The Climate Finance Conundrum : Low and Middle Income Countries

Introduction

Ahead of the COP27 that was held in Sharm El- Sheikh, Egypt this year, the question of "climate finance" has become a heated debate once again. This year, a resolution that was reached in the COP was the setting up of a "loss and damage" fund that would reimburse countries for the disastrous effects/vulnerabilities of climate change that they experience. This may seem like a stellar breakthrough in the two week climate conference. However, there has been no agreement on the estimated value of this fund or who exactly the contributors will be. At the COP15 in 2009, developed nations had jointly agreed to contribute $100 Billion to climate finance by 2020. This goal was also not met as only $79.9 Billion had been contributed to climate

finance, as tracked until 2019.[1] Therefore, this vague resolution of this year's COP also does not come as a surprise.

Developed countries have the funding and infrastructure to carry out large scale production activities which contribute majorly to the global Greenhouse Gas emissions. For instance, the United States produces 14.67 metric tonnes per capita of CO2 emissions.[2] The impact of these emissions, however, which contribute to climate change and global warming are not faced by developed countries like the United States due to their sophisticated infrastructure and the availability of funding for it. Their only concern is adaptability whilst maintaining all their business processes, not focusing on actually mitigating the effects of climate change. On the other hand, low and middle income countries produce much lesser emissions in comparison to developed nations. Yet, these are the nations that are most vulnerable to climatic events since they do not have the infrastructure or the funding to offset these effects. Island nations like Madagascar, in stark contrast to developed nations, produce 0.15 metric tonnes per capita of CO2 emissions.[3] Additionally, low and middle income countries remain in overwhelming amounts of debt and have to turn to multilateral institutions such as the World Bank and IMF for development finance. This access to availability to resources for basic development and now the increasing impact of climate change on LICs and MICs is putting them in a conundrum of what they should prioritise more.

The main purpose of this paper is to examine whether developing countries face a conundrum when it comes to the seeking of climate finance vs funds to repay existing debts. An attempt will be made to explain this conundrum by showing the existence of a vicious cycle - LICs and MICs that are already in debt tend to be more vulnerable to climate change and the effects of climate change further exacerbate existing debt vulnerabilities.

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[1] Chowdhury, A., & Jomo, K. S. (2022, February 15). *The climate finance conundrum - development*. SpringerLink. Retrieved December 7, 2022, from https://link.springer.com/article/10.1057/s41301-022-00329-0

[2] *CO2 emissions (metric tons per capita)*. Data. (n.d.). Retrieved December 7, 2022, from https://data.worldbank.org/indicator/EN.ATM.CO2E.PC?view=map

[3] Ibid

I. LICs and MICs are more vulnerable to climate change

LICs and MICs already struggle with a multitude of problems such as poverty, gender inequality, water insanitation, food scarcity etc. Currently, over 1 Billion people live in extreme poverty i.e. less than 1 USD per day. [4] Nations such as Small Island Developing States (SIDS), low-lying atoll nations and most African nations remain the most vulnerable to climate change. The reasons for this are two- fold:

First, most of the undeveloped or developing countries lack strong institutions and governments that can formulate sustainable policies. Such policies need to be in the interest of the general economy and public but are often marred by vested interests of a handful of individuals and corruption. Due to the lack of strong institutions, the governments formed are also often unstable and thus, the decision making process is not always consistent or made to meet long-term goals. For example, if we look at Africa, three quarters of African countries are facing armed conflict and 12 out of 16 have authoritarian or autocratic governments. Of these 12, 8 are either political conflicts or civil wars. [5] Therefore, the lack of strong institutions results in conflict ridden and unstable nations such as these and most often leads the government to either fighting internally or against various militant groups.

Second, due to the lack of the existence of strong policies that can govern the functioning of the political system and economy, there is no real scope for development. Such nations cannot afford to develop sophisticated infrastructure that can compete with those found in developing countries. Most often, unstable nations are too busy dealing with conflict to focus on important issues that could possibly pull the country

[4] *Climate change*. OECD. (n.d.). Retrieved December 7, 2022, from https://www.oecd.org/env/cc/index.htm

[5] the Africa Center for Strategic Studies March 9. (2021, September 14). *Autocracy and instability in Africa*. Africa Center for Strategic Studies. Retrieved December 7, 2022, from https://africacenter.org/spotlight/autocracy-and-instability-in-africa/

out of conflict - reduction of poverty, provision of jobs, sufficient food and water supply, provision of good education etc. The lack of infrastructure reinforces the reason for conflict over the lack of basic development goals in the first place. These issues contribute to the failing of the economy, loss of more jobs and an increase in poverty. In such situations, nations have to rely on debts by external parties such as multilateral organisations or foreign aid to maintain sustenance levels at the minimum. In 2020 alone, Sub-Saharan African countries received a total of 66,837,830 thousand USD as development assistance from the World Bank.[6] Due to their rising debt levels, lack of institutions and lack of infrastructure, LICs and MICs become heavily reliant on their natural resources. Some African nations such as Angola, Democratic Republic of Congo (DRC) and Nigeria have enormous potential for lucrative extractive industries such as rare metals, gems and gas. Yet these countries remain underdeveloped due to large-scale corruption, particularly as scapegoats of Western mining companies that get involved in systematic robbery of these resources, thus depriving the nation of the source of its benefits.[7] So if a nation is underdeveloped, lacks structured policies and cannot utilise existing resources that it technically has at its disposal, it is bound to look outward for help.

All of these factors combined, which are a result of each other, leave these nations heavily vulnerable to climate change. When it comes to climate change, climate adaptation in itself becomes a struggle, let alone mitigating the effects of the same. There is no scope for any pre-disaster efforts that can be made to reduce or prevent the impact of climate induced externalities. The same applies for post-disaster efforts for reconstruction and recuperation which are discussed in the following section.

[6] *NET official development assistance and official aid received (current US$) - sub-saharan africa*. Data. (n.d.). Retrieved December 7, 2022, from https://data.worldbank.org/indicator/DT.ODA.ALLD.CD?locations=ZG&view=map

[7] ISSAfrica.org. (2015, May 18). *Exploiting minerals, exploiting communities*. ISS Africa. Retrieved December 7, 2022, from https://issafrica.org/iss-today/exploiting-minerals-exploiting-communities

At the same time, the institutions or parties responsible for giving these loans look for "debt sustainability" or its ability to be repaid by the borrowers. LICs especially may not be able to always repay these debts and can be in serious "debt distress" due to the strict conditions that come with multilateral institutions approving any sort of financial assistance. Not only do developing nation's development priorities need to be evaluated before giving out aid but also their vulnerabilities to extreme weather conditions and costs for reconstruction in a foreseen event need to be considered as well which is not happening very effectively at the moment. The "loss and damage" fund introduced earlier in the text is one of the first steps towards acknowledging that such funding is necessary for developing, climate vulnerable nations.

II.The effects of climate change further exacerbate existing debt vulnerabilities

In the previous section, we examined in detail the reasons for underdeveloped and developing nations being in continuous debt and how these factors make them more vulnerable to climate change. This section aims to focus on how the different impacts of climate change can further aggravate debt vulnerabilities of LICs and MICs. As mentioned earlier, SIDS, low lying atoll nations and African countries are at the forefront of the climate crisis. All three remain at high risk to different types of climate vulnerabilities. SIDS, especially those in the Caribbean and Pacific, are extremely prone to high intensity cyclones that have the ability to cause mass destruction. Counsellor Tumasie Blair of the Permanent Mission of Antigua and Barbuda to the United Nations, echoed this sentiment and delivered a strong case on the importance of Loss and Damage at the UNFCCC- "In the last 20 years, Antigua and Barbuda has been hit by over ten hurricanes resulting in damages in the billions, accounting for over 100% of our GDP in totality, because there are no available international mechanisms in place to address Loss and Damage. Our only option is to rebuild by borrowing at rates that are not only unjustified and unsustainable, but also morally unconscionable." [8] Low lying atoll

[8] *Sids at the frontline of tropical cyclones - world*. ReliefWeb. (2017, November 15). Retrieved December 7, 2022, from https://reliefweb.int/report/world/sids-frontline-tropical-cyclones

islands remain at high risk of Global Mean Sea Level Rise (GSML) [9]which is visually accelerating. Islands in the Pacific such as Marshall Island and Kiribati are only about six feet above sea level. Therefore, with continued GSML, they can potentially be permanently submerged or have higher mean tides, have intense coastal flooding, erosion of soil and change in ecosystems, impeded drainage etc to name a few. These effects obviously contribute to the loss of habitat for inhabitants of the islands and loss of livelihoods- especially those engaged in agriculture with the erosion of soil. As for African nations, with the rising temperatures of up to 1.5 degrees celsius due to Global Warming, the devastating effects of heatwaves and droughts are already being felt. The existence of heatwaves hampers any sort of productivity and with the already scarce access to clean water in parts of Africa, droughts will only induce worsening poverty, disease and poor living conditions.

It is clear from the aforementioned examples that the effects of climate change are drastic and require serious adaptation and mitigation efforts. For island nations, some "hard adaptation" responses such as breakwaters, barriers, dikes etc have been put in place along with sedimentation efforts such beach and shore nourishment along with ecosystem based adaptation.[10] However, any sort of reliable and sustainable adaptation measures require large scale funds to implement. Similarly, once a nation is hit with a calamity, the response for reconstruction and rehabilitation needs to be efficient and quick. However, as seen in the previous section, LICs and MICs most often do not have strong enough systems in place to be able to execute a quick reaction.

The major problem here circles back to that of funding for disaster relief and recuperation. There has been no set fund for loss and damages before the talks started at COP27 this year. Hence, many of the impacted

[9] *Chapter 4: Sea level rise and implications for low-lying islands ...* (n.d.). Retrieved December 7, 2022, from https://www.ipcc.ch/srocc/chapter/chapter-4-sea-level-rise-and-implications-for-low-lying-islands-coasts-and-communities/
[10] ibid

nations have to borrow money at high interest rates to be able to finance some sort of basic reconstruction and rehabilitation for its infrastructure and population. However, this is not even the worst part.

Several MICs and especially, LICs have already reached critical levels of debt and continue to take loans in the form of development finance from multilateral institutions and private lenders at high interest rates. As established before, this makes them extremely vulnerable to the effects of climate change.. This means that they should have some climate adaptation strategies as preventive measures but cannot do so because of their debts. Further, since they cannot prepare in advance and have existing debt, climate change conditions only exacerbate their existing debt vulnerabilities.

In Conclusion

The vicious cycle shown in this paper is not a new phenomenon. This cycle has been the same for several nations and for decades with not much improvement to it. Despite all the COPs and other climate conferences, business leaders have been unable to come to a proper resolution on the specifics of climate financing such as the exact amount, the contributors, the share of each donor, a set timeline and others. Despite being the smallest contributors to climate change, debt ridden LICs and MICs remain the ones to be impacted the most. Developed nations, who should be bearing the responsibility of cutting their emissions, switching to more sustainable and renewable sources and also coming together to provide financing to mitigate the negative effects of climate change for developing nations are not prioritising this urgent issue. The announcement of the “loss and damage” fund at COP27 this year is only the first step towards acknowledging and working towards providing aid to climate vulnerable nations. However, the creation of the actual fund and its eventual working mechanism is something that only time will tell.

LICs and MICs will not be able to escape debt and the climate finance conundrum until there is strong collaboration and integration with developed countries and international organisations. Developed nations

have a tendency to lead climate conferences and push for solutions that benefit them the most. They possess an undeniable advantage over developing nations with references to research, scientists, lawyers and other experts in the field who can effectively communicate and bargain in favour of their requirements. Representatives of developing nations tend to go unheard or unacknowledged due to the sheer lack of resources and the ability to put the nation's needs forward. Despite the urgency that surrounds the subject of climate change today - evident rise in temperature, sea levels, melting of glaciers, increase in unprecedented, yet frequent forms of weather conditions - developed nations and institutions continue to treat climate conferences as "business fairs" rather than a platform for equal representation, cooperation and efficient decision making. There is a dire need for systems that evaluate the situations of LICs and MICs respectively, survey the political and social landscape, holistically understand its need for development goals and financing and also making climate indicators, vulnerabilities and financing an integral part of this evaluation process when it comes to aid or granting of loans.

Despite the failures of the COP, it is not an event that we should completely get rid of. Since its conception, it has become a major platform for governmental and non-governmental organisations to network and communicate better. Its regularity also serves as a reminder of our impending climate goals and helps leaders to keep pushing for the cause. Although we're running out of time, the path we have embarked on is heading in the right direction. We just need to speed up our collective policy making and its implementation. COPs could possibly be more efficient if they are less publicised and more closed door so that not every step or decision made is purely for show. Leaders themselves need to be educated on climate and carbon issues since they cannot be so heavily reliant on experts for everything. One possible solution for the resource problem that LICs and MICs face is that a body like the UNFCCC or UNDP sets up an active team of professionals - lawyers, economists, speakers etc. who can help such nations effectively strategise and communicate the problems faced and requirements to tackle them.

Finally, it all comes down to collaboration and cooperation in the creation of a network of knowledge. Dealing with climate change and creating sustainable societies is not a competition amongst nations

anymore. The UN needs to steer the making of policies that incentivise nations to collectively work towards sustainability. From a business perspective, compliance carbon markets need to be expanded further and more incentives need to be introduced for organisations to treat their voluntary contributions to the carbon market as a compulsion. This has to be a mindset forming strategy rather than something momentary. On an individual level, in an increasingly technology reliant world, we could use more individual carbon trackers to increase self-awareness and make more sustainable decisions in our daily lives.

Profits and business processes need to be put aside for a moment and reassessed from a green lens. If sustainable and climate- friendly measures are not taken immediately, there will be no economy to sustain or profits to make in the very near future.

By PBEC Intern Rhea Mehta
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