Will Glasgow Fix Broken Climate Finance Promises?[1]

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Current climate mitigation plans will result in a catastrophic 2.7°C world temperature rise. US$1.6–3.8 trillion is needed annually to avoid global warming exceeding 1.5°C.

Creative accounting

Rich countries have long broken their 2009 Copenhagen COP16 pledge to mobilize "US$100 billion per year by 2020 to address the needs of developing countries". The pandemic has worsened the situation, reducing available finance. Poor countries – many already caught in debt traps – struggle to cope.

While minuscule compared to the finance needed to adequately address climate change, it was considered a good start. The number includes both public and private finance, with sources – public/private, grants/loans, etc. – unspecified.

[1] First published on Interpress Service, on November 2, 2021 at http://www.ipsnews.net/2021/11/will-glasgow-fix-broken-climate-finance-promises/.

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Such ambiguity has enabled double-counting, poor transparency and creative accounting, noted the UN Independent Expert Group on Climate Finance. Thus, the rich countries' Organisation for Economic Co-operation and Development (OECD) reported US$80bn in climate finance for developing countries in 2019.

Fudging numbers

But OECD climate finance numbers include non-concessional commercial loans, 'rolled-over' loans and private finance. Some donor governments count most development aid, even when not primarily for 'climate action'.

Also, the dispute over which funds are to be considered 'new and additional' has not been resolved since the 1992 adoption of the UN Framework Convention on Climate Change (UNFCCC) at the Rio Earth Summit.

Official development assistance redesignated as climate finance should be categorized as 'reallocated', rather than 'additional' funding. Consequently, poor countries are losing aid for education, health and other public goods.

India has disputed the OECD claim of US$57bn climate finance in 2013-14, suggesting a paltry US$2.2bn instead! Other developing countries have also challenged such creative accounting and 'greenwashing'.

Climate finance anarchy

Developing countries expected the promised US$100bn yearly to be largely public grants disbursed via the then new UNFCCC Green Climate Fund. Oxfam estimates public climate financing at only US$19–22.5bn in 2017-18, with little effective coordination of public finance.

Developing countries believed their representatives would help decide disbursement, ensuring equity, efficacy and efficiency. But little is actually managed by developing countries themselves. Instead, climate finance is disbursed via many channels, including rich countries' aid and export promotion agencies, private banks, equity funds and multilateral institutions' loans and grants.

Several UN programmes also support climate action, including the UN Environment Programme, UN Development Programme and Global Environment Facility. But all are underfunded, requiring frequent replenishment. Uncertain financing and developing countries' lack of meaningful involvement in disbursements make planning all the more difficult.

Financialization has meant that climate funding increasingly involves private financial interests. Claims of private climate finance from rich to poor countries are much contested. Even the OECD estimate has not been rising steadily, instead fluctuating directionless from US$16.7bn in 2014 to US$10.1bn in 2016 and US$14.6bn in 2018.

The actual role and impact of private finance are also much disputed. Unsurprisingly, private funding is unlikely to help countries most in need, address policy priorities, or compensate for damages beyond repair. Instead, 'blended finance' often uses public finance to 'de-risk' private investments.

Putting profits first

The poorest countries desperately need to rebuild resilience and adapt human environments and livelihoods. Adaptation funds are required to better cope with the new circumstances created by global warming.

Needed 'adaptation' – such as improving drainage, water catchment and infrastructure – is costly, but nonetheless desperately necessary.

But 'donors' prefer publicizable 'easy wins' from climate mitigation, especially as they increasingly gave loans, rather than grants. Thus, although the Paris COP21 Agreement sought to balance mitigation with adaptation, most climate finance still seeks to cut greenhouse gas (GHG) emissions.

As climate adaptation is rarely lucrative, it is of less interest to private investors. Rather, private finance favours mitigation investments generating higher returns. Thus, only US$20bn was for adaptation in 2019 – less than half the sum for mitigation. Unsurprisingly, the OECD report acknowledges only 3% of private climate finance has been for adaptation.

Chasing profits, most climate finance goes to middle-income countries, not the poorest or most vulnerable. Only US$5.9bn – less than a fifth of total adaptation finance – has gone to the UN's 46 'least developed countries' (LDCs) during 2014-18! This is "less than 3% of [poorly] estimated LDCs annual adaptation finance needs between 2020-2030".

Cruel ironies

The International Monetary Fund recognizes the "unequal burden of rising temperatures". It is indeed a "cruel irony" that those far less responsible for global warming bear the brunt of its costs. Meanwhile, providing climate finance via loans is pushing poor countries deeper into debt.

Increasingly frequent extreme weather disasters are often followed by much more borrowing due to poor countries' limited fiscal space. But loans for low-income countries (LICs) cost much more than for high-income ones. Hence, LICs spend five times more on debt than on coping with climate change and cutting GHG emissions.

Four-fifths of the most damaging disasters since 2000 have been due to tropical storms. The worst disasters have raised government debt in 90% of cases within two years – with no prospect of debt relief.

As many LICs are already heavily indebted, climate disasters have been truly catastrophic – as in Belize, Grenada and Mozambique. Little has trickled down to the worst affected, and other vulnerable, needy and poor communities.

Funding gap

Based on countries' own long-term goals for mitigation and adaptation, the UNFCCC's Standing Committee on Finance estimated that developing countries need US$5.8-5.9 trillion in all until 2030. The UN estimates developing countries currently need US$70bn yearly for adaptation, rising to US$140–300bn by 2030.

In July, the 'V20' of finance ministers from 48 climate-vulnerable countries urged delivery of the 2009 US$100bn vow to affirm a commitment to improve climate finance. This should include increased funds, more in grants, and with at least half for adaptation – but the UNFCCC chief has noted lack of progress since.

Only strong enforcement of rigorous climate finance criteria can stop rich countries abusing currently ambiguous reporting requirements. Currently fragmented climate financing urgently needs more coherence and strategic prioritization of support to those most distressed and vulnerable.

This month's UNFCCC COP26 in Glasgow, Scotland, can and must set things right before it is too late. Will the new Cold War drive the North to do the unexpected to win the rest of the world to its side instead of further militarizing tensions?

Further readings:

- United Nations Environment Programme, Adaptation Gap Report 2021: The gathering storm – Adapting to climate change in a post-pandemic world. Nairobi, 2021.
- Independent Expert Group on Climate Finance, Delivering on the $100 Billion climate finance commitment and transforming climate finance, 2020.
- Oxfam, Climate finance shadow report 2020 - Assessing progress towards the $100 billion commitment, 2020.

Selection of earlier articles on hungerexplained.org related to the topic:

- Income inequality impacts on the level of greenhouse gas emissions and on vulnerability to the consequences of climate change, 2020.
- Opinions: Condemned to utopia? Climate and democracy: changing our paradigm to preserve the climate and our future, by M. Maetz, 2020.
- Opinions: World Bank Financializing Development by Jomo Kwame Sundaram and Anis Chowdhury, 2019.
- Climate finance : for whom is the World Bank working? 2017.
- Climate finance for poor countries: confusion, lack of transparency and probability that commitments made will not be respected, 2016.
- Climate is changing - Food and Agriculture must too - Towards a "new food and agricultural revolution", 2016.