ISID Policy Briefs
#23-02
March 2023

Finance and Global Economic Governance for Green Transformation:

Key Recommendations of ISID-BUGDPC Special T20 Roundtable

The **Think-20 Special Policy Roundtable** *Finance and Global Economic Governance for Green Transformation* organised by ISID and the Global Development Policy Centre (GDPC) of Boston University (BU) under the auspices of the Think-20 process under the India G20 Presidency at ISID campus, New Delhi, on March 02, 2023. Given the theme cutting across several T20 Taskforces (TFs), the Roundtable had participation from a number of them. The inaugural address was delivered by **Ambassador Sujan R Chinoy**, the Chairperson of T-20 India (TF7) and Director-General of Manohar Parrikar Institute for Defence Studies and Analyses (MP-IDSA), New Delhi. The distinguished speakers of the two technical sessions included **Prof Nagesh Kumar**, Director, ISID (TF6); **Prof Kevin Gallagher**, Director, BU-GDPC (TF4); Mr **Kamal Malhotra**, Non-Resident Senior Fellow, BU-GDPC; **Prof Tetsushi Sonobe**, Dean and Chief Executive, ADB Institute, Tokyo and also the Chairperson of T-7 initiative of G-7 (TF1); **Dr Amar Bhattacharya**, Senior Fellow, Brookings Institution, Washington (TF5); **Ms Chandini Raina**, Advisor, Ministry of Finance, Government of India; **Dr Laveesh Bhandari**, Senior Fellow, Centre for Economic and Social Progress, New Delhi; **Dr Kim Heung Chong**, President, Korea Institute for International Economic Policy, Seoul (TF1); **Prof Renato Baumann**, Institute of Applied Economic Research (IPEA), Brasilia; **Prof Suma Athreye**, School of Public Policy, IIT Delhi and ISID; and **Dr Prerna Prabhakar**, Council on Energy, Environment and Water, New Delhi. The programme of the event is at *Box 1*. This policy brief summarizes key recommendations of the Roundtable.

The Context

It is widely recognized that clean energy transition and achievement of Sustainable Development Goals (SDGs) in developing countries require staggering amounts of resources that are clearly beyond the capacity of domestic fiscal space available. The international community has found it very challenging to meet the commitments on international resource transfers whether it is the 0.7% of GNI target agreed in the 1970s or the US$ 100 billion per year agreed at UNFCCC. This makes it challenging to mobilize the $2.4 trillion annually now seen as necessary to meet the SDGs and Paris Climate commitments. In that context, this Policy Roundtable discussed the reforms in the multilateral economic governance that would facilitate the clean transition to meet the net zero goal and achieve the sustainable development goals. It also discussed the reforms of multilateral trade architecture to facilitate access of developing countries to environmentally sound technologies and their ability to deploy industrial policy tools to augment productive capacity for clean energy equipment for speeding up green transition.

The key recommendations of the policy roundtable are summarized below.

Finance and Global Economic Governance for Green Transformation

The session provided a rich menu of recommendations for comprehensive reforms for augmenting the supply of affordable finance to foster clean transition in developing countries, as summarized below.

Box 1: Programme

ISID Institute for Studies in Industrial Development
An institution of Indian Council of Social Science Research (Ministry of Education)
Policy Research to Foster India's Industrial Transformation

G20 T20 INDIA 2023

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BU Global Development Policy Center

Azadi Ka Amrit Mahotsav

Special T20 Policy Roundtable on

Finance and Global Economic Governance for Green Transformation

Thursday, 2nd March 2023

Inaugural Session

- *Opening Remarks*: Prof Nagesh Kumar, Director, Institute for Studies in Industrial Development
- *Inaugural Address*: Amb Sujan R Chinoy, Chair, Think 20 and Director-General, MP-IDSA
- *Vote of Thanks*: Mr Kamal Malhotra, Non-Resident Senior Fellow, Boston University Global Development Policy Centre, Boston, Mass., USA

Session I: Financing for Clean Transition and Global Financial Architecture

Moderator: Prof Nagesh Kumar, Director, ISID

Panelists

- Prof Kevin Gallagher, Director, Boston University Global Development Policy Centre, Boston, Mass., USA
- Prof Tetsushi Sonobe, Dean and Chief Executive, ADB Institute, Tokyo
- Dr Amar Bhattacharya, Senior Fellow, Brookings Institution, Washington, D.C. USA
- Ms Chandni Raina, Adviser, Ministry of Finance, Government of India
- Dr Laveesh Bhandari, Senior Fellow, Centre for Economic and Social Progress, New Delhi

Open Discussion

Session II: Multilateral Trade Rules for Green Industrial Transformation

Moderator: Mr Kamal Malhotra, Non-Resident Senior Fellow, BU-GDPC

Panelists

- Prof Nagesh Kumar, Director, ISID
- Dr Kim Heung Chong, President, Korea Institute for International Economic Policy (KIEP), Seoul
- Prof Renato Baumann, Institute of Applied Economic Research (IPEA), Brasilia, Brazil
- Prof Suma Athreye, School of Public Policy, IIT Delhi
- Dr Prerna Prabhakar, Council on Energy, Environment, and Water (CEEW), New Delhi

Open Discussion

Concluding remarks and wrap up

N.B.: The session-wise recording of the proceedings of the Policy Roundtable are available at the ISID YouTube Channel. The links are available at https://isid.org.in/event/special-t20-policy-roundtable-on-finance-and-global-economic-governance-for-green-transformation/

Climate change, as an existential threat, demands urgent action for mobilizing resources. Many countries including India are likely to see the limits to human survivability in the coming decades due to climate change. Acting on climate change will yield dividends in the form of SDG achievement and accelerating economic growth. It calls for massive scaling up of affordable finance. The global financial architecture needs to be reformed to achieve this objective.

In view of its criticality, G20 is addressing the issue of climate finance through the Finance Track and Sherpa Track. One of the six working groups under the Finance Track is the Sustainable Finance Working Group which seeks to develop instruments and mechanisms for mobilizing timely adequate finance. This Working Group also looks into the issue of enhancing the effectiveness of MDBs including through fuller utilization of the resources available to them and mobilizing resources for early-stage climate technologies. Some of these reforms summarized below are also being raised in the Bridgetown Initiative and the United Nations Secretary General's SDG Stimulus Report.

A staggering amount of finance is needed for climate action. The recent estimates suggest that developing countries, excluding China, will require an investment of $2.4 trillion annually by 2030 for climate mitigation and adaptation, out of which $1 trillion needs to come from external finance. There has been limited success in mobilizing concessional finance from other countries. Although the developed countries had committed to providing $100 billion annually for climate finance to developing countries by 2020 for climate action at COP15 in Copenhagen, the actual flows have fallen short of the commitment and also in terms of grant and concessional elements. The cost of private finance varies depending on the stature of the borrowing country depending on their credit rating and tends to be exorbitant for developing countries—but is at new highs given the interest rate hikes in the advanced economies. Green transformation cannot be viable with such expensive resources. Furthermore, the global financial flows for green transformation are taking place mostly between developed countries. Only $83 billion out of $803 billion flows globally in 2020 went to developing countries. Multilateral development banks (MDBs) provide financing at the lowest cost to developing countries.

Reforms are needed for enhancing the lending capacity of MDBs. As the most affordable sources of finance for developing countries, MDBs can work with countries in scaling up investments. In the next five years, the MDB capital needs to treble. It is possible with relatively modest resources. For instance, a 50% increase in the capital of MDB system may cost only about $20 billion. Doubling the capital of the World Bank would cost just $9 billion. Given the scale of foreign exchange reserves available, expanding the capital of MDBs should be feasible. This way with a rather modest investment can help to achieve a substantial expansion of financing for developing countries. There is a need to think creatively about scaling up of MDBs, for instance, converting the global infrastructure facility into a climate lending facility with countries that are willing to participate in it so that it does not get held up by the resistance of a few. The governance structures of MDBs also need to be reformed to force them to work together as a system rather than as each individual institution.

Policy reforms are needed for prioritizing climate action. Tackling climate change seriously requires MDBs to help countries bolster the role of the state to unleash the structural change that is necessary to build low carbon resilient and socially inclusive growth trajectories at a rapid pace to achieve global Net Zero by 2050. More than half of MDB loans are currently only for projects and do not address the policy framework issues.

Reforms should also cover the quality of lending, accountability, and debt sustainability. MDBs also need to focus on debt sustainability, which affects the ability of member countries to take new loans. There is a need for a new framework that would ensure that there is growth and the rate of growth exceeds that of the rate of interest. All new loans from development banks should have a disaster clause so that when countries are in crisis they get relief from payment for loans. MDBs also need to ensure that their lending for projects safeguards the natural capital and local communities. As green transition projects require huge investments, a stable macroeconomic situation is also needed for sustaining climate action.

Capacity-building for the development of fundable projects is critical. While there is a need for more funds, developing the capacity to use those funds is also equally important. There should be capabilities for the identification of the right projects and monitoring the implementation. MDBs can help in building the capacity of developing member countries in scaling up investment by developing transformative projects in clean energy, sustainable transportation system, sanitation, sustainable forestry, among other areas.

Capital base increases will have to go hand in hand with voice and representation reform. Despite developing countries seeking reform of voice and representation including the ability to appoint the heads of the Bretton Woods institutions, very little has changed since the Monterey meeting in 2002.

Innovative sources such as SDRs, Carbon taxes and IFTT need to complement the MDBs reform. There is a need to identify innovative mechanisms for mobilizing low-cost finance. Regular issuance of special drawing rights (SDRs) and their utilization is such option. The African Development Bank is now in the process of financing the infusion of SDRs for additional lending. The Resilience and Sustainability Trust (RST) mechanism of IMF should be resorted for the expansion of use of SDRs.

Carbon taxation is another innovative mechanism and has tremendous potential, especially in the North and some of the revenue can be used for international transfers. Underpricing of fossil fuels needs to be stopped. The G-7 countries should take the initiative in this regard as they are responsible historically for large emissions. The subsidies given for the production and consumption of fossil fuels also need to be discontinued.

International Financial Transactions Tax (IFTT) is another such possible innovative option to generate perpetual resources for climate action in the Global South. New calculations made by ISID-BUGDPC suggest that even a modest tax of 0.05% could generate revenues of US$650 billion p.a. hurting no one but the speculators. In view of its relevance in the changed context, it should be revived on the G20 agenda and taken forward.

Reforming Multilateral Trade Rules for Green Transition

Reform of trade rules should provide flexibility for the diversification of productive capacity for a clean transition. To achieve the objective of Net Zero, the renewable energy capacity needs to expand in an unprecedented manner. The International Energy Agency estimates that annual solar photovoltaic (PV) cell additions need to more than quadruple to 630 GW by 2030 to be on track to meet Net Zero by 2050. However, the entire global value chain for renewable energy equipment is highly concentrated in a few countries. In the case of solar energy, which is one of the fastest-growing sources, more than 80% of the PV capacity lies in a single country. The productive capacity for renewable energy equipment needs to be enhanced massively in a diversified manner for fostering their rapid deployment for the clean transition, including through the use of industrial policy instruments such as domestic content requirements (DCRs). This would require multilateral trade rules like Trade-Related Investment Measures (TRIMs) under the World Trade Organization to provide a peace clause or an exception for climate action.

Transfer of Environmentally Sound Technologies should be facilitated by the Trade Rules. The agricultural green revolution in developing countries was facilitated by the fact that the new technologies were available in public domain. The vast majority of climate technologies, however, are developed in advanced countries and are covered by patents. Climate change, like the public health crisis, is a global emergency. In order to speed up climate action, the Trade Related Intellectual Property Rights (TRIPS) Agreement under WTO should be amended to extend flexibilities like compulsory licensing provisions for climate technologies, similar to the case of public health for developing countries.

Resist the tendency to evolve new protectionism in the name of climate action. A major limitation of the multilateral trade rules is that there is no agreement to govern the relationship between trade and the environment. There is a need to reduce tariffs on environmental goods. But defining what are environmental goods is critical. The emerging environmental and social standards (ESS) is an area where more discussions are needed. Rigorous conditionalities for implementation of ESS require changes in process and the deliberations have not dealt with the additional financial requirement for this transition. Implementation of ESS involves relatively high costs for small and medium producers. Similarly, the introduction of Carbon Border Adjustment Measures by the European Union is seen as an act of protectionism and will lead to massive welfare losses for developing countries.

Such actions need to be resisted to facilitate clean transition of developing countries.

Concluding Remarks

The Policy Roundtable was seen by the participants as a timely and important opportunity to raise and debate important issues concerning the clean energy transition and green industrial transformation in the Global South to achieve their Net Zero goals. Several ideas for reforms of global financial and trade architecture were debated as summarized above. It was agreed that these recommendations are conveyed to the G20 processes through the T20 Secretariat. It was also agreed to continue the advocacy of these recommendations and engagement in conjunction with the T20 process not only for the India G20 Presidency but also during the Brazilian and South African presidencies and beyond.

Acknowledgment: This Policy Brief has been prepared by Dr RejiK Joseph, Associate Professor, ISID, based on the discussions in the Think-20 Special Policy Roundtable Finance and Global Economic Governance for Green Transformation organised by ISID and the Global Development Policy Centre (GDPC) of Boston University (BU) under the auspices of the Think-20 process under the India G20 Presidency at ISID campus, New Delhi, on March 02, 2023. The views expressed in this publication do not necessarily reflect the views of ISID.

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