United Nations
Economic Commission for Africa

Financing sustainability transition in Africa

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February 21, 2024

A time of emergency

- We are heading to +1.5°C by around 2030, and most probably +2°C by the mid-century, and at such level of temperature climate scientists question our capacity to adapt
- Warming is not the only issue: planetary boundaries are overpassed threatening our living conditions
- Climate change is reducing world growth prospects and threatening financial stability with debt crisis
  - $307 trillion of global debt (2023)
  - Productivity derived from debt has declined
    - Increase in Debt/GDP: 349% in 2023
    - Government debt: + 76%between 2007 and 2022, reaching 102% of GDP.
- Debt is a burden on SDGs: 3.3 billion people reside in countries where more funds are directed towards interest payments than towards health or education.

A time of emergency

Africa :

- Africa is the most vulnerable continent to climate change impacts under all climate scenarios above +1.5C
- Africa faces exponential collateral damage, posing systemic risks to all dimensions of Africans life
- The loss and damage costs in Africa due to climate change are projected to range between US$ 290 billion and US$ 440 billion (UNECA projections)
- In 19 countries in Africa, interests in debt are higher than spending on education and health
- Africa's debt has increased by 183% since 2010, four times higher than its growth rate of GDP in dollar terms
- In 2020, 27 countries with a ratio of debt to GDP above 60%
- Sub-Saharan Africa: additional $996 billion in debt - a 50% increase on current debt levels as a percentage of GDP over the next 10 years, because of climate change

Looking at Africa's debt and financing issues differently

- We need to escape from a vicious circle: <u>Debt increase to finance slow productivity growth but high negative impact on climate and natural capital, which calls to more debt to absorb shocks and finance the same type of growth</u>
- With depleting fossil fuels and the quest for renewable energy transition, we're moving from abundance to scarcity, making it challenging to sustain the same debt level inherited from an abundant world.
- Enabling Africa to finance sustainability transition necessitates:

  1) View debt differently

  - Debt is partly the legacy of an unjust and ecocide economic model that has benefited disproportionally to a fraction of the world's population, to the detriment of future of Africa and more generally developing countries (overpassing of planetary boundaries).
  - Debt has its counterpart in terms of the degradation of natural capital: natural capital per head has decreased by 40% from 1992 to 2014. Only 15% SDGS are on track

  2) Africa's financing issue should be part of global agenda of reforming the financial system

  3) Solutions to Africa's debt and financing should align debt burden to sustainability transition challenges

Looking at Africa's debt and financing issues differently

- Current solutions are only short term, not sustainable ones:
  - Rechanneling of SDRs, reform of the MDB, G20 Common Framework**,** SDGs stimulus etc., are in line with the way we want to tackle climate change: greening the socio-economic model that has led to climate change.
- This will likely fail for at least 4 reasons:
  - Global warming and costly extreme events: this will make countries even more vulnerable and increase the debt burden, particularly for Africa
  - Inflation, higher interest rates, and weakening of the financial system, which has still not fully grasped the risks associated with climate change.
  - Africa will suffer from high adaptation costs, slower growth and high costs of recovery from shocks, relying more heavily on debt in an elusive quest for growth
  - The polarization/fragmentation of the world will increase because countries will be stuck with the same economic logic that is unable to reverse global warming;

Financial system reform and debt restructuring; three intertwined and complementary pillars

Wealth tax	Incentives and regulations for fiancial institutions	Climate debt haircut
• Reduce incentives to infinite accumulation of capital • Reduce inequality • Raise funds for climate action • Align capital onwers objectives with a more climate friendly economy	• Boost the financing of sustainability transition • Modify the distribution of returns on capital in the favor of climate friendy activities • Ease the reallocation of resources from old climate detrimental activities to new climate friendly ones • Promote climate-frendly innovations	• Reduce the overall burden of debt on the transition to a more cilimate-friendly economy • Reduce the debt burden on vulnerable countries • Allow a higher leverage on debt for the financing of transition • Ease the reallocation of resources from old to new activities • Ease the reconversion of stranded assets

Financial system reform and debt restructuring; an agenda and some proposals

- (Still work in progress…)
  - Put in place a regulation to monitor "systemic environmental impact", similar to Dodd-Frank act, for financial institutions. Let us call it "The Green Financial Reform Act"
  - The framework would outline regulatory incentives to propel financial institutions towards financing sustainability transition:
    - treat assets differently, in terms of capital requirement and taxation, according to the damages that they impose to the biosphere, and more generally their contribution to the overstepping of planetary boundaries.
    - <u>For example:</u> Define <u>"transition classes" for assets</u> according to their potential degree of transformation (i.e. to fit the planetary boundaries, and we can start with GHG emissions) ;
      - "Stranded" assets, and different classes of assets in transition (an asset in transition is an asset that can be transformed to be more "climate friendly")
      - Differentiated public support to assets depending on their class

Financial system reform and debt restructuring; an agenda and some proposals

- **Set up a "Bank for Transition"**, whose shareholders would be the central banks, and whose role would be to accompany the transformation of assets and the restructuring of public debt.

- **Climate debt haircut for Africa: to reduce the debt burden based on commitments to sustainability transition**

  The idea would be to universally scale down debt burdens in return for verified, concrete climate action, with greater relief available for African countries given their unique challenges and opportunities (leapfrog).

  There are many forms and many ways to design a climate debt haircut, with differentiated rates that could take into account: Nation's vulnerability to climate change, climate change impact on future growth, current debt levels, economic capacity, historic and current emissions, and costs necessary for adaptation and mitigation etc.

Financial system reform and debt restructuring; an agenda and some proposals

- Example of simple haircut rate linked climate:
  - Using cumulative CO_2 emissions by country, we could affect to each creditor a weight equal to the share of « its » country
  - Estimate the impact of climate change on future growth prospects for African countries (with no adaption)
  - Define a haircut rate as a function of creditor's weight and the impact on growth
  - Alternatively we could use adaption cost instead of growth prospects

Merci pour votre attention

Ideas to Action