Transformative Climate Finance: What could change after COP26?

Climate finance has been one of the primary drivers of low-carbon resilient development, with significant strides made in this sector in recent years. For instance, in 2017 and 2018, annual climate finance funds surpassed $500 billion.

In 2018 alone, finance for low-carbon resilient development was in excess of $50 billion. Also, the establishment of the Green Climate Fund (GCF) and Climate Investment Funds (CIF) has seen the birth of more institutions specifically committed to climate-related finance.

That said, there are still several shortcomings in the climate development finance sector, as highlighted by a world bank report published last year. Limited financial instruments and a lack of systemic interventions are among the challenges facing climate finance today.

However, with COP26 on the horizon, there are expectations that many of these issues will be resolved as world leaders review the progress made since the Paris Agreement and set aside new goals and plans for protecting the planet.

On that note, this article draws inspiration from the World Bank report on climate finance to highlight some of the issues plaguing climate development finance and the resolutions that could follow COP26.

Climate-related Development Finance: Hindrances and Challenges

Thanks to the billions of dollars contributed through climate finance projects, there has been significant progress across the globe in achieving a sustainable planet.

Decarbonization, increased resilience, and job creation are some of the strides recorded in many developing countries due to a more committed approach to climate finance.

However, there are still several drawbacks and hindrances limiting the pursuit of low-carbon resilience.

For one, the financial resources from public climate finance are still considerably finite compared to the requirement.

In fact, according to the world bank, if we commit all the funds from multilateral development banks (MDBs) to decarbonization and resilience, it wouldn't meet 4% of what the planet needs for the change required.

For a clearer perspective, in 2017, the financial resources for annual dedicated climate finance and climate-related development finance were $3 billion and $55 billion, respectively.
In comparison, the annual needs of developing countries to achieve low-carbon resilience is $4 trillion up till 2030.

With the funds available currently falling short of the requirements, international public climate finance must take a different approach towards climate financing to increase private funding and domestic climate policies.

Quickly, let's look at how the current strategy towards climate finance hinders the transformational change we need:

1. Allocation of Funding to Projects Rather Than Systemic Interventions

The bulk of funding towards climate resilience focuses more on clean infrastructure projects. And despite the successes recorded because of this approach, the downside is it doesn't lead to the policies that bring lasting transformation.

2. Limited Financial Instruments

Currently, project-based loans and grants are the major sources of funding for climate finance. While other methods of financing, such as equity finance, guarantees, and policy-based finance, have come into play, their contributions are not substantial enough.

3. Provision of Funding Without Extensive Consideration of Climate Needs

Multilateral and bilateral DFIs currently contribute 95% of international public climate finance as development finance, and these funds are more in line with previous development mandates than current climate needs.

Approaching Climate Finance Differently Beyond COP26

For many, COP26 could be a major turning point in the pursuit of decarbonization and climate resilience.

Not only will world leaders review the progress made in the last five years since the Paris Agreement, but fresh talks and discussions will hold concerning progressive steps to protect the planet.

With that in mind, here are some changes that could help international public climate finance meet climate needs based on World Bank research:

1. Diversify Financial Instruments

While equity and policy-based financial instruments have contributed to climate finance funds, they still do not provide enough compared to project grants and loans (the primary funding mechanisms for climate financing).

On that note, it makes more sense to increase the contribution of these financial instruments, especially with annual climate finance falling significantly short of climate needs.

2. Implement Long Term Strategies

Much of climate finance has gone towards previous development goals that focus more on short term results than the long term future of our planet. While this strategy may achieve some level of progress, the successes are usually not lasting.

As such, it would be best if, beyond COP26, the focus of climate financing is more on long term strategies for decarbonization and climate resilience that are in line with climate needs.

3. Bring Together Project-based Financing with Policy-based Financing

Today's climate finance policies are project-based, with the focus majorly being clean infrastructure projects. And as we've earlier stated, the changes these bring are usually not systemic.

Therefore, a better approach would be providing as much finance for implementing policies that would ensure environmental sustainability as we do for clean infrastructure projects.

4. Financially Support Countries Based on Income Level and Vulnerability

Underdeveloped and developing nations across the globe are typically more vulnerable to the effects of global warming than developed nations. They also contribute significantly far less to the greenhouse gas emissions that cause climate change.

As such, climate finance strategies must focus more on the specific needs and circumstances (income level and climate vulnerability) of nations across the globe.

Countries should also receive funding based on their efforts and orientation towards climate change.

5. Increased Investment in Climate Intelligent Products

Climate intelligent products include early warning technologies, emission reduction measurement technologies, physical climate impact and vulnerability maps, monitoring, reporting, and verification (MRV) methodologies, and long term scenario simulation tools.

These technologies are typically low cost and can have a significant impact in helping us implement climate action in the long term.

Conclusion

COP26 could see significant changes in climate resilience and environmental sustainability strategies, especially in climate finance.

While this article has primarily discussed international public climate finance, it's vital to mention that businesses could also feel the ripple effect of the 2021 Conference of the Parties in terms of financing.

Already, there are subtle signs that, in the foreseeable future, finance will only be made available to conventional traditional energy projects and companies only to the extent that these establishments can show a commitment to renewable energy.

As such, energy companies must begin to take steps to prepare for the future ahead. With the changes in view, it would help your company to invest in legal representation to provide advice and direction on best practices in line with international environmental sustainability laws.

At M.B. KEMP LLP, we pride ourselves on being an international law firm with expertise in global environmental sustainability laws, especially in energy contracts and agreements.

Reach out to us today, and let's help your company be a part of the workforce seeking to build a safer planet.