The Summit for a New Global Financing Pact

Why in news?

The Summit for a 'New Global Financing Pact' was held in Paris, France to discuss the repercussions of the climate, energy, health and economic crises, particularly in the most vulnerable countries and its finanacing.

What is the Pact Summit about?

- **Genesis -** The Summit for a New Global Financing Pact was announced at the 27th Conference of Parties (COP27) to the United Nations Framework Convention on Climate Change (UNFCCC).
- The Summit for a New Global Financing Pact is also known as '***Pact Summit***' in short.
- The summit was spearheaded by the French President Emmanuel Macron highlighting the need for a new financial pact with the most vulnerable countries.
- The summit was precipitated as a follow-up to the Bridgetown Initiative tabled by Barbados.
- **Pact Summit -** It is an attempt to collectively rethink the global financial architecture of international solidarity and climate action by proposing concrete solutions to create a fairer, more effective and more responsive global financial system.

> ***Bridgetown Initiative*** *- A package of proposals to get more money flowing from developed to developing countries for climate and development.*

What is the need for such summit?

- Poor and vulnerable countries battle '*a cocktail of interconnected crises*' such as poverty, debt, inflation triggered due to the Russia-Ukraine conflict, and increasing climate impacts.
- Countries of Global South are in a debt crisis.
- Developing countries are facing pressure to decarbonise their economies without adequate climate finance flowing in.
- African countries are facing an unprecedented funding squeeze.

> *A third of developing countries and two thirds of low-income countries face high risks of excessive debt.*

What happened at the Summit?

- Several leaders from the developing world, as well as European nations attended the

Summit.

- The Summit took on the monumental task of addressing the lack of money flowing to poor and vulnerable countries.
- **Working Groups -** The Summit convened 4 Working Groups on the following topics prior to the summit:
    1. Ensuring more fiscal space for the most-affected countries.
    2. Financing the private sector in low-income economies.
    3. Increasing investment in green infrastructures in emerging and developing markets.
    4. Developing innovative solutions to provide additional resources in support of countries vulnerable to climate change.
- Some announcements were unveiled at the summit to address the trust erosion issue between the Global North and South.

What was announced at the summit?

- **Multilateral Development Banks (MDBs)** - A contentious MDB Vision Statement document did not get full consensus.
- An additional lending capacity of $200 billion would be unlocked by MDBs for emerging economies.
- **World Bank -** It announced ***disaster clauses*** for debt deals to suspend debt payment in the case of extreme weather events as advocated by Bridgetown Agenda.
- It also unveiled a '***Private Sector Investment Lab***' with the aim to develop and rapidly scale solutions that address the barriers in private sector investments.
- **Special Drawing Rights -** The ***'recycling'*** of SDRs from rich countries to poor countries or MDBs, has been proposed as means to expand the amount of concessional finance to developing countries.
- **A new JETP -** A new 2.5 billion Euro JETP deal was announced for Senegal, with a consortium of countries comprising of Germany, France, Canada, the EU and the U.K.
- It aims to increase the share of renewable energy in installed capacity to 40% of Senegal's electricity mix by 2030.
- **Polluter taxes -** Many groups supported a tax on shipping emissions accelerating the momentum on polluter taxes.
- **Carbon markets -** The EU unveiled a call to action on '***Paris Aligned Carbon Markets***' with
- It has the goal of covering at least 60% of global emissions with carbon pricing mechanisms (4% now) and allocating a proportion of the revenues to climate finance.

What are the challenges ahead?

- **Proven solutions -** European leaders to pitched Carbon pricing as a serious suggestion, which is one of the tool in a package of many.
- Developed countries should acknowledge the urgency and scale of financial need and come up with scalable solutions.
- **Responsibility -** There is also a fundamental refusal to own who should be responsible between developed country governments and multilateral institutions.
- **MDBs -** Developed countries focused on MDB reform which will increase the pressure

on MDBs' resources manifold.
- Developed countries want to squeeze more out of existing MDB resources while simultaneously adding on climate as a part of their mandate.
- **Private capital -** The Global North showed an overwhelming emphasis on derisking private capital, shifting the onus of finance to the private sector.
- The private sector money even though can be unlocked, cannot replace long-term development money.
- **Debt -** Debt cancellation, concessional financing and grants, polluter taxes and the consideration that poverty eradication efforts cannot be side lined for climate goals

References

1. DTE - What is the Summit for a New Global Financing Pact about?
2. DTE - Key takeaways from the Summit for a New Global Financing Pact

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