T20 Policy Brief

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Task Force 02

SUSTAINABLE CLIMATE ACTION AND INCLUSIVE JUST ENERGY TRANSITIONS

Fostering Climate Justice Finance in G20 countries

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Abstract

The basic tenets of climate justice involve recognizing that the impacts of climate change, while affecting the entire world, manifest in varying degrees and intensities across countries and social groups. Those least responsible for the climate crisis are potentially the most adversely affected, whether by the impacts themselves or by the climate-related solutions. Achieving climate justice remains one of the foremost challenges and, to operationalize it, there is a significant need to propose strategic policies and measures ensuring access to funding and socio-environmentally just technology transfer. This policy brief addresses the imperative of fostering climate justice by proposing the incorporation of reparative and redistributive mechanisms into climate financing, providing territorial-based innovations with high replicability. Reparation recognizes historical injustices and aims to rectify past environmental exploitation, providing a more just and sustainable future. Simultaneously, redistribution ensures that climate finance benefits are equitably distributed, benefitting marginalized communities and nations. The approach presented not only targets global climate action (SDG 13) but also aligns with reducing inequalities (SDG 10) and protecting life on land (SDG 15).

The debate surrounding fair global taxes and community-led climate funds serves as pivotal aspects of these recommendations. The promotion of fair taxation systems can support funds in ways that consider historical environmental impacts and strive to rectify systemic inequalities. The consolidation of a new global financial architecture through the G20 must be guided by a progressive elimination of fossil fuels (SDG 7). By embracing these concepts, this comprehensive approach argues for creating a transformative and inclusive framework for combating climate change while promoting climate justice finance in G20 countries.

key-words: Climate Justice, Fair Global Taxes, Climate Finance, Community-Led Climate Funds.

Finance and climate justice

The present policy brief is based on the principle that climate finance and action must embody climate justice, ensuring both equity and sustainability.

Climate justice entails acknowledging that the effects of climate change appear differently across nations and social demographics. Those who bear the least responsibility may face the most severe repercussions, either directly from the effects of climate change or indirectly from the proposed climate-related solutions.[1]This definition includes human rights elements such as safeguarding the rights of the most vulnerable people and nations (Mary Robinson Foundation 2014) as well as measures of human well-being (Edmonds et al 2020). It also includes the right to access public policies, as well as transparent information and social participation in debates and decision-making processes.

The United Nations Framework Convention on Climate Change (UNFCCC) was approved based on the principle of the Common but Differentiated Responsibilities, and Respective Capabilities (CBDR-RC). Although the CBDR-RC has gradually weakened over the past thirty years of the Convention, partly due to geopolitical factors and the significant rise in CO2 emissions from certain countries in the Global South, the

[1]There are relevant papers and discussions on how market-based instruments fail to mitigate climate change. The primary criticism focuses on business actors who have contributed to the crisis and seek to maintain the status quo, continuing to fund solutions that worsen both the causes and effects of the climate crisis, prolonging the transition process indefinitely. One such example is voluntary carbon market schemes.

discussion of historical responsibilities still remains relevant for understanding climate justice.

The imperative of fostering climate justice by proposing the incorporation of reparative and redistributive mechanisms into climate financing is part of the reflections produced by the tax justice movement, which has shaped not only both mechanisms, but also other three: revenue, repricing and representation. This brief will primarily focus on two aspects: reparation, which involves recognizing historical injustices and rectifying past environmental exploitation Weber et al 2022); and redistribution, ensuring that the benefits of climate finance are equitably distributed to uplift marginalized communities and nations. These contributions are relevant because official climate policy often focuses solely on finance aimed at reducing net GHG emissions and/or enhancing resilience to the impacts of climate variability and projected climate change (UNFCCC 2018).

Climate financing demands greater commitment and fewer broken promises from the international community. Since the Conference of the Parties (COP) 15, in Copenhagen, there has been a goal for $100 billion dollars per year (OECD 2023) that has never been achieved. This is one of the big failures (Schalatek 2021) of climate finance in the multilateral system. The International Panel on Climate Change (IPCC) AR6 report (2023) states that developing countries' climate finance needs to rise to $600 billion dollars per year between 2020–50 in additional investments for mitigation. The Adaptation Gap Report 2020 reveals that the current efforts are insufficient to reduce the adaptation finance gap, particularly in developing countries. The estimated costs of adaptation are between $140 and 300 billion dollars per year (Kreibiehl et al 2022).

These figures underscore the significant challenges faced by the international community in meeting the objectives of the Paris Agreement and the Sustainable

Development Goals (SDGs) by 2030. They highlight that existing international policies and commitments fall short and underscore the need to include other mechanisms and responses made by civil society organizations and grassroots movements around the world, such as fair global taxes and community-led climate funds.

The escalating dual crisis of inequality and climate change worldwide demands a radical rethinking of what constitutes a fair, transformative, and effective ecological policies. Two global movements are increasingly realizing how much they are aligned in pursuing these goals. Both the climate justice and tax justice movements are progressive actors endeavoring to rectify discriminatory practices and legacies that benefit a minority at the expense of everyone else.

The Investment and Finance chapter from IPCC' AR6 report, notes that "community ownership projects may need significant upfront investments, and the ability of communities to raise the required financing might prove insufficient" (Kreibiehl et al 2022, p. 1607). Mobilizing comprehensive fiscal frameworks to support climate justice action and policies is crucial for addressing challenges such as the climate finance gap (Goldar 2022), already mentioned, and current imbalances between developed and developing countries, transnational corporations' power and states, as well the Global North and South elites and those historically most affected by structural racism, environmental and climate injustices.

In the last two decades, the tax justice movement has shaped tax into a tool for 'reprogramming economies' and included 'progress in tax transparency rules' to support national and international legal arguments and creation of laws that embed human rights obligations in tax policy (Mager; Chaparro 2023). Brazil's G20 presidency's priorities – combating hunger, poverty and inequality, promoting a sustainable planet and global governance reform (G20 Summit Brazil 2024), present an opportunity to advance the discussion of proposals aimed at addressing the global climate crisis through a rights-based approach.

The role of G20

Numerous proposals on carbon tax, carbon pricing, and related topics are found in the documents of the G20 Finance Ministers' meetings and T20 policy briefs from previous G20 Summits, accessible on the websites of past presidencies. OECD and IMF also provide some summaries (IMF; OECD 2021). However, these initiatives are often inefficient and may contradict the principles of climate justice. A report presented in 2020 revealed that G20 countries have been using their export credit agencies since the signing of the Paris Agreement to allocate $31 billion dollars per year in public finance to the fossil fuels industry. This indicates twelve times more funding directed towards fossil fuels compared to renewable energy (DeAngelis; Tucker 2020). This underscores the huge challenge of reframing the finance debate within the context of climate justice.

The recommendations present here in the brief pointed out that G20 can play an important role in addressing this challenge. As of 2024, the African Union (which represents 55 countries) will have its first G20 meeting as a permanent member, under the Brazilian Presidency. This presidency brings a strong focus on social inclusion and a just energy transition, under the theme of “Building a Fair World and a Sustainable Planet”. Moreover, it introduces the innovative concept of ‘G20 Social’, aimed at enhancing the involvement of non-governmental stakeholders in G20 activities and influencing the decision-making process. Considering that Aditi Mukund and Namrata

Kabra’s 2023 T20 Policy Brief mentions an “inclusive climate multilateralism”, the G20 Summit represents an incredible opportunity to bring this inclusivity and initiate dialogue with those most vulnerable and affected by climate change, embracing civil society's participation and community-led solutions, including a strong discussion about climate justice finance, on both Sherpa and Financial Tracks.

This comprehensive approach advocates for the creation of a transformative and inclusive framework for combating climate change while promoting climate justice finance in G20 countries.

Recommendations to G20

1. Reforming multilateral banks to improve accessibility, sustainability availability, and include reparation and redistributive mechanisms into climate finance

Following a study produced on reforming multilateral banks presented as policy brief under the 2023 Indian G20 Presidency (Yadav et al 2023) in the previous year within the scope of T20 and a subsequent dialogue to add new references and contributions, this recommendation also concerns the urgency to bring these new elements into the Expert Group on 'strengthening Multilateral Development Banks' (MDBs), established under India G20' presidency (2023) in a climate justice finance paradigm.

The IPCC AR6 report highlights three levels where climate financing requires center of attention within the Just Transition[2] focus: (i) global equity issues in climate finance, which necessitate a more carefully constructed globally cooperative public policy approach; (ii) enhanced support at the national level; and (iii) local community levels. The justification lies in prioritizing the allocation of climate finance, with the focus initially at the global portfolio level, followed by allocation to countries, and then to individual projects. This highlights the significant challenge of shifting attention towards Just Transition issues at the country level, as well as globally and locally. Incorporate

[2]Although the policy brief does not include the concept of Just Transition, both Just Transition and Climate Justice approaches are complementary and move together in the public policies proposed worldwide and nationally.

these levels into the reform of multilateral banks is crucial, and G20 countries hold the influence to steer this direction due to their substantial shareholding in these banks. However, there is limited room for debating the inclusion of reparative and redistributive mechanisms into climate finance within these institutions.

2. No climate finance without climate justice

As already mentioned, the G20 countries still subsidize the fossil fuels industry at the cost of the climate and socio-environmental impacts. At the same time, the major policies and proposals around climate tax are related to carbon pricing. Although carbon pricing suggests viable economic inputs, it is regulated together with emissions trade schemes (Mager; Chaparro 2023) (and its offsetting). After more than 20 years of worldwide experiences, it has become evident that the conditions necessary for a transition to a decarbonized model of development for industry and agriculture, while ensuring social and environmental justice for both present and future generations, have not been fulfilled. Moreover, these conditions cannot be met through existing policies, which fail to incorporate reparative measures. This is largely because a significant portion of the funds allocated for this purpose is channeled directly to private consulting firms and transnational corporations, rather than being utilized for genuine social and environmental justice initiatives.

G20 needs to go beyond and establish a global fair tax system promotion that can support the creation of funds, considers historical environmental impacts and strives to rectify systemic inequalities. A climate justice tax could promote funds to a finance mechanism, especially focusing on Global South countries, particularly the most vulnerable ones. The recommendation suggests the use of the figure 1 regarding the dimensions and objectives of a sustainable-oriented tax system, adapted by Schratzenstaller et al. (2017), in a survey dedicated to analyzing the European Union taxes. Figure 1 illustrates the three dimensions of sustainable development (social, economic and environmental), and introduces new approaches. We can use their parameters including the reparation and redistribution as socioeconomic values to advance in a climate justice tax.

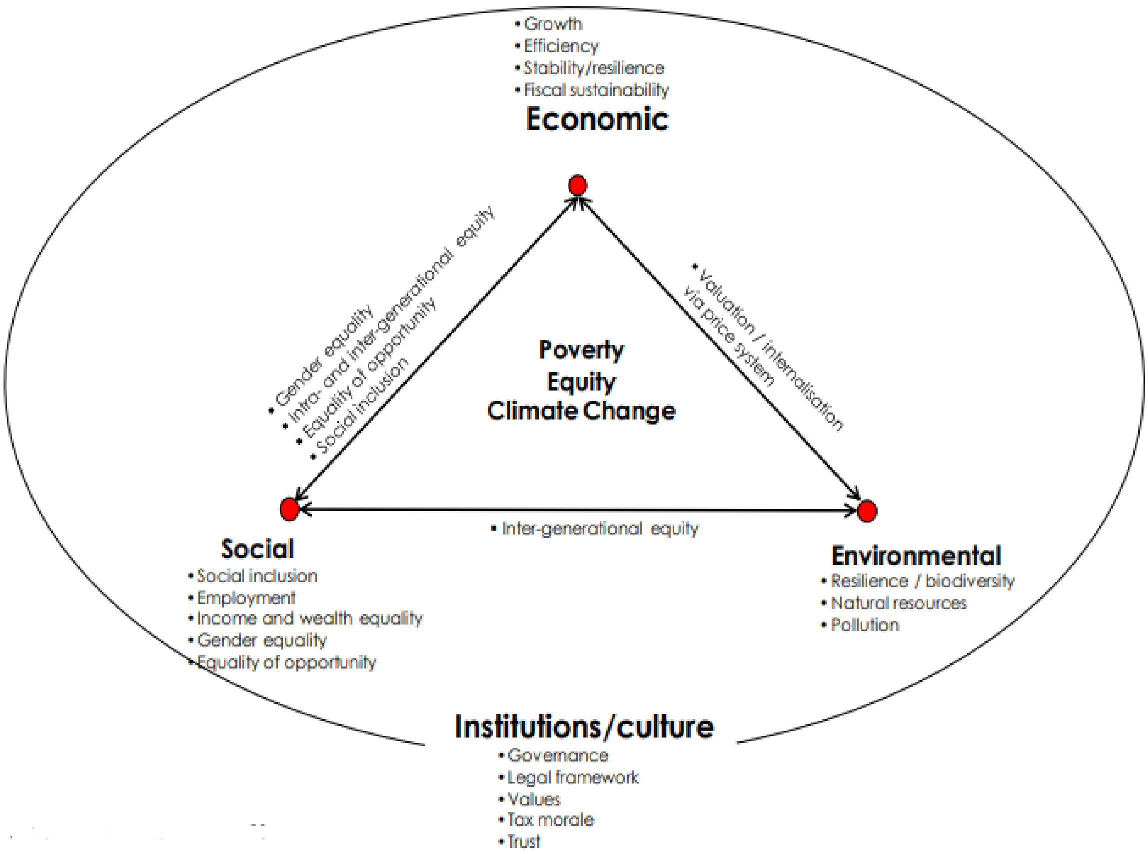

FIGURE 1. Dimensions and Objectives of a sustainability-oriented tax system

Source: Schratzenstaller et al. (2017).

There exists a range of initiatives aimed at funding communities to address the impacts of climate change, often focusing on promoting best territorial practices. However, none of these initiatives prioritizes to finance climate justice as a central approach. Therefore, we recommend the establishment of a global community-led fund for climate justice, designed to recognize and support the diverse forms of ecological management developed by local communities.

3. A global community-led fund for climate justice

There is currently a proliferation of financing mechanisms and methodologies aimed at mitigating and adapting to climate change. These mechanisms operate at sub-national, national, and international levels, involving multiple actors including the private sector, international agencies, multilateral banks and governments.

One of the major challenges in these mechanisms is the limited management and accessibility of funds/resources, which are geared towards large-scale projects and not readily accessible to local communities. This is particularly problematic as these communities are the ones in need of investment in adaptation measures while promoting viable mitigation technologies in different parts of the world, especially in the Global South. A study led by International Institute for Environmental and Development (IIED) pointed out that from $10 only $1 goes directly to support local climate action.

The community-led fund is imperative as emphasized by the 17th International Conference on Community-based Adaptation. Its key assumptions include: i) breaking away from colonial systems to ensure effective leadership of these funds by local grassroots organizations, without the mediation of operators imposing monitoring and evaluation standards that undermine community initiatives; ii) enhancing and scaling up social technologies, departing from north-south technology transfer policies that foster community dependency and hinder replicability of successful experiences; iii) ensuring direct management of resources by community organizations to avoid interruptions in transfers, while establishing holistic processes to define success and assess results through mitigation and adaptation actions (IIED 2023).

Examples of community-led management at different scales should be considered when formulating a global fund. One well-established global experience is the Small Grants Program of the Global Environment Facility, which has been supporting small community projects since 1992 (Dinshaw; Tye 2023). At a national level, peasant organizations in Brazil have initiated an innovative finance experience for family farming cooperatives since 2020 (Ilário et al 2023). This experiment, known as FINAPOP, has collaborated with 53 cooperatives, providing a total of $11.8 million dollars in support (FINAPOP 2023).

Another example is Dema Fund, established in 2004 through an endowment from government auctions of illegally logged timber. It is administered by the Brazilian NGO FASE (Federation of Organizations for Social and Educational Assistance), with the aim of supporting local communities in areas affected by deforestation, land conflicts, and socio-environmental violations in the northern state of Pará. The fund operates on a decentralized and open management model, designed with a robust governance framework that includes FASE and representatives of the communities (Fundo Dema 2023).

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These examples showcase alternative paradigms of redistributive financing that prioritize climate justice action and local income generation, yielding multiple benefits for climate and socio-biodiversity.

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