development Goals (SDGs) by 2030 is not straightforward, because the issues covered by the SDGs are intertwined in many ways and data is often lacking. However the latest estimates by the United Nations Conference on Trade and Development (UNCTAD) estimate investment needs at US$6.9-7.6 trillion annually by 2030. For the sake of the argument, let's say we round up to a range of US$5-10 trillion annually. This means that we need to steer between 5 and 10% of the world GDP towards sustainable development. More concretely, it means that reorienting only 5 to 10% of what the global economy produces annually would enable us to eradicate poverty, close the gender gap, stop the destruction of biodiversity, contain climate change and adapt to it - and all the other positive outcomes contained in the SDGs.

In light of these numbers, it is evident that developing countries' commitment to contribute 100 billion USD per year to developing countries is just a fraction of what is needed, and even this goal has not definitively been met yet. The festival of pledges that unfolds at each COP, and it particularly at COP28, barely manages to mobilize dozens (exceptionally hundreds) of USD billions at a time. We are so far from being at scale that we have no choice but to widen the perspective on how to get to trillions - and every year. The discussions on the New Collective Quantified Goal (NCQG) on finance should unfold with this in mind.



During the 2023 Annual Meetings of the IMF and World Bank, activists request Bretton Woods to recognize the connections between debt and climate change - and to not engage with the team of then candidate Javier Milei.

2. Three topics that should be at the center in 2024

2.1. Canceling debt

Most climate finance in developing countries is debt. Debt made up 63% of climate finance for these countries 2019-2020, with only 16% at low-cost or concessional rates, contributing to the debt crisis those countries are facing. Stunningly, 88% of the climate finance in Latin America and the Caribbean in 2022 was in the form of loans.

According to Debt Service Watch, countries from the Global South face the worst debt crisis since global records began as debt service is absorbing an average 38% of budget revenue and 30% of spending across the Global South, rising to 54% of revenue and 40% of spending in Africa.

No less than 76 developing economies have debt burdens that impede climate investments, according to the latest research. Indeed, as the same authors suggest, physical climate risk is associated with a vicious cycle of climate vulnerability and debt distress in developing countries. This takes place when a climate shock occurs, like the recent Hurricane Otis on the coast of Guerrero, Mexico. It destroys capital stock and infrastructure, affecting economic activity and

2. Three topics at the center in 2024

causing an economic activity downturn. Resources need to be mobilized to rebuild, but the affected countries' external debt still needs to be serviced, and borrowing costs increase. A disinvestment process takes place, preventing countries from fully rebuilding their affected infrastructure and making it more vulnerable to climate events. The more climate shocks a nation faces, the more economic damages, and the higher the debt burden.

In this context, debt payment pauses such as those announced by the World Bank are clearly not a response at scale, and in many cases can be very unjust. Debt cancellation should be seen as a way to bring more fiscal space for countries for climate and sustainable development. The "global expert review on debt, nature and climate", launched by Colombia, Kenya and France, is here an opportunity to identify how to make this happen on the road to COP29 and COP30.

2.2. Taxing the polluters

Governments have various tools to get the resources needed for climate and biodiversity finance while applying a polluter-pays principle. These instruments can take the form of a tax and levy1 on oil, gas, and coal producers and/or on massive fossil fuel consumers such as air travel and maritime shipping. The revenue obtained from these taxes and levies could be earmarked, to begin, for compensating loss and damage and supporting adaptation in developing economies based on the principle of climate justice.

Windfall Tax on Energy Profits. Given the scandalous record profits that oil and gas industries have been making as a result of the war in Ukraine, Avaaz called at COP27 for an international Windfall Tax on Energy Profits, echoing the UN Secretary-General. This tax should be imposed on unforeseen large profits obtained under special economic conditions or social conflicts like the worldwide energy crisis resulting from the war in Ukraine. A prerequisite for this tax to effectively work: international coordination. The USA has applied this levy throughout its history and the UK, Germany and the Czech Republic recently introduced it. Given the current and expected rise in oil prices, governments have in this levy a feasible and immediate source of income.

Fossil Fuel Extraction Levy. This could take the shape of a global rate applied in all jurisdictions to avoid tax evasion or market distortion. IDDRI has estimated that applying a rate of 6 USD per ton of CO2 -based on emission factors for each type of fuel extracted- could raise **150 billion USD per year.**

Air Passenger/Ticket Levy. This would be applied for all air travel and could also be considered a redistribution mechanism depending on how it is designed. It is estimated that applying a global frequent flyer levy of 10 USD (business) on international airline tickets could raise between **8 and 10 billion USD per year.**

Maritime Levy. Such a levy would apply to all international shipping without exemption. Each ship would be required to pay an amount determined by the level of its GHG emissions. Revenues from a 100 USD/tCO2e levy could amount to over 60 billion USD per year according to the World Bank (2022) and between 10 and 80 billion USD per year according to the Pacific States supporting the levy. Alternatively, a flat carbon levy of 250 USD/tCO2e could raise a total of around **3.7 trillion USD by 2050**2. According to a more comprehensive study, if all 195 countries that are signatories of the Paris Agreement apply both levies and air passenger travel returns to pre-pandemic levels, they could generate between **$US132 and $392 billion** of funding annually.

All these figures cover a significant share of what is needed to support developing economies' responses to climate change-induced losses and damages and adaptation measures.

1 In the OECD classification, the term "taxes" is confined to compulsory unrequited payments to the general government or to a supranational authority. Taxes are unrequited in the sense that benefits provided by government to taxpayers are not normally in proportion to their payments.

2 At the Paris Summit back in June 2023, more than 20 countries and regional organizations backed proposals for this levy.

2. Three topics at the center in 2024

The new "task force on international taxation to scale up development, climate and nature action" should produce an interesting overview of this subject, and its conclusions should be reflected in the NCQG process on the road to COP29.

Furthermore, international coordination is crucial to ensure effectiveness and avoid cross-border tax spillovers. The current international tax regime is unfair and unsustainable. The OECD - an organization controlled by rich countries - has been deciding the rules based on their interests. The UN Tax Convention project that will be negotiated in 2024 can open the door to fairer global tax rules where developing economies will have a say in the norm-setting on international tax. Such an instrument could help coordinate the development of fossil fuel taxes and should be supported.

2.3. Eliminating all subsidies to fossil fuels

Public funds cannot keep being used against climate goals. For many countries, government budgets are the largest source of climate finance, but a greater part of governments' expenditures are undermining climate action by providing incentives to the fossil fuel industry. Government money is pouring into these activities: fossil fuel subsidies almost doubled in 2021 and soared to an all-time high in 2022, driven by the growing support for the production and consumption of coal, oil, and natural gas in developed countries as a result of the turmoil in energy markets. Globally, fossil fuel subsidies were 7 trillion USD, or 7.1 percent of GDP in 2022, according to the IMF (comprising implicit and explicit subsidies) with China being the highest provider of subsidies, followed by the USA and Russia.

Phasing out fossil fuels cannot be achieved without phasing out governments' financial support to these industries. More countries are moving in this direction. A dozen countries have joined the Dutch-led coalition3 to start this process by publishing an inventory of their own fossil fuel subsidies by 2024, with the objective of creating a strategy to eliminate them. Unsurprisingly, the biggest subsidy users - US and China - are not on board.

The language used in the latest GST draft lacks clarity. Adding the qualifier "inefficient" to the goal of phasing out fossil fuel subsidies only distracts, buys time for the fossil fuel industry, and kills action towards a serious commitment of countries to remove government support to fossil fuels. Much stronger cooperation on this issue is necessary moving forward, and initiatives like the one launched by the Netherlands should serve as a seed to a much bigger movement - where major emitters should take their full part.

3 It was backed by Antigua and Barbuda, Austria, Belgium, Canada, Costa Rica, Denmark, Finland, France, Ireland, Luxembourg and Spain.



3. Finding a way: who's unrealistic?

Marilyn activists welcome US President Joe Biden during the 2022 Summit of the Americas (Los Angeles), wondering when an ambitious transpartisan budget on climate could pass.

In 2015, a series of landmark international decisions and agreements were achieved: the Sendai Framework for Disaster Risk Reduction, the Addis Ababa Action Agenda, the 2030 Agenda and its 17 Sustainable Development Goals, and the Paris Agreement on climate. Together, they renewed the international cooperation framework on human development within the ecological limits of the planet.

Ten years later, 2025 could similarly be a year of convergence. The follow-up to the Addis Ababa conference, the Fourth International Conference on Financing for Development, (sometimes known as "Addis Ababa +10") will take place in 2025. Then, a year after its G21 summit, Brazil will host COP30, in the heart of the Amazon forest. After the Global Stocktake in 2023 and the related decisions at COP28, countries will have until the end of 2025 (COP30 being a likely deadline) to submit revised Nationally Determined Contributions. COP30 should thus be the COP where global climate ambition until the end of the decade will be assessed and discussed, and the question of finance will surely be on the table. The NCQG is supposed to be adopted at COP29 in 2024. If countries do not manage to agree on it at COP29, it will be high on the agenda of COP30.

3. Finding a way: who's unrealistic?

Finally, 2025 will be of symbolic importance, marking the five-year deadline to achieve the SDGs. The 2023 SDG Summit ended with calls and commitments to accelerate and mobilize much more funding; two years later, results are unlikely to deliver the necessary commitments. In this case, the 5-year deadline will give even stronger political impetus and opportunity, especially to developing countries.

Looking at climate negotiations through a "finance" lens helps understand the systemic nature of the issue. This is not a technical discussion, it is a deeply political one. Every aspect of climate action is linked to questions of geopolitical economy, of redistribution of wealth and power. This is true both at the international and national levels.

The old argument that "we cannot afford" to phase out fossil fuels is debunked by recent reports. For instance, a new study provides a clear framework and timeline for a fair and rapid global phase-out of coal, gas and oil, a transition that can only be achieved through real international cooperation. That this type of work has to come from civil society says a lot about the ineptitude of States to go beyond their conflictual, always geostrategic, approach to energy.

Some like to pretend that these "competitive" behaviors between States are unavoidable, and that it is just a matter of realism to accept that power struggles are just the way things are meant to be. But this is a distortion of realism. Yes, one should not be naive, conflicts can and do arise, humans are imperfect creatures and disagree a lot.

But warmongers don't have the monopoly on worrying about peace and security. There are many reasons to believe that they are actually making things worse. Today, not mobilizing for the commons means not acting on the biggest existential threat that is going to affect everyone in different ways.

We have only focused on a handful of topics that seemed key for us here, but there are so many other fronts to explore and things to do. As we noted for the 2023 Annual Meetings of the IMF and World Bank, the conversation about the global financial reforms needs to urgently address key questions, notably the question of what new model we would like to finance, with whose voices at the table, and for the benefit of whom.

COP30 and Brazil should again be in the spotlight here. A breakthrough study on a new approach for the Brazilian economy and the Amazon proves that a new economy that conserves forests will not hinder development and will in fact achieve the opposite: new jobs, less inequality, GDP growth, improvements in local quality of life, and keeping the world's climate goals within reach; goals that the *status quo* has not been able to deliver.



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