Climate Financing That Puts People First

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We need to find an equitable approach to financing for a climate-resilient future

As I read the daily headlines, I can't help but feel a sense of urgency and concern about our planet. An unprecedented number of calamitous climate events—floods and heat waves, superstorms, droughts, and uncontrollable forest fires, all connected to human activity—are putting people's lives in danger, disrupting economies, and causing havoc in the natural world. The need for climate action has never been more pressing, and innovative approaches to financing carbon mitigation and climate adaptation are critical to address these mounting problems. It's time to move from mere promises and pledges to concrete implementation, and resources must be allocated equitably and generously—putting people and the planet first.

Broad access to climate financing is indispensable to an effective fight against the global climate emergency. Hurricanes and heat waves know no borders. But today, global climate financing is regionally siloed and out of step with the scope and consequences of the crisis. Over 75 percent of global climate financing is spent in the countries where it is raised. As a result, many vulnerable regions—including those with a negligible impact on global warming in the first place—have limited access to climate financing.

Africa, for example, contributes less than 8 percent of global greenhouse gases but contends with a slew of climate-related maladies, including severe water scarcity, rising sea levels, and climate-sensitive diseases. Yet Africa receives less than 5.5 percent of global climate financing, even though the United Nations calls it a highly vulnerable region. Countries have a shared moral obligation to protect the global environment, as established by the principle of "common but differentiated responsibilities and respective capabilities," which was formalized at the UN's 1992 Rio Earth Summit. But not all countries have the same financial resources, and not all countries are equally responsible for the situation we find ourselves in.

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The amount of climate investment needed to prevent catastrophic degradation of the environment is staggering, estimated to hit $4.5 trillion a year by 2030 and rise to $6 trillion a year by 2050. Today, by comparison, a mere $632 billion is spent annually. These figures are sobering, especially considering that about 60 percent of developing economies' needs are not included in their Nationally Determined Contributions—pledges made under the Paris Agreement—which renders the $100 billion pledge made in 2009 at COP15 in Copenhagen pitifully inadequate.

What's more, just 7 percent of climate financing today is earmarked for resilience and adaptation, even though the Global Commission on Adaptation 2019 estimated that investing $1.8 trillion in initiatives such as early-warning systems and climate-smart practices over 10 years could yield $7.1 trillion in total benefits.

Complicating matters, the COVID-19 pandemic and Russia's invasion of Ukraine have led to higher food and energy prices and tighter financial conditions. These have added to the fiscal burden on emerging market economies and have tested their socioeconomic and environmental resilience just as temperatures are rising at unprecedented rates. These cascading events have siphoned money and resources from sustainability projects and caused sharp capital retrenchment that threatens to reverse decades of hard-won development gains. The World Bank estimates that climate change could jeopardize development progress by pushing 132 million people into poverty by 2030, particularly those living in Africa and South Asia.

The cost of implementing the climate agenda—in adaptation and mitigation—far exceeds available deployed resources. A bigger pool of funds is clearly needed. It is argued that if multilateral development banks dedicated all their funds to the green transition, it would amount to about 4 percent of the financing needed (World Bank 2020). Shifting only 1–1.5 percent of global private sector assets—worth over $450 trillion—would, however, bridge the climate financing gap

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(FSB 2021). Philanthropies are also well positioned to lend a hand. In recent years, philanthropic funds targeting climate action have grown rapidly. In 2020, climate-mitigation financing ranged between $6 billion and $10 billion, which, put in perspective, is less than 2 percent of all philanthropic financing worldwide.

This urgent need for funds has prompted an international call for a restructured global financial architecture to step up climate action and crowd in private investment for countries most in need. Among the most ambitious are the Bridgetown Initiative and the G20 Capital Adequacy Framework.

Leveraging financial opportunities and forging synergy between climate action and sustainable development were the impetus for the *Sharm El Sheikh Guidebook for Just Financing,* launched by Egypt, which held the COP27 presidency. The goal is to help stakeholders move more efficiently from pledges to implementation by identifying key players, including climate capital providers, and clarifying opportunities, risks, and potential partnerships for a climate-resilient future.

The guidebook introduced the first definition of "just financing" to transcend the notions of climate justice and just transition. The initiative puts people first. It focuses on the equitable allocation of benefits and burdens, and it emphasizes safeguarding the social dimension of the transition to a climate-resilient future. In a nutshell, it attempts to operationalize the principle of common but differentiated responsibilities and respective capabilities by addressing country ownership, access, affordability, and resource allocation bias. It also promotes "additionality"—benefits that are attributable solely to an intervention—and good governance. Along with 12 corresponding guiding principles, just financing "accounts for historical responsibility for climate change while ensuring equitable access to quality and quantity climate financing that supports resilient development pathways, leaving no one behind."

Accelerating the transition to a low-carbon and climate-resilient future requires collective action and the power of multistakeholder partnerships. This means unlocking funds from public, private, and philanthropic financial actors and boosting climate financing to developing and emerging market economies. The problem is that 77 percent of developing economies' sovereign credit ratings are "non-investment grade" and hence associated with high risk. There are also large information gaps regarding opportunities, investor appetite, and investment impact.

Closing the information gap is critical both for governments and investors and could, in turn, shed light on risk-return profiles, lower transaction costs, enable new financing mechanisms, and help generate high-impact investable projects that are Paris-aligned and contribute to country priorities.

Moving from policy to practice, Egypt is a case in point with the launch of its Country Platform for the Nexus of Water, Food and Energy (NWFE نُوَفِّي) during COP27 to emphasize country ownership and adopt a country-led, programmatic, bottom-up approach. NWFE نُوَفِّي (the Arabic means "fulfilling pledges") introduces the missing link of investable projects and bridges the information gap. It also harmonizes efforts to ensure sustainable and productive interaction between stakeholders. Through the design, structuring, and preparation of concrete and implementable mitigation and adaptation projects, NWFE was able to mobilize concessional financing and catalyze private investment. It made use of innovative financing, including blended and debt swaps for climate action (Al-Mashat and Berglöf 2023).

In the lead-up to COP28 in the United Arab Emirates later this year, it is important to take stock of successful experiences and promote knowledge sharing. The *Sharm El Sheikh Guidebook for Just Financing* provides a blueprint for countries to work together to address climate-related challenges and catalyze financing for our low-carbon future. **F&D**

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