The London School of Economics and Political Science

CLIMATE FINANCE IN A FRACTURED WORLD

INTERIM REPORT

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PARTICIPANTS

SPEAKERS

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CHAIR

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INTRODUCTION

In March 2023, the Commission held its eighth evidentiary session focusing on the state of global climate finance. The panel discussed the challenges of raising and distributing climate finance, and potential solutions to ensure that adequate and urgent action is taken to address the climate challenge.

At the COP15 meeting in 2009, developed countries pledged to raise USD 100 billion annually to provide the requisite financial resources for achieving global climate action goals. Since then, the amount of available climate finance has increased significantly, though developed countries' contributions still fall short of the annual pledged amount. Beyond this, concerns regarding the distribution and allocation of available resources persist. On the one hand, projects or actions that most need funding do not receive the requisite funds. On the other hand, climate mitigation projects continue to be prioritised over climate adaptation projects. Finally, the lack of a universal standard for defining, categorising, and accounting for climate finance limits possibilities for meaningful comparison between developed state contributions and hampers effective allocation of resources to critical sectors or regions.

FINANCE AS A LYNCHPIN FOR CLIMATE ACTION

Amb Espinosa emphasised that climate finance plays a crucial role in meeting global climate challenges. Unlike other aspects of the global effort to address climate change, finance serves as a catalyst for various factors. All human endeavours need to be addressed with finance, likewise climate finance is required to support every aspect of the climate agenda. As such, climate finance has the potential to accelerate a more just climate transition, support new approaches and mitigate climate risks by making available the necessary resources.

At the same time, both Amb Espinosa and Dr Sengupta emphasise the importance of differentiated responsibility as a normative principle guiding climate finance initiatives. As explained by Dr Sengupta, the current climate crisis is caused by the historical accumulation of greenhouse gases stemming from the Industrial Revolution. Thus, it is crucial that efforts to address climate issues prioritise these historical emissions over current annual rates of emissions. Indeed, developed countries are responsible for 60% of the historical absolute quantity of emissions, even though their contemporary annual emissions have reduced significantly. Considering this unequal distribution of absolute emissions, differentiated responsibility and the recognition of differing capacities to enact climate action is key.

CHALLENGES TO ACHIEVING CLIMATE FINANCE GOALS

Dr Sengupta highlighted further the 'non-positive' global context that has exacerbated the climate finance challenge. Rising geopolitical conflict, most notably the Russian invasion of Ukraine and great power competition between the US and China, have led to rising nationalism and political polarisation. Growing North-South disparity has meant that developing countries have been hit harder by economic headwinds than their developed counterparts. Globally, inequality reigns supreme and developing countries are likewise harder hit when compared with developed countries.

Aside from broader contextual challenges, there are also challenges specific to climate finance. While developed countries have pledged to provide the resources necessary for collective climate action, much of these agreements have been drafted vaguely, with unclear obligations and no clear identification of the parties responsible for action. For instance, the latest agreement on a loss and damage fund at COP27 is still lacking in detail. There is also a lack of an agreed definition of climate finance, such that accurately calculating the absolute number of contributions and distribution has become complex and contentious. For instance, although the OECD tracks the global flows of climate finance, its assessments are disputed. Developing countries claim that the figures overrepresent the absolute amount of finance provided, as existing resources are often relabelled as climate finance, rather than as new flows being generated for climate projects. Ultimately, while meeting the USD 100 billion target is crucial, it is merely a fraction of the total finance required to engender a sustainable climate regime. Beyond mitigation and adaptation, additional resources are also required to address permanent climate damage.

Beyond the challenges above, Amb Espinosa noted two concurrent issues regarding climate finance. First, there is an urgent need to increase the amount of financial support made available for projects in line with the climate regime. Second, there is an equally pressing demand for stem financing to projects which do not fall in line with climate-friendly regulations. Both issues need to be solved in tandem, otherwise efforts to increase climate-friendly developments will be negated. Government efforts alone are insufficient to meet the vast amount of climate financing required. Instead, governments are better placed acting as regulators and catalysts of public and private sources of climate finance.

Amb Espinosa strongly urged developed countries to meet their climate obligations, most notably the pledged USD 100 billion annual amount. While efforts have been made, the absolute amount of financing available to address climate issues is still inadequate. Multilateral development banks (MDB) have a significant role to play, particularly in the mobilising of financial resources to support developing countries.

Nonetheless, the programs designed by these institutions need to be revised, to make them more aligned with wider climate objectives and sustainable.

Beyond this, quantitatively determined climate finance goals and definitions are useful. For instance, while the labels of ‘developed’ or ‘developing’ economies may be arbitrary, they are nonetheless useful for enforcing differentiated responsibilities by quickly identifying wealthier actors who have the resources to contribute.

Finally, while some discourse regarding climate issues has framed the pursuit of more green development as a ‘cost’ to be incurred for sustainability, a reframing is needed to emphasise climate efforts as an opportunity for more sustainable development instead. There needs to be an appropriate climate finance framework to guide global action in this domain. ■

LSE Global Economic Governance Commission

The LSE Global Economic Governance Commission is a forum for debating and redesigning global economic governance.

COVID-19 has presented the world with a new Bretton Woods moment. It has exposed the fragilities of the global monetary order and the dislocations in the global trading system. With economic damages rising and tax revenues falling, it has presented a new crisis for global development and demonstrated the overdue need for global tax coordination. As states have struggled to band together to overcome their shared challenges, it has made clear the difficult road ahead for the global climate agenda.

To steer the much-needed transformation of the rules, practices, and institutions of the global economy, The London School of Economics and Political Science and LSE IDEAS have convened the LSE Global Economic Governance Commission. The Commission brings together leading academics and policymakers around five core domains of global economic governance: monetary policy, trade policy, development policy, tax policy, and climate policy. The Commission hosts public and closed-door panels, lectures, and workshops on all matters relating to global economic governance. Event details are announced online by LSE and LSE IDEAS.

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