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Stepping Up Climate Action in Sub-Saharan Africa: The Role of G20 and COP26

by Giulia Sofia Sarno

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ABSTRACT

Several shortcomings in the development and climate finance systems currently undermine the capacity of Sub-Saharan Africa to tackle climate change. Indebtedness and climate vulnerability progressively reinforce each other, representing one of the major obstacles to stepping up climate action in the region. Insufficient climate finance, the financing gap on adaptation and loss and damage, as well as inadequate recovery measures are other critical issues. The crucial step for strengthening climate action in Sub-Saharan Africa consists in undertaking systemic reforms within the international development and climate finance architecture. The Italian-led G20 can play a key role to promote the necessary global financial governance reforms and, by establishing an inclusive dialogue with African countries early on, it can increase the chances of an ambitious outcome at the 26th Conference of the Parties (COP26) that will aim for an agreement on the most divisive climate finance issues, with significant implications for Sub-Saharan Africa.

Africa | Climate change | Finance | G20

keywords

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Stepping Up Climate Action in Sub-Saharan Africa: The Role of G20 and COP26

by Giulia Sofia Sarno*

Introduction

The post-pandemic recovery packages have mobilised unprecedented resources, amounting to almost 15 trillion US dollars in announced fiscal spending.[1] The management of this windfall and the principles upon which the world builds back after covid-19 will likely determine whether climate targets and development goals will be met. The international community widely agrees on the importance of undertaking a global green recovery to rebuild prosperity in a way that combats climate change and ensures a sustainable future. To succeed in designing a global green recovery, cooperation between countries in the global North and the global South is essential.

In particular, Sub-Saharan Africa should play a central role as it is suffering some of the most severe economic and social consequences of the pandemic and, at the same time, it is characterised by a high and increasing vulnerability to climate change. Prolonged droughts, flooding, extreme weather, rising temperatures and sea levels, and other consequences of climate change represent a major threat for Sub-Saharan African countries. Thus, multilateral efforts should prioritise increasing adaptive capacity and building resilience in the region.

At the same time, Sub-Saharan Africa is increasingly embracing clean energy as an enabler to meet pressing development challenges, such as reaching universal electricity access, while respecting climate commitments. The international

[1] Brian J. O'Callaghan and Em Murdoc, *Are We Building Back Better? Evidence from 2020 and Pathways for Inclusive Green Recovery Spending*, Geneva, United Nations Environment Programme (UNEP), March 2021, https://www.unep.org/node/29020.

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community should support and scale up transition to green energy in the region, providing the means and creating the necessary conditions to ensure that it can seize the opportunity for a low-carbon future.

In the critical year for the definition of a global post-pandemic future, failing to engage with Africa in a transparent discussion among equals to address the continent's special needs and identify shared and adequate solutions would lead to severe consequences both at the regional level and globally. In particular, strengthening climate action in Sub-Saharan Africa should be recognized as a key priority to ensure the achievement of Sustainable Development Goals (SDGs) and climate goals, and to avoid a lost decade of development and the devastating impact of an above 1.5 degrees Celsius scenario.

The crucial step for ramping up climate action in Sub-Saharan Africa consists in tackling the shortcomings of the current financing system. Insufficient climate finance, the lack of balance between mitigation and adaptation financing, and inadequate instruments to address debt crises and pursue a green recovery are some of the major obstacles.

This study will analyse a selection of recovery measures and climate finance mechanisms, focusing on those relevant for the G20 and COP26, with the aim of evaluating their impact on climate action in Sub-Saharan Africa. Central focus will be dedicated to the interplay between sovereign debt and climate crises in the region, while the second part of the analysis will address climate resilience and the financing gap on climate adaptation and loss and damage.

The G20 and COP26 are two key venues where the shortcomings in the global financial system can be redressed. This year there are clear interlinkages between the two fora, providing the opportunity to connect the dots between the post-pandemic recovery and climate action in Sub-Saharan Africa. The G20 can also be a key enabler of success for COP26 negotiations by establishing early on inclusive and participatory processes with actors in the global South, namely Africa, which will facilitate reaching political consensus on thorny climate finance issues high on the COP26 agenda. Finally, the particular alignment of the Italian G20 Presidency, UK G7 Presidency and Italian-UK joint COP26 Presidency is a strong opportunity to ensure continuity and to focus the debates of the different fora on a clear set of priorities, with significant positive effects in particular on climate issues.[2]

[2] Building upon the interlinkages between the Italian G20 Presidency and COP26 co-Presidency and capturing their relevance for climate action in Africa, the Italian Ministry of Foreign Affairs is organising a ministerial event called "Incontri con l'Africa" to be held on 7–8 October 2021 and entirely dedicated to climate, energy, environment and development cooperation in Africa.

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1. The starting point: A failed promise

The United Nations Framework Convention on Climate Change (UNFCCC) and the Paris Agreement recognise that countries across the world do not have the same capacity to carry out action to mitigate and adapt to climate change, and that developed countries should take the lead in providing financial resources to those less endowed and more vulnerable. During COP16 in 2010, industrialised countries acted on this principle and committed to disburse 100 billion US dollars annually by 2020 as climate finance to address the needs of developing countries. A recent UN report defines this commitment as "the bedrock of the entire international climate finance system" and argues that it represents an important symbol of trust.[3]

According to a November 2020 report by the Organisation for Economic Cooperation and Development (OECD), the latest reported total climate finance provided by rich nations to developing countries reached 78.9 billion US dollars annually, still below the 100 billion goal.[4] In addition, due to the fact that most loans are counted at their full-face value rather than at their grant equivalent and due to inaccuracies in calculating the climate component of projects, Oxfam estimates that public climate finance flows could be significantly lower than the 62.2 billion US dollars reported by the OECD, amounting to only 19–22.5 billion over the same period.[5]

The need to deliver on previous commitments and mobilise further financing for climate action in the global South should be a priority topic at the G20, aiming also at restoring trust and predictability in future finance flows. Moreover, starting this discussion within the international community ahead of COP26 would be strategic as the summit in Glasgow is expected to define a new more ambitious target for climate finance provided by industrialised countries.

In addition to the idea that countries endowed with greater wealth and capacity should take the lead in the fight against climate change, it must be considered that rich developed nations have disproportionately contributed to greenhouse gas emissions, especially when compared to Sub-Saharan Africa. This should be widely understood as the underlying principle of climate finance and the G20 should work

[3] Independent Expert Group on Climate Finance, *Delivering on the $100 Billion Climate Finance Commitment and Transforming Climate Finance*, December 2020, p. 8, http://bit.ly/ClimateFinanceReport.

[4] Organisation for Economic Cooperation and Development (OECD), *Climate Finance Provided and Mobilised by Developed Countries in 2013-18*, Paris, OECD Publishing, November 2020, https://doi.org/10.1787/f0773d55-en.

[5] Total climate finance mobilised by developed countries amounts to 78.9 billion US dollars, of which 62.2 billion represents public climate finance, 14.6 billion is private climate finance and 2.1 billion is climate-related officially supported export credits. Ibid., p. 6. See also Iolanda Fresnillo, "A Tale of Two Emergencies. The Interplay of Sovereign Debt and Climate Crises in the Global South", in *Eurodad Briefing Papers*, December 2020, https://www.eurodad.org/a_tale_of_two_emergencies_the_interplay_of_sovereign_debt_and_climate_crises_in_the_global_south.

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to consolidate this idea within creditor nations and beyond. In this perspective, climate finance, as well as debt relief, provided to developing countries should not be considered as charity or aid but as a just compensation for the wealthier nation's historical responsibility for climate change.

2. The relationship between the debt crisis, recovery measures and climate action

The Sub-Saharan African region is characterised both by high vulnerability to climate change and by rising debt levels. Public debt in the region has increased as a result of the pandemic, rising from 50.5 per cent of GDP in 2019 to 57.8 per cent in 2021.[6] In the African context, the debt burden is heavier than it appears due to a low tax base in most countries, thus a more eloquent figure is the debt service to revenue ratio.[7] This ratio in Sub-Saharan Africa increased from 22 per cent in pre-covid-19 projections to 32 per cent in late 2020 projections, and for oil-exporting countries it increased from 30 per cent to 76 per cent.[8] Moreover, it is significant to look at debt service payment compared to other key areas of government spending. In 2019, in the majority of Sub-Saharan African countries government external debt service was higher than health spending; for instance in Angola debt service as a percentage of GDP was 42.6 per cent and health spending 6.4 per cent.[9] To date, debt levels in Sub-Saharan Africa are largely considered unsustainable. According to the latest International Monetary Fund (IMF) Regional Economic Outlook, eleven Sub-Saharan African countries are currently facing high risk of debt distress and six are in debt distress.[10]

As a recent study from Eurodad has shown,[11] sovereign debt and the climate crisis have a feedback effect in the global South. On the one hand, climate vulnerability has a negative impact on debt sustainability as the physical and economic damages caused by climate change make it more difficult to repay existing debt, while further borrowing becomes necessary to finance reconstruction and recovery. Moreover, the cost of borrowing is higher in climate-vulnerable countries due to their increased risk of climate-related events. For instance, the research reports data showing that in the Vulnerable Twenty (V20) group of climate-vulnerable countries public interest rates are higher due to climate vulnerability, which

[6] International Monetary Fund (IMF) Datamapper: *Government Debt (% of GDP)*, https://www.imf.org/external/datamapper/GGXWDG_GDP@AFRREO/SSA/OEXP/OIMP.

[7] Debt service payments as a percentage of government revenues.

[8] IMF, *Regional Economic Outlook: Sub-Saharan Africa, October 2020. A Difficult Road to Recovery*, https://www.imf.org/en/Publications/REO/SSA/Issues/2020/10/22/regional-economic-outlook-sub-saharan-africa.

[9] Jubilee Debt Campaign, *Sixty-four Countries Spend More on Debt Payments Than Health*, 12 April 2020, https://jubileedebt.org.uk/?p=8127.

[10] IMF, *Regional Economic Outlook: Sub-Saharan Africa*, October 2020, cit.

[11] Iolanda Fresnillo, "A Tale of Two Emergencies", cit.

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resulted in above 40 billion US dollars in additional interest payments over the last ten years considering just government debt. On the other hand, as growing resources are devoted to debt repayment, the fiscal space to invest in climate mitigation and adaptation is reduced, increasing vulnerability to climate change. Furthermore, it is worth mentioning that countries facing unsustainable debt levels are likely to turn towards their natural resources to quickly increase exports and foreign currency revenues to repay debts (e.g., exploitation of forests and mineral resources), leading in many cases to environmental degradation and increased vulnerability to climate change.[12]

Due to this feedback effect, Sub-Saharan African countries are trapped in a vicious circle where indebtedness and climate vulnerabilities progressively reinforce each other. Breaking this circle is a priority to effectively support mitigation and adaptation action in Sub-Saharan Africa. More broadly, tackling the direct relationship between high debt levels and reduced capacity for climate action is a key element in the systemic change needed to step up climate action in the global South.

2.1 Debt creating climate finance

According to the latest OECD report, loans accounted for 74.4 per cent of total climate finance and 88 per cent of multilateral climate finance in 2018, while grants only accounted for 19.7 per cent of total climate finance. Overall, in the period 2013–2018, loans increased from 52.2 per cent to 74.4 per cent and grants decreased from 27.1 per cent to 19.7 per cent.[13] Data from Oxfam International also show that debt-creating instruments accounted for nearly 60 per cent of the climate finance received by least developed countries in 2017–2018.[14] Moreover, the OECD report also highlights that 76 per cent of multilateral loans dedicated to climate finance were non-concessional.[15]

Data clearly indicate a solid and increasing trend where climate finance to developing countries is provided through non-concessional and debt-creating instruments, with detrimental effects on debt sustainability. Therefore, the climate finance system currently contributes to the perpetuation of the debt–climate change vicious circle, that ultimately increases vulnerability to climate change in the global South.

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[12] Ibid.

[13] OECD, *Climate Finance Provided and Mobilised by Developed Countries in 2013-18*, cit.

[14] Tracy Carty, Jan Kowalzig and Bertram Zagema, *Climate Finance Shadow Report 2020*, Oxford, Oxfam International, October 2020, http://hdl.handle.net/10546/621066.

[15] In this case non-concessional multilateral loans still present favourable terms and conditions compared to the capital market and/or are provided for activities in which the private sector may be reluctant to participate. However, they differ from concessional loans where substantially more generous conditions are provided and that usually have long grace periods.

The G20 can have an important role in addressing this issue by promoting a systemic change in the current financing system for developing countries. It would be fundamental for the G20 to recognise the limits of the current policies and advocate for a prioritisation of grants over loans, highly concessional finance with high predictability to ensure a financially and climate-sustainable development path. This approach should be applied also to the financial support provided in response to the pandemic-led economic crisis in developing countries, also with the aim of preventing the covid-19 crisis from further exacerbating inequalities between the global North and the global South.

Moreover, the G20 should strongly support this approach in view of the representation asymmetry within the group. Decisions on global economic and financial governance made by the G20 have a direct impact on African countries, nevertheless African representation within the group is very limited (South Africa – a very unique country in the region – is the only full member and the African Union participates as observer). Overcoming a system based on debt-creating finance is a priority to ensure sustainable development and strengthened climate action in Africa, thus by supporting this goal the G20 would work towards meeting one of the most pressing matters for the continent despite its underrepresentation.

2.2 The Debt Service Suspension Initiative and a permanent mechanism for debt crisis resolution

In April 2020 the G20 announced the Debt Service Suspension Initiative (DSSI) which provides a suspension of debt payments by the poorest developing countries to bilateral creditors. It establishes that payments are not forgiven but delayed with a repayment period of five years and a one-year grace period. The DSSI is a necessary and important first measure to face the debt distress unveiled and exacerbated by the covid-19 pandemic in developing countries, but further and more ambitious action needs to be taken.

Three main shortcomings of the G20 DSSI are the lack of participation by multilateral institutions and private creditors, the limiting eligibility criteria and the limited temporal extension.

In April 2021, the G20 announced a final extension of the initiative to December 2021, which however did not include broader participation of creditors or beneficiary countries. So far, only 46 out of the 73 eligible countries have applied to the DSSI, mainly due to a widespread fear of a negative impact on ratings and future access to financial markets. In addition to this shortcoming, the eligibility criteria[16] exclude three of the poorest Sub-Saharan African countries, Eritrea, Zimbabwe and Sudan, due to ongoing arrears with the IMF and World Bank, as well as middle-income countries, which include five Sub-Saharan African countries

[16] International Development Association (IDA) borrowing countries and least-developed countries (LDC) are eligible for the DSSI.

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(Namibia, Botswana, South Africa, Gabon and Equatorial Guinea).

As mentioned, Multilateral Development Banks (MDBs) and private creditors are not included in the initiative, even though their participation has been encouraged. This could lead to a situation where the resources made available by the suspension of bilateral debt will be used to pay private and multilateral creditors, rather than addressing the pressing needs fuelled by the pandemic-led crisis. Considering the debt payments to be made by DSSI-eligible countries to all creditors (including multilateral and private), only 16.8 per cent of debt was suspended by the G20 initiative in the original period May–December 2020.[17]

Moreover, if we consider all debt payments due by all developing countries in 2020, the debt payments suspended by the DSSI represent only 1.6 per cent of the total.[18] This suggests that the G20 DSSI (despite its recent extension) is not an adequate instrument to respond to the pandemic-led economic and debt crisis in the global South that could likely evolve into a wave of defaults. The G20 is the forum where a global effort can be designed in order to avoid the prospect of severe financial constraints significantly limiting developing countries' ability to invest in climate mitigation and resilience, resulting necessarily in failing to meet essential climate and development goals.

In November 2020, the G20 launched the "Common Framework for Debt Treatments beyond the DSSI". The Common Framework is an agreement of G20 and Paris Club countries to coordinate and cooperate on debt treatments on a case-by-case basis for the DSSI-eligible countries, going beyond the simple deferral of debt payments available under the DSSI.

Even though this is a step in the right direction, the G20 response could result in a failure due to some significant shortcomings of this instrument. Firstly, the Common Framework still lacks a sound mechanism for the participation of private creditors.

Secondly, the new Framework fails to address coordination among creditors, in particular between the Paris Club and others, namely China. In addition, non-transparency of public debt information does not make it possible to obtain a comprehensive overview of creditor composition, with particular risk of obscuring information from China and the private sector, which can lead to an unequal distribution of losses among creditors and create a further disincentive for transparency. Furthermore, case-by-case negotiations, as opposed to transparent and standardised treatments, will pave the way for opaque and ineffective

[17] Iolanda Fresnillo, "The G20 Debt Service Suspension Initiative. Draining Out the Titanic with a Bucket?", in *Eurodad Briefing Papers*, October 2020, https://www.eurodad.org/g20_dssi_shadow_report.

[18] Ibid.

arrangements favouring creditors.[19]

Thirdly, a major shortcoming is the lack of commitment from debtor and creditor countries to align the freed-up fiscal space with global climate and development goals.[20] The G20 should take bold action to address the current unprecedented crisis in the global South, aiming at providing debt relief for countries that need it and ensuring that these resources are directed towards sustainable development and a green recovery. This will require moving beyond the limited scope of both the DSSI and the new Common Framework.

The G20 should work with international financial institutions to create a new permanent multilateral sovereign debt workout mechanism, promoting a systematic and timely system for debt crisis resolution. This mechanism should prioritise long-term financing needs to pursue SDGs, climate action and human rights over debt service, and it should adopt an approach to ensure orderly, fair, transparent and durable debt restructuring and cancellation, in a process including all creditors.[21]

2.3 Special Drawing Rights and their potential role to support climate action in the global South

Since the beginning of the pandemic, another measure has been discussed to address the liquidity crunch experienced by developing countries: a new and large issuance of IMF Special Drawing Rights (SDR).[22]

In April 2021, the G20 called on the IMF to make a proposal for a new Special Drawing Rights general allocation of 650 billion US dollars. An issuance of 650 billion US dollars SDR could immediately deliver approximatively 21 billion US dollars to low-income countries.[23] However, there are several issues associated with an SDR allocation.

First of all, wealthier countries would still be the largest recipients of SDRs as they are allocated according to countries' IMF quotas. For example, with a 650 billion US

[19] Daniel Munevar, "The G20 'Common Framework for Debt Treatments beyond the DSSI': Is It Bound to Fail? (II)", in *Eurodad Blog*, 28 October 2020, https://www.eurodad.org/the_g20_common_framework_for_debt_treatments_beyond_the_dssi_is_it_bound_to_fail_2.

[20] Ulrich Volz et al., *Debt Relief for a Green and Inclusive Recovery. A Proposal*, Berlin/London/Boston, Heinrich-Böll-Stiftung, SOAS, University of London and Boston University, November 2020, https://drgr.org/?p=383.

[21] Iolanda Fresnillo, "The G20 Debt Service Suspension Initiative. Draining Out the Titanic with a Bucket?", cit.

[22] SDRs are supplementary foreign exchange reserve assets defined and maintained by the International Monetary Fund. They represent a claim to currency held by IMF member countries, for which they may be exchanged.

[23] US Department of the Treasury, *How an Allocation of International Monetary Fund Special Drawing Rights Will Support Low-Income Countries, the Global Economy, and the United States*, 1 April 2021, https://home.treasury.gov/news/press-releases/jy0095.

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dollars SDR allocation the United States would receive approximately 113 billion US dollars.[24] In addition, liquidity provided by SDR is unconditional and does not entail any commitment to pursue a green recovery. A situation that should be avoided is a debt-creating use of the post-allocation mechanism which allows SDR holders to sell, lend or donate SDR. This could lead to wealthier countries reallocating SDR to developing countries in the form of loans, creating more indebtedness.

However, even if the reallocation happens in the form of grants and the charges on the SDR are paid by the developed country, this mechanism remains problematic as it is unclear how it can establish a secure link with financing climate action. A sounder approach would entail placing part of developed countries' allocation in a dedicated Climate Action Trust Fund or agreeing on a second SDR issuance where rich countries' allocation will be transferred to the Trust Fund. The funding could be allocated by the Trust Fund administrators to mitigation and adaptation projects in the global South, or it could be given to governments, restricting spending to climate-related activities. The creation of this arrangement is legally possible, but it would be a new use of Special Drawing Rights which would require careful design.[25] Nevertheless, it could be an effective way to link SDR to climate action, as it would be possible to count these resources as climate finance provided by wealthier economies to developing countries.

2.4 Debt-for-climate swaps

Over the past months, debt-for-climate swaps have received growing attention as an instrument that could address both debt relief and the climate crisis. For instance, in November 2020 the UN Secretary-General António Guterres included debt swaps in his letter to the G20 leaders saying that they "can be used to transform public debt into sustainable investments".[26]

The core idea of debt-for-climate swaps is to provide debt relief in exchange for climate action. However, there are several challenges associated with this innovative finance instrument, particularly for its implementation in Sub-Saharan Africa.

From past experiences in using debt-for-nature and debt-for-development swaps, it seems that these instruments do not play a significant role in reducing debt burdens as they usually involve a small amount of debt relief.[27] Nevertheless, by exchanging debt payments for investments in climate activities, they can impact a country's capacity to work towards climate goals. In the context of the present crisis, debt-for-climate swaps should be used by countries that are not in a

[24] Ibid.

[25] Ibid.

[26] UN Secretary-General, *Note to Correspondents: UN Secretary-General's Letter to G20 Leaders*, 17 November 2020, https://www.un.org/sg/en/node/253998.

[27] Iolanda Fresnillo, "A Tale of Two Emergencies", cit.

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situation of heavy indebtedness but that are experiencing reduced fiscal space as a consequence of the pandemic.[28] Their lengthy negotiations make them inadequate to provide a rapid response for countries facing severe debt distress, such as many countries in Sub-Saharan Africa.[29]

A second aspect that should be addressed is participation on the creditors' side. The implementation of most swap arrangements would require the support and engagement of China, as largest holder of developing counties' debt. Including private holders of sovereign debt in the swaps is also challenging, but an expected significant growth of the voluntary carbon offsets market could provide an important incentive for the private sector to participate.[30]

A third aspect that raises concern on debt swaps is the additionality, meaning that the financing provided by the creditor should be additional and not a substitute for other climate finance commitments. Moreover, when the loans converted into swaps already qualify as Official Development Assistance (ODA), in order to avoid double counting of the creditors' ODA, "only the redirection of the interest component and not the principal can be recorded as new ODA".[31]

Finally, previous debt swap experiences have shown a risk of lack of country ownership, in a situation where the needs of the debtor country are overlooked in favour of the interest of the creditor.[32]

The G20 should support debt-for-climate instruments in alignment with the proposal recently developed by the Global Development Policy Center, which identifies swaps as a key instrument for a green recovery but limits their scope to countries that are not heavily indebted, envisages their use by creditors on a voluntary basis and establishes the involvement of an independent third party to oversee the implementation of the government's obligations and measure the instrument's impact.[33]

[28] Ulrich Volz et al., *Debt Relief for a Green and Inclusive Recovery*, cit.

[29] Iolanda Fresnillo, "A Tale of Two Emergencies", cit.

[30] Vikram Widge, "Debt-for-Climate Swaps: Are They Really a Good Idea, and What Are the Challenges?", in *Climate Policy Initiative Blog*, 6 January 2021, https://www.climatepolicyinitiative.org/?p=34223.

[31] To avoid double counting, only the interest component of the loan can be accounted as additional ODA devoted to climate action thanks to the swap, while the principal of the loan which was already recorded as ODA should not be counted again. See Paul Steele and Sejal Patel, "Tackling the Triple Crisis. Using Debt Swaps to Address Debt, Climate and Nature Loss Post-COVID-19", in *IIED Issue Papers*, September 2020, https://pubs.iied.org/16674iied.

[32] Iolanda Fresnillo, "A Tale of Two Emergencies", cit.

[33] Ulrich Volz et al., *Debt Relief for a Green and Inclusive Recovery*, cit.

3. Establishing inclusive processes to strengthen African participation

The limited representation of African countries in the G20 has raised concerns about the legitimacy of the forum, in particular regarding discussions of development issues primarily affecting Africa.[34] The pandemic-led economic crisis has further increased the impact of G20 decisions on African countries, thus making the issue of representation and inclusion a pressing one.

The Italian Presidency should prioritise the enhancement of African inclusion in the G20 through increased outreach, as a reformed membership is unlikely in the short term. In this regard, several proposals have been advanced over the years, which include enhanced roles for the AU Commission, the African Development Bank and the UN Commission for Africa, as well as for the Think20 Africa Standing Group (a group launched in 2017 including more than 30 think thanks from Africa and G20 countries to provide policy advice on African matters).[35]

Moreover, the Italian Presidency could work towards creating synergies between the G20 internal processes in order to strengthen the focus on the 2030 Agenda and on matters relevant for Africa – for example, creating deeper synergies between the Development Working Group and the Finance Track on decisions related to debt relief and resources allocation to achieve the SDGs. The recent Italian Presidency decision to re-establish the Sustainable Finance Study Group within the G20 Finance Track and elevate it to a working group, aiming at aligning the financial system with the objectives of the SDGs and the Paris Agreement, is a step in the right direction.[36]

The African participation in the Civil 20 engagement group (a group channelling the voice of civil society around the world into the G20 process focusing on climate, sustainable development and human rights) could also be enhanced in order to open new opportunities for bottom-up participation from one of the most vulnerable regions in the world. Interestingly, the C20 Finance Working Group has recently called for stronger commitment on debt cancellation for impoverished countries.[37]

To foster participation of African countries, the Italian G20 Presidency should build upon the "Comprehensive Strategy with Africa" proposed by the European

[34] Chloe Teevan et al., *A New Multilateralism for the Post-COVID World: What Role for the EU-Africa Partnership?*, European Think-Tanks Group (ETTG), April 2021, https://wp.me/p9qfAP-Wn.

[35] Ibid.

[36] G20, *G20 Sustainable Finance Working Group*, 16 April 2021, https://www.g20.org/g20-sustainable-finance-working-group.html.

[37] Civil 20 (C20), *C20 Finance Working Group's Communiqué on the Second G20 Finance Ministers and Central Bank Governors Meeting*, 27 April 2021, https://civil-20.org/?p=388.

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Commission in March 2020.[38] At the core of the Strategy is the idea of building a partnership among equals based on shared interests, among which the green transition is identified as a critical one. An inclusive approach based on common interests and goals with Africa, moving away from focusing on fault lines dividing wealthier creditor nations and developing countries in two opposed blocs, is a key aspect to ensure successful G20 negotiations. In particular, on climate-related issues there is potential for broad convergence between Africa and international partners. Overall, African countries have shown strong commitment to fight climate change; for instance, "environmentally sustainable and climate resilient economies and communities" is an important goal in the African Union's Agenda 2063 and 90 per cent of African countries have ratified ambitious nationally determined contributions (NDCs), while an increasing number are adopting policies to scale up renewables.[39]

As argued throughout this study, debt relief is a crucial aspect for the G20 with important implications for Africa. The Italian Presidency should focus on establishing an inclusive process in particular for debt relief negotiations, to secure the ambitious reforms needed to tackle the debt crisis in the global South.

The G20 should convene a meeting between debtor and creditor countries before decisive G20 meetings, in order to allow for discussion between the parties and overcome any divide that could undermine an agreement on key points.[40] On the creditors' side, the involvement of private investors and China would be essential. The Italian Presidency should focus on liaising with these key actors in order to have them on board in debt negotiations. The presence of representatives bringing forward the position and interests of developing and climate-vulnerable countries would also be essential. For instance, they could include the V20 Ministers of Finance of the Climate Vulnerable Forum, which includes several Sub-Saharan African countries. The process should be open and transparent, including also NGOs and local authorities. This would promote a new way to operate, moving away from debt-related deals which do not involve the representatives from the very societies that actually endure the interlinked effects of the debt and climate crises.

Overall, the G20 should aim at overcoming the present situation where communities that are the most exposed to the effects of climate change and the least responsible for it enjoy limited representation in the most influential international fora. A recent study has highlighted that Europe-Africa cooperation on climate issues has been very effective at the local level, especially with city-to-city cooperation, for

[38] European Commission, *Towards a Comprehensive Strategy with Africa* (JOIN/2020/4), 9 March 2020, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52020JC0004.

[39] IRENA, *Scaling Up Renewable Energy Deployment in Africa*, January 2019, https://www.irena.org/-/media/Files/IRENA/Agency/Regional-Group/Africa/IRENA_Africa_impact_2019.pdf.

[40] The most relevant meetings will take place in July (9–10 July 3rd Finance Ministers and Central Bank Governors Meeting; 23 July Climate and Energy Joint Ministerial Session) and October (15–16 October 4th Finance Ministers and Central Bank Governors Meeting).

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example through networks such as ICLEI (Local Governments for Sustainability) and C40.[41] Building upon this success and given the importance of local actors in climate matters, to increase African inclusion the G20 should not engage exclusively with central governments but also foster engagement with the local level, including both cities and communities from the rural areas.

Finally, it is important to mention that strengthening the inclusion of Africa (and other underrepresented developing regions) during the G20 can be critical for the success of COP26 negotiations. Some key items on the COP26 agenda, namely financing for adaptation and loss and damage, are very divisive issues where wealthier nations and developing countries tend to be on opposing sides. Therefore, establishing an inclusive dialogue between the parties in the months prior to COP26 can allow for more time to build an agreement on these thorny financial issues and address more comprehensively the interlinkages between the necessary reforms in the global finance system to boost climate action in the global South.

4. Adaptation: Closing the financing gap and promoting a systemic change

4.1 Closing the gap starting from post-pandemic recovery packages

One of the most pressing issues that will be discussed in Glasgow is climate adaptation financing. High climate vulnerability is a major threat for Sub-Saharan Africa. Since 2000, natural disasters, changing rain patterns and extreme temperatures are responsible annually for at least 1,000 deaths, 13 million people seriously affected (injured, displaced, lacking food, water and sanitation) and 520 million US dollars in direct economic damages.[42] Therefore, enhancing adaptive capacity of Sub-Saharan African countries and make communities more resilient to climate change should be a core priority for climate finance provided to the region.

Adaptation is a recognised as a priority by the Paris Agreement, although this does not seem to be backed by concrete action and sufficient funds. In its most recent report on climate finance, the OECD has estimated that in 2018 only 21 per cent of climate finance mobilised by developed countries went to adaptation activities, amounting to 16.8 billion US dollars,[43] while the 2020 UN Environmental Program Adaptation Gap Report estimated annual adaptation costs in developing countries

[41] Christine Hackenesch et al., *Green Transitions in Africa–Europe Relations: What Role for the European Green Deal?*, European Think Thank Group (ETTG), April 2021, https://wp.me/p9qfAP-Xk.

[42] IMF, *Regional Economic Outlook: Sub-Saharan Africa, April 2020. COVID-19: An Unprecedented Threat to Development*, https://www.imf.org/en/Publications/REO/SSA/Issues/2020/04/01/sreo0420.

[43] OECD, *Climate Finance Provided and Mobilised by Developed Countries in 2013-18*, cit.

at 70 billion US dollars. This figure is expected to reach 140–300 billion US dollars in 2030 and 280–500 billion in 2050.[44] For Sub-Saharan Africa alone, the 2020 IMF Regional Economic Outlook has estimated adaptation costs at 30–50 billion US dollars annually until 2030 (2–3 per cent of the regional GDP).

To secure an increase in adaptation financing is thus a high priority and the G20 and COP26 are two key fora where important steps forward can be taken.

To provide further support for an increase in adaptation financing, it should also be highlighted that the economic case for investing in adaptation is strong. A recent study by the Global Center on Adaptation has calculated that the benefit-cost ratio ranges from 2:1 to 10:1 and investing 1.8 trillion US dollars globally in adaptation from 2020 to 2030 could generate 7.8 trillion in total net benefits.[45]

Many hoped and expected that the unprecedented windfall of post-pandemic resources would have been invested in green measures and in particular in measures to increase adaptation to climate change in the most vulnerable regions.[46] On the contrary, there is a rising concern that adaptation will lose ground compared to mitigation in the post-pandemic context and in particular in recovery plans.

According to the latest data from the Energy Policy Tracker, G20 countries have invested at least 295 billion US dollars in support of fossil fuels through their recovery packages, out of which only 49 billion is conditional, that is with climate targets or additional pollution reduction requirements.[47] The same database shows that since the beginning of the pandemic G20 governments have invested 230 billion US dollars in measures that support clean energy. However, 80 per cent of these measures are classified as conditional, which means that they are stated to support the transition away from fossil fuels, but are unspecific about the implementation of appropriate environmental safeguards (e.g., electric public transport without indications about the electricity source). In this scenario, where green measures are still less than those supporting fossil fuels, climate adaptation measures are a very small or non-existent portion. An April 2021 OECD report supports this statement, showing that, within recovery policies in 43 countries, measures that positively impact climate adaptation account for 2.5 per cent, while

[44] UN Environment Programme (UNEP), *Adaptation Gap Report 2020*, Nairobi, UNEP, January 2021, https://www.unep.org/node/28727. Data based on a UNEP assessment of national- and sector-based studies. The wide ranges are explained by a number of factors that influence the size of adaptation cost estimates. These include the coverage of sectors and risks; objectives and quantification methods; time-scales and future greenhouse-gas emission pathways; learning processes, innovation, scale; and the private sector role. See: UNEP, *The Adaptation Finance Gap Report*, Nairobi, UNEP, 2016, https://wedocs.unep.org/handle/20.500.11822/32865.

[45] Global Commission on Adaptation, *Adapt Now: A Global Call for Leadership on Climate Resilience*, 13 September 2019, https://gca.org/?p=333.

[46] Patrick Verkooijen and Ban Ki-moon, "Opinion: We Must Close the Funding Gap for Climate Adaptation", in *Thomson Reuters Foundation News*, 11 December 2020, https://news.trust.org/item/20201211081735-qeikc.

[47] Energy Policy Tracker, *G20 Countries*, https://www.energypolicytracker.org/region/g20.

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measures positively impacting climate mitigation account for 46 per cent.[48]

The G20 should close the funding gap for adaptation starting from making resilience the central focus of recovery packages. Building consensus around increased focus on adaptation would also be the most coherent approach in the post-pandemic era, when we learned the importance of being prepared for global shocks. Making the need to build a climate-resilient future a priority for the G20 will also give the opportunity to initiate discussions on adaptation financing ahead of COP26. This will make it possible to address disagreement within the G20 group and establish early on a dialogue on this divisive issue with developing countries, increasing the chances of reaching a satisfactory agreement during COP26 negotiations. The crucial step for Sub-Saharan African countries would be to establish a dialogue between the G20 and the African Group of Negotiators on adaptation financing.

4.2 Towards a better integration of climate risk in the financing system

The G20 should have as a key priority to promote a systemic change in fiscal and financial systems to better integrate climate risk. This transformation will require fundamental steps such as the mainstreaming of climate risk into governments' planning and budgeting processes and an overall shift in how investment decisions are made to account for climate risks.

In January 2021, the Climate Adaptation Summit discussed in an inclusive and participatory process how to accelerate adaptation action during the coming decade. Several new adaptation finance instruments were presented. These included the Adaptation Finance Mainstreaming Program launched by the Global Commission on Adaptation to support developing countries to build capacity to manage climate risk, and the private-sector-led Coalition for Climate Resilient Investment committed to advancing solutions for a practical integration of climate risks in investment decision-making.[49] The Climate Adaptation Summit created momentum to transform the way actors in the financial system perceive adaptation and resilience, and served as a stepping stone to raise ambition on adaptation finance commitments across the world. The G20 and COP26 should build upon the important outcomes achieved during the Summit, both in terms of climate diplomacy and new instruments launched.

The IMF has a fundamental role in the systemic change needed to better manage climate risk, with particularly relevant implications for developing countries. As recent studies have argued, a key reform that should be undertaken by the IMF is

[48] OECD, *The OECD Green Recovery Database: Examining the Environmental Implications of COVID-19 Recovery Policies*, 19 April 2021, https://www.oecd.org/coronavirus/policy-responses/the-oecd-green-recovery-database-47ae0f0d.

[49] Climate Adaptation Summit (CAS), *CAS 2021 Outcomes and Results*, https://www.cas2021.com/outcomes.

the inclusion of climate risks and vulnerabilities in the Debt Sustainability Analysis (DSA).[50]

To date, the DSA has not addressed climate vulnerabilities appropriately, with severe implications for vulnerable countries. An example is the case of Mozambique that in 2019 was hit by the cyclones Idai and Kenneth. The cyclones caused 873 million US dollars worth of damage and killed over 1,000 people but Mozambique, already in a situation of debt distress, did not qualify for the IMF emergency debt relief as those climate vulnerabilities were not considered in the DSA of the country.[51] An open review of DSA should be encouraged in order to move towards a concept of debt sustainability that includes at its core climate vulnerabilities but also human rights and other social, gender and development evaluations.[52]

Moreover, within the Comprehensive Surveillance Review[53] that the IMF is currently undertaking, priority should be given to how climate adaptation and resilience is embedded in the surveillance mechanism. The aim should be to shift from the current perspective where resilience is perceived only as a cost to one where it is considered as an investment. As resilience becomes a factor able to promote more investments, it could reduce the cost of capital for developing countries and make debt sustainable in the long term.

The G20 should support this approach and promote reforms within the IMF, for example by creating a dedicated working group that could design a tool to better account for climate vulnerability, which could be used by the IMF and inform credit rating agencies. In addition, as the main multilateral development banks (MDBs) shareholders are represented in the G20, this forum is an opportunity to reflect on the quality of their financing and promote a more effective support to vulnerable countries by placing climate resilience at the core of their operations.

4.3 Adaptation vs. development: A false dichotomy

Beyond the need to increase financing for adaptation, a key shift should be undertaken in the way the interaction between climate adaptation and development is understood. As argued by the World Research Institute, we need to overcome the false dichotomy between climate adaptation and development.[54] In recent

[50] A formal IMF framework for conducting public and external debt sustainability analyses, in order to better detect, prevent, and resolve potential crises.

[51] Iolanda Fresnillo, "A Tale of Two Emergencies", cit.

[52] Ibid.

[53] IMF surveillance is the process through which the IMF oversees the international monetary system and global economic developments and monitors the economic and financial policies of its member countries. The IMF periodically reviews its surveillance activities to better adapt to changes in the global economy. The ongoing review is considering how to adapt surveillance for the global landscape of 2021–30.

[54] Christina Chan and Niranjali Amerasinghe, "Deploying Adaptation Finance for Maximum Impact", in *WRI Commentaries*, September 2018, https://www.wri.org/node/100123.

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years, multilateral and bilateral funders for the global South have tried to draw a clear line to distinguish adaptation and development projects. However, this can be counterproductive, unrealistic and costly.[55] A 2020 Green Climate Fund (GCF) report has found that the total investment for implementing the SDGs and the Paris Agreement could be reduced by 40 per cent by a high level of integration of climate and development policies.[56] In order to effectively support climate adaptation in vulnerable regions such as Sub-Saharan Africa, multilateral and bilateral funders should focus through specialised funds on building national capacity to integrate climate in all development activities and on supporting governments in designing and scaling programmes with a strong climate rationale. This will mean spending scarce adaptation resources more effectively and avoiding investing in maladaptation.[57]

Sub-Saharan African countries also need increased targeted support to formulate their National Adaptation Plans (NAPs) to identify and address adaptation priorities, as currently only six African countries have submitted their NAPs. In line with the idea of overcoming the adaptation vs. development dichotomy, the UN Development Programme highlights the importance of aligning NAPs with other frameworks, namely Nationally Determined Contributions and SDGs.[58] Both the G20, especially through promoting change at the MDB level, and COP26 should work towards securing increased financing to support the mainstreaming of climate resilience in all development projects.

4.4 Addressing loss and damage

An increased focus on climate adaptation in the context of COP26 negotiations should not go to the detriment of loss and damage. The Paris Agreement distinguishes clearly between financing for loss and damage and financing for adaptation. These are two distinct topics, as the former refers to providing reparation and reconstruction for losses and damages that have already occurred and the latter to building resilience to future climate impacts.

Developing regions exposed to the most severe effects of climate change, such as Sub-Saharan Africa, demand a mechanism to mobilise new and additional financing for loss and damage, which has been resisted by rich nations. During

[55] Adopting a silo approach to development projects and adaptation projects artificially separates the two areas and increases the risk of development projects that do not take into account climate adaptation, that reflect an inefficient allocation of resources and that are likely to lead to future costs caused by the maladaptive strategies adopted.

[56] Green Climate Fund, "Tipping or Turning Point: Scaling Up Climate Finance in the Era of COVID-19", in *Green Climate Fund Working Papers*, No. 3 (October 2020), https://www.greenclimate.fund/node/11402.

[57] Defined in 2001 by the Intergovernmental Panel on Climate Change (IPCC) as an adaptation that does not succeed in reducing vulnerability but increases it instead.

[58] UN Development Programme (UNDP), *Raising Adaptation Action Through Aligning NAPs and NDCs in African LDCs*, December 2020, https://www.adaptation-undp.org/node/6534.

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COP25, negotiations on setting clear targets on finance for loss and damage were blocked by richer nations, mainly the US, Australia and Japan. COP26 negotiations can be critical to finally find an agreement on mobilising financing to address loss and damage in the global South, which according to the UN will amount to 300 billion US dollars by 2030 and will reach a staggering 1.2 trillion per year by 2060.[59]

The role of the G20 is very important in this context. It should build consensus on a clear narrative on loss and damage among its member countries and especially developed wealthier nations. This can be achieved through an open dialogue with countries hard hit by climate disasters to promote a better understanding of the issue and the associated needs. Furthermore, the G20 could liaise with the recently established "Expert Group on Action and Support" under the Executive Committee of the Warsaw International Mechanism for Loss and Damage to define mutually reinforcing actions. Finally, to move forward on the impasse on loss and damage negotiations the G20 should strongly support the principle of "common but differentiated responsibilities" of the Paris Agreement Article 2, which provides the basis to mobilise additional financing resources for developing countries.

As highlighted by Eurodad, the absence of an international mechanism to enforce providing financial support for losses and damages caused by climate change in the global South has led affected countries to engage in lengthy processes to request emergency finance. This is often provided as loans, thus activating the vicious circle between indebtedness and climate vulnerability described in previous sections, and leading to a situation of "donor fatigue" when catastrophic climate events are too frequent.[60]

Several market-based mechanisms have been used to address loss and damage, namely risk insurance, hurricane clauses and catastrophe bonds, but they present several shortcomings and do not provide an adequate response to the consequences of a natural disaster. For instance, pay-outs of risk insurance are based on the severity of the natural event and not on a thorough calculation of the human, material, immaterial and long-term losses caused, resulting in the mobilisation of insufficient resources, while hurricane clauses lead to an increase in the cost of borrowing.[61] The current solutions are not effective and essentially put the cost of loss and damage upon the communities that suffer the impacts of climate change but did not cause it, therefore wealthier countries need to stop undermining negotiations on loss and damage and set ambitious commitments to address this issue.

[59] Iolanda Fresnillo, "A Tale of Two Emergencies", cit.

[60] Ibid. In this case, donor fatigue refers to a phenomenon where donors reduce or interrupt their support with each passing crisis due to the increased frequency. The lack of structural solutions leads to a situation where emergency assistance becomes the norm and donors tend to become less sensitive to the cause.

[61] Iolanda Fresnillo, "A Tale of Two Emergencies", cit.

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Conclusions

There are several shortcomings in the current development and climate financing systems flowing to developing countries, that represent major obstacles for strengthening climate action in Sub-Saharan Africa and beyond. The international community should undertake bold systemic reforms within the international financial architecture that provides financial support to the global South, focusing on increasing debt sustainability and resilience to climate change.

The current system largely overlooks the interlinkages between high debt levels and climate vulnerability in Sub-Saharan Africa and other developing regions. Debt-creating instruments dominate climate finance flows, perpetuating a vicious circle where climate vulnerability and debt distress progressively reinforce each other. The existing post-pandemic recovery instruments, such as the G20 DSSI and new Common Framework, feed into this negative circle and are not sufficient to tackle the interrelated debt, climate and health crises and secure a green recovery in Sub-Saharan Africa.

To address this issue the G20 should advocate for prioritisation of grants over loans and highly concessional finance with high predictability, as well as building consensus for the creation of a new permanent multilateral sovereign debt workout mechanism aiming at timely and sufficient debt relief. Furthermore, the international community should urgently address the lack of focus on adaptation and the existing adaptation financing gap, which represents a major threat to Sub-Saharan African countries. This can be addressed by increasing climate adaptation financing and by undertaking a systemic shift, initiated and supported by G20 countries, to better integrate climate risk in decision-making and to place long-term climate resilience at the core of the international financing system.

The post-pandemic context and the goal to pursue a global green recovery provide an unprecedented opportunity to rediscuss and reshape the international financing system in order to strengthen climate action in Sub-Saharan Africa. The G20 and COP26 are key venues to build consensus on critical priorities and to undertake the necessary reforms. A transparent and inclusive dialogue should be established as early as possible in the G20 negotiations with African countries, in order to identify common shared solutions that adequately address the specific and pressing needs of the region.

Through enhanced African engagement the G20, in addition to increasing its legitimacy on decisions with a direct impact on Africa, can represent an important preparatory venue to secure successful negotiations on the most divisive issues at COP26, namely financing for adaptation and loss and damage. The Italian G20 Presidency and co-chairmanship of COP26 with the UK, in parallel holding the G7 chairmanship, are an important opportunity to ensure continuity and align priorities in the different fora to effectively pursue the objective of stepping up climate action and securing a green recovery in Sub-Saharan Africa.

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