The Paris Climate Agreement Needs a Bigger and Better Piggy Bank

Sagatom Saha | Thursday, Feb. 7, 2019

Smoke billows from the chimneys at Lethabo Power Station, a coal-fired power station, Vereeniging, South Africa, Dec. 5, 2018 (AP photo by Themba Hadebe).

The latest United Nations climate talks held in Poland in December produced surprising progress toward developing the rulebook (https://www.climatechangenews.com/2018/12/05/paris-agreement-rulebook-explained/) governing the Paris climate agreement. International negotiators added teeth to the accord by crafting a detailed system to catalogue national emissions, requiring new benchmarks for measuring and forecasting emissions, and mandating public multilateral and technical assessments. Nations will now have to uniformly track their emissions progress and expectations, with scrutiny from other governments and independent experts.

But the next obstacle to climate action will be harder to overcome. There is no existing international financial institution capable of mobilizing enough money to finance national climate plans made under the Paris agreement. The U.N. should build on the momentum from Poland by creating a climate development bank to fill the gap.

While money is not the only factor in combating climate change, it is a large part of the equation. According to the latest U.N. Intergovernmental Panel on Climate Change report (https://www.ipcc.ch/sr15/chapter/summary-for-policy-makers/), the world must invest a collective $2.4 trillion annually in clean energy systems until 2035—and even more after that—to hold global warming below catastrophic levels. However, current investments stand at just $1.7 trillion (https://www.ipcc.ch/sr15/) annually, most of which is still directed toward dirty fossil fuels. Unless countries band together to make the necessary investments, the world will suffer great human and economic costs (https://www.economist.com/science-and-technology/2018/10/11/the-latest-report-on-global-warming-makes-grim-reading): hundreds of millions of people reduced to poverty because of climate change, desertification of 20 percent of all land, and up to $20 trillion (https://www.nature.com/articles/d41586-018-05219-5) knocked off of global GDP.

To its credit, the U.N. created the Green Climate Fund under its Framework Convention on Climate Change at the Cancun summit in 2010. The problem is that the fund is inadequate for such a monumental task. It may be the largest multilateral climate fund, but donor countries have only agreed to commit $100 billion annually. Of that sum, only $10.2 billion (https://www.greenclimate.fund/how-we-work/resource-mobilization) has been officially allocated so far. To make matters worse, the fund is better known for indecisiveness (https://www.climatechangenews.com/2017/04/06/green-climate-fund-laughing-stock-ethiopia-bid-left-limbo/), with a poor track record of implementing projects at all, let alone any with strong support from local civil society organizations. The fund also does little to finance essential but politically unpopular policies like reforms of fossil fuel subsidies that would go a long way to reducing global emissions.

The Green Climate Fund's failures stem from a lack of participation from large donor countries. There is finally a near-global consensus on the effects of climate change but significant disagreement over which countries are responsible for financing climate adaptation and mitigation projects. Developing countries are now responsible for the majority (https://www.cgdev.org/media/developing-countries-are-responsible-63-percent-current-carbon-emissions) of annual greenhouse gas emissions and contribute most to emissions growth. At the same time, they are most exposed to climate change's devastating effects, contribute fewer emissions per capita, and are less responsible for past emissions than their developed counterparts. The bottom line is that many developing countries prepared their climate plans with the expectation of financial support from developed countries. Without aid, developing countries simply do not have the financial capacity to meaningfully slash their emissions.

But if developing economies are to receive aid to reach their climate goals, they should expect conditionality, both explicit or implicit. International institutions derive their relevance, in part, by incentivizing participation from large, powerful countries. A new climate development bank could structure itself along these lines, based on quotas like the International Monetary Fund, where member countries receive voting rights and implicit influence in exchange for deposits. For example, if the United States became this climate bank's top donor—however unlikely that may be under the current administration in Washington—it might use its position to direct funding toward advanced nuclear reactors over solar panels, a field where it outpaces Russia and China. While this approach may not be the most efficient, it incentivizes competition and brings to the table the countries most needed to finance the ambitious and pressing goals of the Paris agreement. Like the IMF, this climate bank would ideally also be able to condition project grants on specific policies like reforming fossil fuel subsidies, which are often seen as a social welfare measure in developing countries.

Yet multilateral development banks get their authority from borrowers as well as lenders, and countries often choose creditors (https://global.oup.com/academic/product/raise-the-debt-9780190866174) not based on needs, but on domestic politics. For example, even though the IMF is the traditional lender of last resort, the Pakistani government turned to Chinese state-owned banks for emergency loans in 2017 to avoid political fallout in an election year. This may suggest that countries will simply turn to other lenders to avoid adopting politically unpopular environmental initiatives. However, it also highlights the need to consolidate global climate aid so that competing creditors like private lenders and Chinese banks cannot undercut collective action for their own national interests.

> ***Without aid, developing countries simply do not have the financial capacity to meaningfully slash their emissions.***

Since the Paris agreement was sealed, China has benefited from the lack of a centralized international financial institution related to climate change. To some extent, Beijing has filled the global gap in energy investments through its sweeping Belt and Road Initiative. But rather than sustainable and renewable energy, China has spent billions of dollars (https://www.ft.com/content/baaa32dc-1d42-11e9-b126-46fc3ad87c65) financing foreign coal projects that undermine its own commitments to cut emissions under the Paris agreement.

The balkanized climate aid landscape favors Chinese banks, which make up the lion's share of development finance. Nevertheless, Chinese President Xi Jinping has consistently demonstrated a willingness to join broad-based multilateral institutions even though China has been creating a parallel set of organizations to bolster its global standing. It seems Beijing believes that participation is preferable to isolation.

The U.S. might be more skeptical. President Donald Trump already axed the remaining $2 billion that the U.S. had promised to contribute to the Green Climate Fund, an institution his predecessor helped create. Trump has lambasted the idea of wealthier nations financing global efforts to mitigate climate change. In announcing the U.S. withdrawal (https://www.washingtonpost.com/posteverything/wp/2017/06/02/trump-will-stop-paying-into-the-green-climate-fund-he-has-no-idea-what-it-is/?utm_term=.7af82eddcbb9) from the Paris agreement, he called the Green Climate Fund "yet another scheme to redistribute wealth out of the United States" that "calls for developed countries to send $100 billion to developing countries." It is still possible, though, that the State Department would participate in the creation of a new institution with the U.S. at the helm. There is some evidence: State Department officials helped craft the rulebook for the Paris agreement developed in Poland late last year, and the White House has reversed its hostile position on foreign aid with the creation of the U.S. Development Finance Corporation.

The Green Climate Fund is a lesson that institutional structure is central to the viability, relevance and credibility of the commitments made under the Paris agreement. A climate development bank, with buy-in from developed and developing countries, could fill that gap and establish the coordination and ambition needed to finance the fight against climate change. Without such an institution, the world cannot avert climate change's most disastrous effects, and the Paris agreement is close to broke.

Sagatom Saha is an independent international energy policy analyst and Fulbright researcher in Ukraine. His writing has appeared in Foreign Affairs, Defense One, Fortune and other publications.
