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“Towards a Better Future: Visions of Justice, Equality, and Politics”

Conference Proceedings

Faculty of Law - Kicevo, University “St. Kliment Ohridski” - Bitola  
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## PREFACE

*As Dean of the Faculty of Law at “St. Kliment Ohridski” University in Bitola, I must emphasize that it is a special honor and pleasure that come to the realization of the fifth international scientific conference “Towards a Better Future: Visions of Justice, Equality, and Politics”, as an opportunity for our affirmation in the international arena, for establishing contacts with our colleagues from home and abroad, contacts with various higher education and research institutions, as well as making a profound contribution to the scientific thought both in the Republic of North Macedonia and on a broader context, especially in the time of the post-Covid-19 pandemic, the war in Ukraine, global economic crisis and stagflation, and so on.*

*This is also reflected by the high interest of home and foreign authors and participants who applied for our Conference, as evidenced by the submitted articles. The inspiration for the main topic for our Conference arose from the need to define and understand the visions of justice, equality, and politics from a multidisciplinary perspective, considering their internal and external processes, their actions, and their relationship with the legal, political, economic and security systems in the modern world.*

*It is sometimes said that John Rawls’s “A theory of justice” revitalized political philosophy. It should be no surprise, then, that concerns of justice unite all the segments of the Conference’s title. However, it is clear that those concerns manifest themselves in interesting and new directions (sometimes, in forgotten old ones). Politically, we confront urgent problems of equality, democracy, and community and how to respond to potentially changing global order and even catastrophic climate change. However, the response to these problems cannot only be pragmatic and piecemeal. It needs to be coherent and, most of all, just.*

*In the end, I must express my deep gratitude to the Organizational Committee members who worked tirelessly in the direction of the successful realization of this international scientific Conference, to our partners who strongly supported the organization of this event, to the colleagues from our faculty who unselfishly endorsed this project and all those well-wishers who understood the significance of this project both as an advantage for our faculty and as an investment in the global scientific thought.*

*Let this Conference continue the path we started to trace together with a single purpose – **Towards a better future!***

*Vice rector for science  
Prof. Dr.sc Goran Ilik*

*Bitola, 2022*

## **DEVELOPMENT FINANCE INSTITUTIONS, ENVIRONMENTAL INEQUALITIES AND JUST GREEN TRANSITION<sup>62</sup>**

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### **Abstract**

The pandemic has caused an extremely negative socio-economic impact on employment, poverty, and inequality, but also on private sector investment necessary for sustainable development. Numerous studies have confirmed that the growth of inequalities is negatively correlated with the gross domestic product growth, prolongs the duration of the recession, and undermines the effectiveness of the fight against poverty. High and growing inequality inhibits society's progress towards the goals of sustainable development. The subject of analysis are environmental inequalities and their impact on poverty, economic growth, just green transition process, and sustainable development. The role of development finance institutions in supporting sustainable development and raising awareness of a green economy concept is also discussed.

**Key words:** *development finance institutions, environmental inequalities, green economy, green investments, sustainable development, just transition*

### **INTRODUCTION**

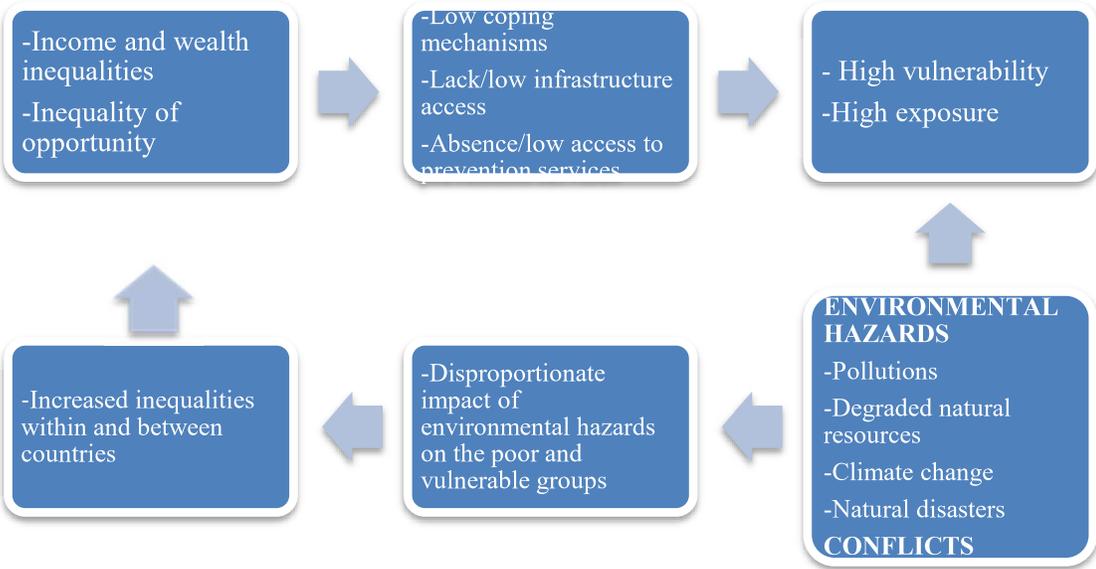
Sustainability of the macroeconomic system, while ensuring economic growth, implies the focus of public policymakers not only on the area of constant profit maximization measured by the gross domestic product growth rate, and represented by the dominant capitalist and neoliberal concept of production and business in general but also, reduction of poverty and social

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disparities, i.e., inequalities, as well as environmental protection. Green transition and transformation of the economic system from the aspect of sustainability implies the establishment of a new model of production and business which, in addition to achieving purely economic goals of profit maximization, does not exclude the social component of development based on inclusive and equitable inclusion of different social groups (Ostojić 2022, 126).

Green economy is the opposed to today's dominant economic model, which generates and promotes widespread environmental and health risks, encourages wasteful consumption and production, and results in resource deficits and inequalities (World Bank 2012). Negative consequences caused by air pollution, which include impacts on labour productivity, health expenditures and agricultural crop yields, are projected to lead to global economic costs that gradually increase to 1% of global gross domestic product by 2060 (OECD, 2016). Also, water pollution and economic growth are intrinsically linked. When rivers become highly polluted, regions lose 0.8%-2% of economic growth. These losses imply that the costs of environmental degradation are severely under-estimated (World Bank Group 2019).



**Graph 1: Inequalities and environmental hazards**

Source: ESCAP, <https://www.unescap.org/sites/default/d8files/knowledge-products/ThemeStudyOnInequality.pdf>

Inequalities have many negative implications for the economy. In recent decades, the level of global income inequality has always been high. The share of the richest 10% of the population in global income fluctuated between 50% and 60%. Global wealth inequalities are even more pronounced than income inequalities. The poorest half of the world's population owes almost no wealth, while 10% of the population owns 76% of the total wealth (World Inequality Lab 2021). Inequality of opportunity references unequal access to fundamental rights and services-education, health care, water, energy, information and communications technology, finance, credit. The inequality of income, wealth, education, healthcare, financial resources leads to the formation of disadvantaged groups of people that are highly vulnerable and disproportionately exposed to environmental hazards (Graph 1). The devastated environment endangers the health, existence, and well-being of the mentioned groups, and this further accelerates the growth of inequality, creating a vicious circle (ESCAP 2018). In the following, the relation between the business activities of development finance institutions focused on achieving sustainable development goals and the concept of a green economy, and the impact of environmental inequalities on the process of just green transition will be presented.

## **THE ROLE OF DEVELOPMENT FINANCE INSTITUTIONS IN FOSTERING GREEN GROWTH AND BUILDING AWARENESS OF THE GREEN ECONOMY CONCEPT**

Development Finance Institutions (DFIs) are legally independent, state-supported institutions that foster sustainable development through private sector investments in underdeveloped countries. Their role is not only financial and investment, but this type of institution is also focused on achieving sustainable development goals (SDGs) such as job creation, poverty reduction, financing of micro, small and medium enterprises and entrepreneurs (MSMEs), growth of public revenues due to investment growth in the private sector, environmental protection, energy efficiency, renewable energy sources, climate finance to support actions that should be taken to adapt to climate change and effectively mitigate the negative consequences (Savoy, Carter and Lemma 2016, 8). The development goal of their existence is reflected in bridging the gap between aid agencies and commercial investments and providing support in ensuring stable, sustainable, and inclusive economic development. The financial goal is reflected in the fact that these institutions as investors or co-investors, through project activities, provide companies and financial institutions with

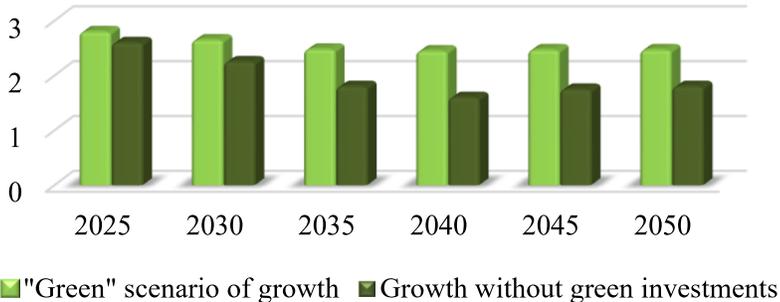
commercial financing and thus support the growth of their business and development performance (Dalberg 2009, 8). Considering that many private investors are not willing to take on risky investments, development finance institutions provide financial support in undercapitalized business areas with high risk (clean energy, healthcare, urban resilience, sustainable land-use).

According to World Bank research, 9 out of 10 new jobs in developing countries are generated by the private sector, so it can be concluded that the private sector plays a key role in promoting sustainable economic development and one of the important questions is how to most effectively stimulate its growth (IFC 2013). Development finance institutions promote investments, not only through financial support, but also through improving the business environment and environmental corporate social responsibility which is the focus of the green economy concept. Since the growth of population, gross domestic product per capita and energy intensity cause an increase in CO<sub>2</sub> emissions, one of the key issues is how to reach a compromise between economic development and good environmental quality (Petrović, Nikolić, and Ostojić 2018, 73-74).

The green economy is recognized as a means to achieve sustainable development. The United Nations has developed a definition of a green economy that implies improving human well-being, social equality, and development with a significant reduction in environmental risks (Sarangi 2019, 45). The green economy is the way to achieve the Sustainable Development Goals - 2030 Agenda and eradicate extreme poverty, ensure human health, well-being, and economic development. Green growth emphasizes natural resources efficiency and minimizes environmental pollution. Economic growth drives poverty reduction, but this effect depends on the levels of inequality (World Bank 2012). The pandemic has affected employment and income inequality in developed and less developed countries in various ways. With significantly more negative consequences, it affected less-educated workers with lower-paid jobs than the educated categories of the able-bodied population. In developed countries, highly educated employees with better-paid jobs switch to a specific form of work during the pandemic - work from home. In that way, the pandemic did not reduce the income of this category of employees. In contrast, the pandemic has affected the income of workers with low levels of education and qualifications, but in developed countries, this decline has been offset by government aid programs (Milanović 2021). Therefore, it can be concluded that in developed countries, the pandemic not only did not affect the growth of income inequality but also reduced it to a certain extent (NBER 2021). In underdeveloped countries, the limited possibility of switching to remote work in cooperation with the lack of government

financial support for vulnerable categories of society, led to the growth of income inequality, mostly affecting employees with low levels of education and low incomes (Watts and Fiala 2020).

Economic growth has to be inclusive to ensure sustainable jobs, equality, and the wellbeing of the entire population. Development finance institutions contribute to the green economy transition financing the projects in the field of renewable energy sources and energy efficiency that mitigate CO<sub>2</sub> and CO<sub>2</sub> equivalent emissions. Socially and environmentally responsible management, transparent company structures and standards help ensure accountable business practices. Commercially viable investments in underdeveloped countries attract private investors, which significantly supports the mobilization of domestic resources (EDFI, 2016).

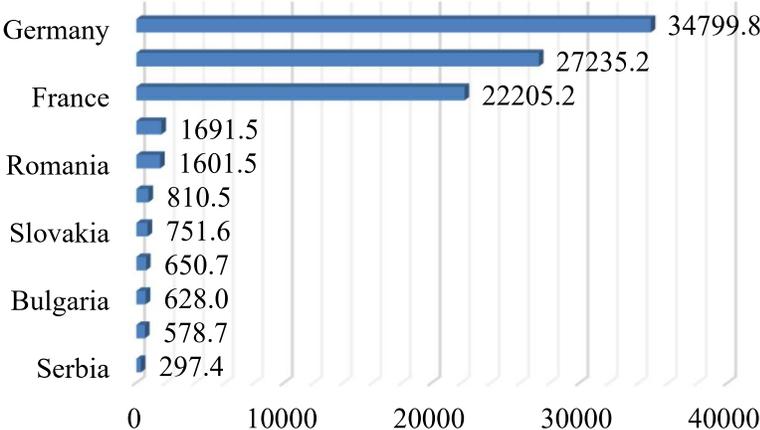


**Graph 2: Gross domestic product growth projections by 2050.**

Source: PwC, <https://www.pwc.com/gx/en/world-2050/assets/pwc-the-world-in-2050-full-report-feb-2017.pdf>

Green growth is based on taking advantage of the economic opportunities presented by the large investments required for a low-carbon transformation (Deichmann and Zhang, 8). Green investments cause a number of positive economic effects such as growth of gross domestic product, growth of the renewable energy in total energy consumption, as well as reduction of greenhouse gas emissions (Lyeonov, Pimonenko, Bilan, Štreimikienė, and Mentel 2019, 5-7). At the global level, half of green investments are related to energy efficiency and renewable energy sources, while the other half focuses on reducing waste and improving waste management, public transport infrastructure and natural capital-related sectors such as agriculture, fisheries, water and forestry. The circular economy has the potential to contribute to the development of a sustainable, low-carbon, resource-efficient, competitive economy. Innovations and green investments (in eco design, secondary raw materials,

recycling processes and industrial symbiosis) are the main channels of transition from a linear to a circular economy (Mitrović and Pešalj 2021). The most advanced European country in the transformation towards a circular economy is Germany, thus achieving a reduction in negative environmental impacts, revenue growth, reducing resource dependence, reducing waste production and creating green jobs (Graph 3).



**Graph 3: Private investments, jobs and gross value added related to circular economy sectors in million euro, 2018.**

Source: EUROSTAT, [https://ec.europa.eu/eurostat/databrowser/view/cei\\_cie010/default/table?lang=en](https://ec.europa.eu/eurostat/databrowser/view/cei_cie010/default/table?lang=en)

Blended finance is an important mechanism for stimulating the growth of private sector investments through sustainable development projects where development finance institutions play a significant role. Over the past few decades, there has been a gradual shift in development finance. Public sector is no longer the primary financial resource and interest in the private sector investments is intensified (Savoy and Milner 2018, 1-2). Blended finance is “the use of catalytic funding (e.g., grants and concessional capital) from public and philanthropic sources to mobilize additional private sector investment to realize the sustainable development goals” (Convergence 2021). An approach that mixes different forms of capital (concessional finance sourced from governments or other public sources with commercial finance from the private sector) in support of development becomes an important solution to an inclusive green economy that ensures equality of opportunities.

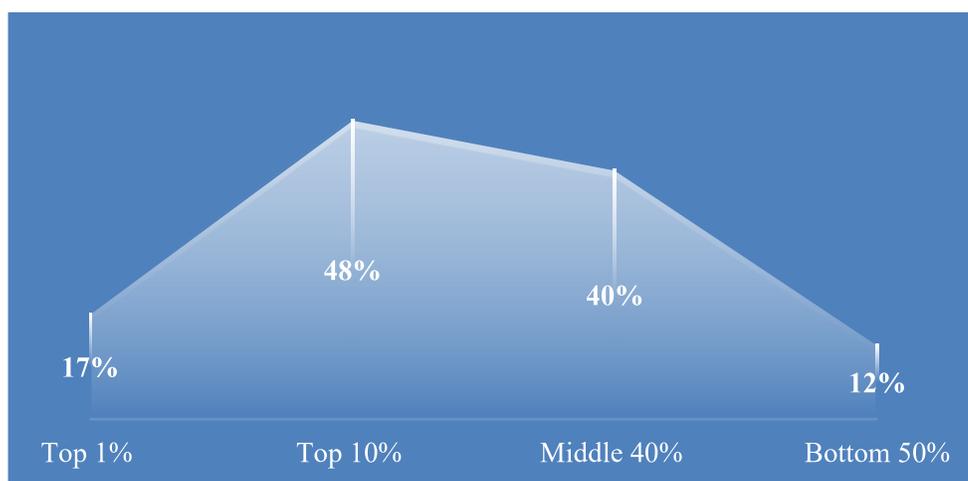
Funding for sustainable development goals is a significant undertaking. Annual deficit of 2.5-3 trillion dollars for financing sustainable development goals should be offset by investments. The potential of blended finance to fill the investment gap and accelerate development unlocking and scaling up private investments has been recognized. Goals most targeted by blended finance funds and facilities are those focusing on jobs and economic growth (SDG 8), infrastructure (SDG 6, 7, 9, 11), climate change (SDG 13), and goals that cut across most others (SDG 1, 2, 17) (OECD 2018). As a tool on the pathway to net zero goal, development finance institutions have a significant contribution to the climate finance flows. Half of the climate finance (51%) is provided by the public sector. The dominant share is held by development financial institutions, which finance 69% of public flows (219 billion dollars), while the rest is provided by state-owned financial institutions (14%) and governments (17%) (Climate Policy Initiative 2021).

## **ENVIRONMENTAL INEQUALITIES AND JUST GREEN TRANSITION**

Income distribution and environmental disruption are increasingly pointed out as obstacles in securing sustainable development goals and environmental preservation. Analyzing the relationship between income inequalities and ecological footprint, it is suggested that inequality promotes environmental pollution. Further financial development also escalates carbon emissions (Idrees and Majeed 2022, 10-13; DESA 2015). The just green transition, and the deep transformation of economic systems and societies, can also alleviate existing inequalities in well-being outcomes, due to the interconnected nature of economic, social, and environmental challenges is reflected in SDGs (OECD 2021). The greening of economies can enhance ability to manage natural resources sustainably, increase energy efficiency and reduce waste, while also promoting social justice and addressing poverty and inequality in a way that is as fair and inclusive as possible to everyone concerned (ILO 2018).

Ecological inequality are defined as “any imbalance or disparity among inhabitants of the same living environment deemed inappropriate, unjust or detrimental to that environment's integrity” (EEA 2022). Environmental inequality includes inequality in access to natural resources, exposure to pollution, contributions to environmental degradation, and disasters due to unsustainable use of natural resources (Zechariah, Amegavi, Donkor, and Mensah 2021). By 2021, about 50 billion tons of CO<sub>2</sub> were produced. Three quarters came from the energy sector and fossil fuel combustion, 12% from the agricultural sector, 9% from the industrial

sector (mostly as a result of cement production) and 4% from waste management. Historically, CO<sub>2</sub> emissions per capita amounted to 0.8 tons in 1850, before rising to 2.7 tons in 1900, and during 1950 it recorded additional growth and reached the level of 4.3 tons. In the eighties of the twentieth century, there was a further increase in carbon emissions per capita (6.8 tons), and after falling to 5.8 tons in 2000, there was a renewed increase in 2019 to 6.6 tons. The reduction in emissions from the mid-1970s to 1980 is a result of improvements in energy efficiency after the oil crisis of the 1970s, as well as faster population growth in regions with below-average emissions of harmful gases (World Inequality Lab 2021).



**Graph 4. Global carbon inequality, 2019 (contribution to world emissions)**

Source: World Inequality Lab

<https://wid.world/document/climate-change-the-global-inequality-of-carbon-emissions-1990-2020-world-inequality-lab-working-paper-2021-21/>

Taking into account the latest available data, global inequality in carbon emissions is evident, since 10% of the population is responsible for almost half of all emissions. Carbon dioxide emissions of one-tenth of the total population are almost equal as the emissions of the middle 40% and the bottom 50% together (Graph 4). If we look at the period from 1990 to 2019, it can be stated that global emissions per capita increased by only 6%. What attracts attention is that observed by groups, there are large differences in carbon emissions. Namely, the production of carbon dioxide per capita 0.01% of the richest in the world's population has almost doubled to about 2.500 tons, while half of the poorest population produces only 1.6 tons per

capita. Also, if the focus of the analysis is the comparison of the contribution to the growth of global CO<sub>2</sub> emissions for the period 1990-to 2019, one-hundredth of the world's population (77 million individuals) is responsible for 21% growth in carbon dioxide emissions, while the contribution of the poorest half of the world's population (3.8 billion individuals) is only 16% (Table 1).

**Table 1. Emissions growth and inequality, 1990-2019.**

	Emission per capita (tons CO <sub>2</sub> )		Total emissions (billion tons CO <sub>2</sub> )		Growth in emissions per capita (1990-2019)	Growth in total emissions (1990-2019)	Share in emission growth (1990-2019)
	1990	2019	1990	2019			
Population	6.2	6.6	32	50.5	7%	58%	100%
Bottom 50%	1.2	1.6	3.1	6.1	32%	96%	16%
Middle 40%	6	6.6	13.3	20.4	4%	54%	39%
Top 10%	30	31	15.7	24	4%	54%	45%
Top 1%	87	110	4.5	8.5	26%	87%	21%
Top 0.1%	323	467	1.7	3.6	45%	114%	10%
Top 0.01%	1397	2531	0.7	2	81%	168%	7%

Source: World Inequality Lab

In 1990, most global carbon inequality was caused by differences between countries. The differences between rich and poor countries were much more pronounced, and a much larger share of greenhouse gas emissions is attributed to the inhabitants of countries with higher gross domestic product. After three decades the situation is changing. In addition to large inequalities in carbon emissions between countries, there are also large inequalities within countries (World Inequality Lab 2021). Just transition to a greener economies requires the integration of environmental goals of sustainable development with economic and social policies and can affect the higher tax rate of rich and developed countries, whose activities most endanger the environment. In this way, countries can be influenced to reduce the production and consumption of products and services with negative environmental consequences or to allocate financial resources for

the development of green technologies that will produce fewer side effects on environmental pollution (Milanović 2021). What supports the issue of progressive taxation is certainly the growing concentration of wealth, as well as the fact that after the public health crisis caused by the pandemic, national income is declining, while the value of private wealth is growing, especially among the richest people. Since wealthy people have higher savings rates, redistribution policies, such as wealth taxes and taxes on capital income, as well as public policies such as rent control and regulation, can have a limiting effect on capital accumulation. If inequalities continue to grow, there is a possibility that the threat of owning more than a quarter of global wealth by the top 0.1% by 2070 will come true (World Inequality Lab 2021).

The Covid-19 crisis is an opportunity to move to a low-carbon economy and combat the climate crisis. Many investors see the current situation as an opportunity for investments with an environmental dimension. According to estimates, in the next ten years, a large number of new jobs can be created in the solar energy sector, which far exceeds the number of lost jobs caused by the green transition and leaving the fossil fuel industry (IRENA 2019). Green transition can contribute significantly to green jobs, poverty eradication and social inclusion.

## **CONCLUSION**

The green economy establishes a link and an appropriate balance between ecology and the economy to increase social welfare, reduce poverty and achieve social justice. The green transition is the way to achieve the 2030 Sustainable Development Agenda and eradicate extreme poverty while achieving environmental goals that ensure human health, well-being, and development, because green investments cause positive economic effects such as gross domestic product growth, increasing the share of energy from renewable sources in total energy consumption, as well as reducing greenhouse gas emissions. Analyzing the overall structure of development funds, in countries with low inflows of foreign direct investment and low levels of revenue collected by the government through taxes and other sources, development finance institutions are an important driver of development whose potential underdeveloped countries should use for their progress. The representation of the development finance institution, i.e. the development bank, in the financial system is important not only for economic growth but also in the context of the gradual transition to the green economy, theory of tripartite green economy and reform of the economic system in terms of including the social component of development, i.e. active action against environmental and social degradation, inequality, and poverty. Investing in the private sector,

development finance institutions contribute to overall economic and social progress. Employees benefit through the creation of new jobs, higher salaries, and other benefits that are not directly related to income - improving working conditions, and exercising their safety and health rights. The government collects higher tax revenues. The increased business volume of companies that are financed by development finance institutions' sustainable projects affects positively the business activities of other members of the value chain. That is reflected in the growth of demand for suppliers' products and services. Due to the growing competition, customers have access to quality improved products that are environmentally sustainable and more affordable. Significant benefits are also realized for the community through environmental protection, construction, and improvement of production and social infrastructure.

Income and wealth inequalities have been on the rise since the 1980s. Due to the low wealth of governments, the question is whether states have the capacity to tackle inequalities as well as key 21st-century challenges such as climate change. Further, the climate change issue requires tackling high inequalities in carbon emissions. One tenth of the population is responsible for almost half (48%) of all emissions of harmful gases into the atmosphere, producing 31 tons of CO<sub>2</sub> per capita per year. Current annual per capita carbon emissions are twice as high as the limits imposed by global average temperatures increasing below 2°C by 2050. The great wealth is associated with high pollution rates. Progressive taxation could generate significant public revenues that can be reinvested in education and health infrastructure improvement and the green transition.

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