Climate leadership now: Climate finance & political will

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Richard Beardsworth, Professor of International Relations and Head of School from POLIS, University of Leeds, unpacks the present challenge of climate leadership: climate finance and political will

It is well rehearsed that climate leadership among national governments and international institutions is required to break the stand-off between developed and developing countries regarding climate action and ambition.

The stand-off goes back to the beginning of climate negotiations at the founding of the United Nations Framework Convention for Climate Change (UNFCCC) in 1994. The historical responsibility for climate change lies with the ‘northern’ industrialised countries; present and future vulnerability to climate impacts lies in the ‘south’.

The 2015 Paris Agreement, limiting average global temperature increase to, at best, 1.5°C, shifted the terms of climate action from international coordination to national contribution. It brought to the fore in the ensuing Conference of the Parties (COPs) the ever-pressing need to align mitigation (the focus of the richer countries) with development and adaptation (the focus of the poorer countries). Mistrust between the two sets of countries is embedded in the international politics of climate change.

The creation of the loss and damage fund at COP27 is cited as an important success of climate diplomacy, but questions as to who contributes to, it and who benefits from it remain outstanding. It is clear, that said, that climate finance provides the key to breaking the deadlock between developed and developing countries by aligning the strategies of mitigation with adaptation and loss and damage. This key is not just economic, however; it is economic and political. I consider here the urgent need for climate leadership from this dual perspective.

An analysis of climate leadership now

The COP27 decision text and the G20 Bali joint declaration underlined in 2022 the need for ‘major international financial reform to support developing countries’.

The language of both agreements is informed in part by the Bridgetown Initiative – a set of financial solutions to the present deadlock, put forward by the government of Barbados in October 2022, and taken up both in the IMF and World Bank meetings this spring and at an international finance conference hosted by President Macron of France in June, before COP28 this November. The interest in this Initiative – as an urgent climate finance solution to the mitigation/adaptation stand-off – is twofold.

The Bridgetown Initiative: A lesson in pragmatism

The Bridgetown Initiative is pragmatic because it looks to available climate finance; at the same time, it is transformational given the direction of social and economic projects that could be appropriately financed through it. Avinash Persaud, Special Envoy on Climate Finance to the Prime Minister of Barbados, summarises the Initiative here. In summary, it considers three separate financial sources for mitigation, adaptation, and loss and damage:

1. For mitigation, developing countries would have access to a Global Climate Mitigation Trust, allowing them to borrow money in the marketplace at low-interest rates (the cost of capital being key in the present financial system for poor countries at risk).

This Trust would be seeded by the special drawing rights (SDRs) of all national central banks, issued by the IMF (the international ‘central’ bank). The larger countries have larger rights; it is argued they could channel their rights to the smaller, more climate-vulnerable countries. Persaud estimates that a Trust of $500 billion could mobilise up to $5 trillion in savings from the private sector (the sum widely considered necessary for mitigation purposes).

2. For adaptation, the cost of capital is, again, key to climate finance. To have access to long-term, low-interest rates, developing countries would look to multilateral development banks (MDCs), of which, first, the World Bank (WB), and to their capacity to expand their loans by at least a factor of two, resorting to the ‘callable’ capital (capital promised in the event of a disaster but not paid-in) that they have in reserve. Together with SDRs, MDBs could then ‘lend on’ to developing countries up to $500 billion to help them build climate resilience (a key, in turn, it is rightly argued, to overall development).

3. For loss and damage, the Initiative no longer looks to either international institutions or the private sector for money. Given the smaller sum involved (estimated at around $100 billion), it suggests that the government acts directly by raising taxes on methane emissions and/or the ‘above average’ fossil fuel industry profits. These taxes would then be directed to those countries suffering climate events that, in economic language, affect their GDP by more than 5% (it is calculated, for example, that the 2022 floods in Pakistan reduced its GDP by 10%).

Pragmatic, the Initiative brings adaptation and mitigation strategies together by resourcing what is already there (institutional reserves). I am not an economic expert, so I will not entertain here the important question of ratings (if callable capital is spent, how will that affect the WB’s financial strength, etc.?).

I emphasise rather the fact that to mobilise these reserves in the first place for climate investment, governments are the primary actors. Not only do the larger ones have to be willing to cede their SDRs, but they are also the shareholders of the IMF and the MDBs in the first place. It is, accordingly, their political will that will drive the restructuring of the international financial system.

Without this will, it is impossible better to direct financial assets where they are needed, and, ultimately, close the gap between the mitigation strategies of the richer countries and the adaptation strategies of the poorer. In short, without this will, mitigation pledges will not be implemented, and the energy transition (and all that flows with it: housing, education, and public health) will be neither clean nor just.

Climate leadership in an age of polycrises

We are in an age of polycrises and deep transformation. To respond to the plurality of interdependent and mutually reinforcing crises (climate, health, energy, food, inequality, poverty), our energy systems, our current economic and financial models, as well as our present ways of governing, must change. The stakes of political leadership on climate change could neither be higher nor more immediate. A vital sign of this response will be, this year, the extent to which climate finance begins to align mitigation with adaptation and loss and damage.

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