

Politics and Governance of the Global Energy Transition

Climate targets are unachievable without a financial deal for developing countries

As the Covid-19 pandemic remains with us, its economic impact is primarily being felt in developing countries, fuelling global inequality. In most industrialised countries, the socio-economic effects of the crisis could be mitigated by extensive public spending programmes and existing social security systems. In Germany, for instance, public spending increased by [more than ten per cent in 2020](#) in comparison with the previous year. By the middle of 2021, public debt reached a [historic record of €2.25 trillion](#). According to [estimates by the International Monetary Fund \(IMF\)](#), industrialised countries have mobilised additional financial resources to address the pandemic and its consequences amounting on average to over fifteen per cent of their gross domestic product (GDP).

The capacity of middle income and developing countries to increase public spending has been much more limited. In these countries, the IMF estimates additional spending to make up only 4 or 2 per cent of GDP. Correspondingly, the consequences of the crises in these countries are not only more serious – they will last longer. The [World Bank calculates](#) that in the next two years, with the exception of China, per capita incomes will remain significantly below pre-pandemic levels in middle income and developing countries, making the coronavirus pandemic a driver of already increasing global inequality. Moreover, these developments come on top of rapidly increasing levels of debt in low-income countries since the global financial crisis. [Government debt has reached over 140 percent of GDP](#), the highest level in 50 years and more than double the rate before 2008.

These developments show the pivotal importance of sufficient financial support for developing countries in dealing with both the coronavirus crisis and the growing climate crisis. For this reason, it is devastating that the industrialised countries have so far [not been able to fulfil the funding pledges](#) they made already in 2009 at the Climate Summit in Copenhagen. By 2020, at least \$100 billion in additional funding should have been mobilised yearly to support developing countries in the fight against climate change and its consequences. While estimates of the amount actually given vary greatly, observers are unanimous: the target has clearly been missed.

It is crucial to not only meet the previously defined financing targets, but also to increase these targets to reflect the growing financial emergency in many countries. It is crucial to move quickly to close public financing gaps in developing countries, not only to facilitate urgent investments and mobilize private co-financing. Without a rapid scaling-up of donor funds, the continued commitment of many developing and emerging countries to engage in ambitious climate action and enhance ambition over time, as stipulated in the Paris Agreement is at risk.

Indeed, the economic crisis has already slowed progress in climate action in a number of countries, especially in those heavily dependent on fossil fuels. Indonesia, the world's largest coal exporter, invested 15 per cent of its [Covid-19-related recovery spending](#) in the conventional energy sector. At the same time, it suspended short-term plans for developing renewable energies. Counteracting these developments requires not only additional financial support: new approaches are needed that specifically facilitate the shift from fossil to renewable energy sources. Without such programmes to support green recovery, it is likely that a persistent economic crisis will lead to further setbacks in climate policy in middle income and developing countries.

The [Just Energy Transition Partnership between South Africa and a group of donors](#), including France, Germany, the UK, the US and the EU, offers a first step in the right direction. The partnership includes a pledge of \$8.5 billion in grants, concessional loans, and risk sharing instruments to support South Africa's transition out of coal-based electricity. Other countries, including [Indonesia, a major producer and consumer of coal, have already expressed interest](#) in similar agreements, tying their phase-out of coal to financial support. It is one of three Asian countries collaborating with the Asian Development Bank to launch [a public-private mechanism to refinance coal-based power plants](#) to enable their early decommissioning. Yet, its current power sector planning remains heavily linked to coal, planning to add [more than 10GW](#) of new coal power capacity.

The international donor community could make a crucial difference by developing a financing offer to help Indonesia and other developing and emerging countries to turn their backs on coal and scale up renewables. The G7 Summit in June 2022 in Elmau would offer an important opportunity to provide tangible funding commitments in this direction. If offers fall short, the world faces the risk that rising global inequality will derail international efforts to fight climate change, placing climate targets hopelessly out of reach. Given the urgency of the task, the world cannot afford this.

Note: This piece is partially based on material published in the following German-language article. [Quitow, R. \(2022\) Die Pandemie als Augenöffner in der Klimakrise, *Internationale Politik*, Januar 2022.](#)