

THE NEW STATESMAN

Spotlight

Thought leadership and policy

Climate Finance: Funding a greener future

Alok Sharma MP

Joseph E Stiglitz

Radha Wagle



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Did you know that the effects of climate change contributed to the \$343 billion in economic losses from natural catastrophes in 2021 – but only 38 percent of that was covered by the private insurance market and government sponsored insurance programs

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Global Britain and the war on climate action

On Thursday 27 October, as world leaders arrived in Glasgow for the Cop26 climate summit, Rishi Sunak sought to rehabilitate the government's "Global Britain" brand. Three months earlier, it had emerged that the government's "new" £11.6bn climate fund had been financed by swingeing cuts to the international aid budget. "It's robbing Peter to give to Paul," the Liberal Democrat MP Wera Hobhouse told *Spotlight* later in the year. "That is not leadership. That is cynicism."

Sunak wanted to set the record straight. Speaking in parliament, the Chancellor reminded MPs that, when the cuts had first been announced, he had told the House that if fiscal tests were met, "we would return to spending 0.7 per cent of our national income on overseas aid. And based on the tests I set out, the forecasts show that we are, in fact, scheduled to return to 0.7 per cent in 2024-25".

The announcement served its purpose: later that day, a number of publications reported that the £4bn foreign aid cut was "on course" to be reversed by 2024. But Sunak's prediction looks increasingly shaky. One of the conditions of his fiscal test is that "we are not borrowing for day-to-day spending and underlying debt is falling". The economic fallout from the conflict in Ukraine, sanctions, the jump in commodities prices, increased military spending and a series of base rate rises by the Bank of England threaten to derail progress to those targets. But the commitment is also imperilled by the increasingly vocal contingent of backbench Tory MPs who are capitalising on war in Europe and rising energy prices to push back on net-zero commitments.

Ministers mustn't bow to such pressure. The government's targets, while insufficiently detailed, are admirable in their ambition and the drive to show leadership on climate change has garnered cross-party support. But by funding climate finance commitments through cuts to international aid, Sunak has shown again that the fiscal conservatism of the previous decade of Conservative rule continues to this day. Austerity survived the pandemic, but the Global Britain brand is still on life support. ●

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Spotlight

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UN highlights risk of botched adaptation projects

The UN's Intergovernmental Panel on Climate Change (IPCC) has warned that poorly planned and executed climate finance projects may do more harm than good. The warning was included as part of the IPCC's 3,650-page *Sixth Assessment Report*.

In one example, a village in the southern Pacific island of Samoa used climate financing to bolster its coastal defences. However, the wall proved to be too short – exposing some people to even greater risks from the diverted sea waves – and was unpopular with tourists, undermining the local economy.

In the Bahamas, the IPCC found that the response to coastal erosion was “piecemeal” due to the proliferation of single projects in a small area, leading to

erosion becoming much worse in other areas. The report warned against reliance on “hard structures” such as walls for coastal defence – even ones surrounding an entire island – because of instances of sea wall collapse.

The IPCC said it had found “increased evidence” of maladaptation “across many sectors” since its previous report in 2014. It warned policymakers that maladaptation “can create lock-ins of vulnerability, exposure and risks” and that these “exacerbate existing inequalities”.

However, the IPCC said this can be avoided if projects and plans to adapt to climate change are “flexible, multi-sectoral [and] inclusive” and there is “long-term planning and implementation of adaptation”. ●

Billions in funds mobilised to help vulnerable nations

Governments and private organisations worldwide are investing in developing countries to help them tackle and adapt to climate change.

The Green Climate Fund – a multilateral fund that collates and disperses contributions from multiple countries – currently has more than 150 active projects in developing countries.

This includes mitigation work (cutting carbon emissions and limiting climate change) and adaptation (helping communities adapt to a changing climate and extreme weather). One project is transforming Costa Rica's transport sector by moving the capital San José towards an electric rail system. South Africa, the UK, US, France, Germany and the European Union are also working as a cohort with energy company Just Energy to deliver an \$8.5bn partnership that aims to move South Africa off coal and reduce its emissions by 1.5 gigatonnes over the next 20 years.

Some governments are working individually to help the least developed countries (LDCs). The Republic of Ireland has set up the Irish Aid Enterprise Fund for International Climate Action, which will offer companies grants of up to €300,000 to launch projects across energy, agriculture and health in LDCs and developing, small island states. Canada has also launched its \$315m Partnering for Climate initiative, which will fund projects in sub-Saharan Africa and for indigenous communities.

Many developing countries contribute few emissions but are severely impacted by climate change. Droughts and floods cause significant damage to island states such as Madagascar and lead to issues such as displacement and food insecurity. ●



IPCC: Window of opportunity for climate action rapidly closing

Time is running out to protect the most vulnerable from the effects of climate change, even if global warming is limited to 1.5°C, the UN Intergovernmental Panel on Climate Change (IPCC) has warned in its *Sixth Assessment Report*.

The report stated that more than half the world's population is "highly vulnerable" to multiple and "increasingly complex" risks and impacts from climate change and global warming. It added there have already been "substantial damages and increasingly irreversible losses" to ecosystems and biodiversity, while climate-related weather events

were causing "acute food insecurity and reduced water security" for millions in Africa, Asia, Central and South America, island states and the Arctic. Over-shooting the 1.5°C target would create irreparable "additional severe risks," according to the IPCC. In South and South-East Asia, it added, extreme heatwaves, drought and increasing urbanisation will put populations at risk across the region in the coming years.

While the authors noted progress on adaptation, they said this was "uneven", with noticeable gaps opening up, and that focusing on immediate impacts limited "transformational" change. ●

Gas price rises as Russia threatens to cut supply to Europe

As the Russia-Ukraine conflict escalates, the UK faces yet more concerns about rising energy prices because Russia has threatened to cut off its gas pipeline to Germany should the West commit to a proposed ban on its oil.

Although the UK receives less than 4 per cent of its gas from Russia, such a move would cause domestic prices to rise regardless as global markets face increased demand. This comes after months of worry about the cost of living, as households were told in February they may have to pay an extra £693 a year on their energy bills.

Ministers have since announced that sourcing alternative forms of renewable energy is a "priority for our engagement with key international partners", and that they intend to prioritise "cheap, clean renewable energy and nuclear power in the UK to reduce our reliance on expensive fossil fuels", having invested £90bn in these sources since 2012.

However, these policy proposals and technological innovations will not happen overnight, and there are no assurances that the public will not experience additional price hikes in the coming months and years as the conflict plunges the energy market further into volatile, unpredictable territory. ●

\$632bn

Global climate finance annual average

41m

Number of people with improved access to clean energy since April 2011

51m

Tonnes of carbon dioxide equivalent reduced or avoided since April 2011

Financing the future

Net zero is a growth story where we can all play our part

By James Close

In association with  **NatWest**

Finance is a key enabler in the drive to net zero and banks such as NatWest Group must play a major role in supporting businesses and individual customers on their journey to a more sustainable future – whether through helping families to purchase energy-efficient homes or supporting businesses and projects that create jobs and speed up the UK's transition.

It is now two years since NatWest CEO Alison Rose launched our purpose-led strategy, putting climate at its heart. Since then, we have been working hard to turn our ambitions into action. We understand our responsibility to lead in the fight against climate change. That's why we're aiming to deliver £100bn of climate and sustainable funding and financing by the end of 2025. However, we cannot do this alone.

As a founding member of the Net-Zero Banking Alliance and the Glasgow Financial Alliance for Net Zero (GFANZ) it was inspiring to see global finance joining us and mobilising to tackle climate change at Cop26. As the only banking sponsor of Cop26, NatWest Group is keen to build on this work and ensure the commitments and aspirations outlined in Glasgow become a reality.

While the scale of the transition required to reach net zero is vast, it is also an opportunity for our planet and for our economy. Our *Springboard to Sustainable Recovery* report, published last year, showed that small to medium-sized enterprises (SMEs) have potentially £160bn of revenue opportunities from the transition to net zero. Some 130,000 jobs and 30,000 new businesses could be created from the transition. There will be a cost to the change, and that is why we are determined to help our customers, but we can't lose sight of the fact that there is also a huge opportunity in terms of jobs and revenue.

There is also an important role for policymakers to support SMEs on their journey to sustainability. Our calculations show SMEs alone could deliver half of the UK's ambitious emissions-reduction target. But collectively we need to do more to help SMEs understand and take advantage of the opportunities available to them – illustrated by the fact that fewer than 10 per cent see climate action as a source of future growth.

The York-based Cooper King Distillery has successfully embraced this opportunity. The business was part of NatWest's Climate Accelerator



Small businesses have a crucial role to play in net zero

programme to support and mentor start-ups. In 2021, it launched the first “carbon-negative” gin in England. The company uses renewable energy and plants native to UK woodland to support its climate ambitions. It has seen a 22 per cent rise in its turnover, driven by the support of an engaged press and public looking for businesses who are taking action.

We also know that SMEs can reduce costs by taking action on their emissions, and NatWest is developing tools, financing and support to help them on these journeys. We recently launched a new green loan to incentivise our SME customers to reduce their carbon footprint. This complements steps we have taken to support our climate-conscious retail customers. We introduced a Green Mortgage, offering customers a lower interest rate on mortgages for the most energy-efficient properties, and we collaborated with fintech CoGo to become the first bank in Europe to provide customers with an estimated carbon footprint for their daily spend.

To help realise the opportunity from the transition for our customers, we

are putting in place the support mechanisms they need. But we also recognise that we need to lead by example by getting our own house in order. We've reduced our own emissions by 46 per cent against a 2019 baseline.

We've also completed credible transition plan assessments for oil, gas and coal, which will see us only continue to finance those that have a plan aligned with Paris. To underline our ambition to help bring an end to the most harmful activity, we've announced that we will fully phase out of coal in the UK by 2024 and globally by 2030.

Among a number of significant undertakings that NatWest Group has made, we are aiming to achieve net zero by 2050 across our financed emissions, assets under management and our operational value chain. We've also said that we will at least halve the climate impact of our financing activity by 2030, against a 2019 baseline. We are also signatories to the Science-Based Targets initiative and recently submitted our sector-specific emissions intensity reduction targets for them to validate – one of the first major banks to do so.

We know that combating climate change must be a collaborative effort – so we are continuing to build powerful partnerships to help accelerate the transition. In association with British Gas, boiler manufacturer Worcester Bosch, and Shelter, the housing charity, we established the Sustainable Homes and Buildings Coalition to improve the energy efficiency of buildings in the UK and to address the key blockers to meeting net zero in the UK built environment. We have also joined forces with other financial firms to launch Carbonplace, a voluntary carbon marketplace. The pilot – a global first – will see NatWest Group and other banks team up to create a thriving and transparent global marketplace for carbon offsets, with clear and consistent pricing and standards.

Climate change is the biggest challenge of our time. But as we work together to transition to net zero we should recognise that doing so is not only good for the planet, but can be good for business and our economy as well. ●

James Close is Head of Climate Change at NatWest Group



WPA POOL / GETTY IMAGES

The Cop26 president says witnessing the real-life impacts of climate change convinced him of its severity

“I wasn’t known as an eco-warrior”

Alok Sharma speaks to *Spotlight* about his journey to the Cop26 presidency

By Philippa Nuttall

The minor honeymoon that was Cop26 is well and truly over. Indeed, since Russia’s invasion of Ukraine, it could be argued that the world is a totally different place. Climate change, though, is not going anywhere and despite little action from the Prime Minister on the issue since the bright lights of the international conference were turned off, Cop26 president Alok Sharma has continued to beat the drum

for international climate action. However, whether the requisite amount of money will be there to deliver both more renewable energy and help poorer countries adapt to the impacts of extreme weather remains to be seen.

The UK’s international climate presidency is not over until Egypt takes up the reins at Cop27 in November 2022, meaning Sharma and the British government retain a certain

responsibility for ensuring the pledges made in Glasgow become concrete policies. Sharma was not the first choice to become the UK Cop president and environmentalists were initially critical of his appointment, highlighting his less than rosy voting record on green issues. But since being nominated, he has received nothing but praise for his hard work and his efforts to keep the wheels on the climate action bus turning.

“I am not someone who historically was known as an eco-warrior,” Sharma says cheerfully in a Zoom conversation with *Spotlight*, before admitting that “visiting people and seeing the impacts on their lives of living on the front line of climate change clearly had an effect”, bringing home to him the full threat posed by rising emissions.

Sharma cites Barbuda, four years after Hurricane Irma – the most powerful hurricane ever recorded in the Atlantic – struck. “There has been some reconstruction, but if you stand in the middle of the island you can see a huge amount of destruction; roofs blown off, crumbling walls,” he says. “People still living on the island... are really fearful about the future because they see these climate events becoming more frequent and ferocious.”

He also highlights his talks with women in southern Madagascar, which is experiencing what the UN says could be the first climate-induced famine after successive years of severe drought. “Listening to these individuals and hearing about the impact [of climate change] on their lives does have a transformative effect.”

That the world is already 1.1°C above pre-industrial levels may “not sound like a lot, but we are seeing the impacts around the world”, says Sharma, from “terrible flooding in China and central Europe to the wildfires that raged in North America”. Talk to farmers in the UK and they will explain the impacts of a changing climate on crop yields, he adds. “This is affecting us all, and the realisation across the world from governments that this is a shared challenge we have to rise to is one of the reasons we got nearly 200 countries to agree historic commitments in Glasgow.”

Delivering on pledges to reduce emissions and support poorer countries as they deal with the impacts of climate change will need lots of finance, however, and while progress regarding ▶

◀ cash was made on paper at Cop26, the reality remains complicated. Sharma highlights the commitment from richer countries to double finance for adaptation measures by 2025 and the plan that says “with some confidence we get to \$100bn [in climate finance] by 2023 at the latest”. But even if this money is delivered, it is still far too little and far too late, say climate campaigners and countries in the Global South. Developed nations should have already been delivering \$100bn a year in climate finance back in 2020.

And the contentious issue of who pays for “loss and damage” or the impacts of the climate crisis to which people cannot adapt, such as rising sea levels, remains unsolved. Poor countries want richer ones to pay and many want to see concrete action this year. Instead, there was agreement at Cop26 to set up a four-year programme to examine the issue. “The mood music [around loss and damage] is changing,” Sharma insists. “We will have to work through consensus to take it forward.” But 2024 is far away if you are a country already struggling to cope with a barrage of tropical storms, cyclones, floods and landslides.

Some suggest that the UK’s ability to negotiate on finance at, and in the lead up to, Cop26 was hampered by the government’s decision to cut development aid. In 2021, the UK, for the first time since 2013, opted to cut official development assistance from the UN target of 0.7 per cent of gross national income to 0.5 per cent. The question was “raised a few times when I went round the world, primarily by civil society groups”, says Sharma. But he insists that developing countries appreciate the financial commitments made at the climate conference, which were “helping to build trust” between nations.

Cop26 aimed to keep alive the possibility of holding global heating at 1.5°C above pre-industrial levels “and on that we delivered”, says Sharma. But he admits that much more needs to happen. “The pulse remains weak. We need to continue to work hard over the next year so commitments are turned into actions.

“I spent lots of time describing myself as a ‘shepherd-in-chief’ in the time leading up to Cop and at Cop itself,” he continues. Post-conference, he was more “auditor-in-chief”, holding countries to account, including the UK. “The question



“We need to work hard so commitments are turned into actions,” says Alok Sharma

of implementation is one faced by all countries,” he says, and states that Boris Johnson is “very committed to ensuring we drive the delivery of commitments from international partners in our presidency year”.

Sharma is “confident we will deliver a full-fat presidency”, including on financing the clean energy transition at home. Some commentators have questioned the will of the Treasury to support climate action, but Sharma points to the Chancellor Rishi Sunak’s pledge at Cop26 to make London the first “net-zero finance centre” as proof his department was fully on board.

At Cop, Sunak unveiled plans for every UK financial institution and UK-listed company to publish, from 2023, transition plans that “consider the government’s net-zero commitment” or, alternatively, explain why they have not done so. The government has said

it would also set up a taskforce to develop a “gold standard” for such plans, develop the metrics and tools to help companies transition, and reduce greenwashing. It also intends to set up a “transition pathway” that sets out how the UK financial sector will shift to net zero by 2050, with new policies and milestones.

But, at the end of February, the Intergovernmental Panel on Climate Change (IPCC) published its latest report. It made for grim reading. “[It] shows that the impacts of climate change are already with us and will affect us more severely than previously thought,” said Sharma in a joint statement signed with Sameh Shoukry, Egypt’s Cop27 president designate, and Patricia Espinosa, executive secretary of the United Nations Framework Convention on Climate Change (UNFCCC). They said that developed countries delivering on financial commitments is a vital part of “creating a climate-resilient society, with benefits for all”.

With the world’s attention currently focused on events in Ukraine, Sharma has his work cut out to maintain the momentum of Cop26 in what remains of his time as climate change’s “shepherd-in-chief”. ●

Philippa Nuttall is environment and sustainability editor of the New Statesman

“There is a realisation that this is a shared challenge”

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Insuring the future

The transition to net zero will trigger a major shift in capital expenditure – and insurers have a critical role to play

In association with **AON**

According to Aon's annual *Weather, Climate and Catastrophe Insight* report, weather and natural hazards led to \$343bn in losses to the global economy in 2021. In the US, Hurricane Ida cost \$36bn in insured losses, while in Europe, \$13bn of damage was inflicted by flooding in the month of July alone – the costliest amount recorded on the continent. More than half of the global \$343bn loss, 62 per cent, was uninsured, and for the countries, local communities and families affected, the impact was devastating, with homes, livelihoods and lives lost. Climate change means that the number and scale of such events is rising, on average, every year. Insurance can play a vital role in preventing these disasters and mitigating their impact.

“The transition to net zero will impact every industry, every nation, every individual, every firm in the world,” says Richard Dudley, Aon's head of climate strategy. “The whole economic system is going to be shifted and that will bring a host of new and evolving risks.”

Given the gravity of the challenges being contemplated, Dudley emphasises the insurance industry has perhaps the highest concentration of risk expertise of any sector, and so can play a pivotal role in the transition, particularly in the three key areas of enabling new technology financing (particularly those associated with the energy transition), encouraging physical risk mitigation initiatives (i.e. improving resilience to the actual effects of climate change), and providing cover for emerging liabilities.

“Governments and other financial institutions can lead on pledges to decarbonise the economy, but the flow of capital needs to accelerate,” says Dudley.

“Building a net-zero future requires huge amounts of capital to invest in building new infrastructure such as wind, solar and hydropower. Insurance plays a really important role in risk financing for projects such as new wind farms and solar schemes. These assets do not get built without the protection that insurance provides.”

Dudley points out that insurance is also crucial for reducing the risks and costs of developing new technologies, such as waste to energy (WTE) and carbon capture and storage (CCS) – including direct carbon capture where you're sucking CO₂ out of the air. Even carbon offsetting comes with its own risks: an institution that invests in



Europe experienced colossal losses in 2021 from flooding

The stats

From Aon's 2021 Weather, Climate and Catastrophe Insight report:

\$343bn

Economic loss (27 per cent above the 21st-century average) in 2021

\$130bn

Insured losses (76 per cent above the 21st-century average) in 2021

62%

Global protection gap in 2021

planting a new forest or protecting an area of rainforest or mangrove swamps needs to understand the risks and the vulnerability to wildfires or other events. As a sector, insurance companies are also significant investors, and should be setting ambitious targets for investment in the transition to net zero.

Insurance is key to building physical resilience to weather and natural hazards. This is most pressing in the Global South where the vulnerability is much greater," says Dominic Christian, global chairman of Aon's Reinsurance Solutions and chair of ClimateWise, a global insurance industry collaboration focused on action on climate risks.

"While some communities are at greater risk of flooding, others are vulnerable to extreme heat, and both will have an impact on communities, with climate change likely to exacerbate the trends towards more frequent natural catastrophe events.

"We already have an Insurance Development Fund [comprising representatives from a group of insurance industry firms including Aon] that is part of work to mitigate the impact of climate change, where the impacted communities are also the most likely to be uninsured against risks and losses."

Dudley explains insurers can encourage risk mitigation, for individuals, companies or governments,

and encourage adaptation. This could be providing products to encourage investment in new tech or standards to make buildings more resilient.

Meanwhile, insurance products can be tailored to address areas likely to be specifically affected by climate change.

"There are areas of insurance that are becoming increasingly innovative. For instance, parametric insurance responds to certain weather data," explains Dudley. That can include levels of rainfall, number of days of high temperatures, or low temperatures. So, if you are a company distributing energy, and climate change means the supply becomes regularly interrupted, you might face a massive financial loss.

"However, a parametric insurance policy would pay out based on just weather data – you don't have to prove a loss in the way that is necessary in a traditional insurance policy."

The third element insurers bring to the net-zero transition is the insurance of liabilities – everything from the liabilities associated with being a director of a company to working in a regulated market such as construction.

"There are many liabilities to be considered, which are all going to be affected by the transition to net zero," says Christian. "Companies that are making commitments to net zero – or will be forced to make changes by lawmakers or regulators – are going to

assume new or different liabilities, with a lot more associated risk. That is often regulatory and reputation-driven, and again, you can buy insurance to help to smooth the impact of taking on those new liabilities and keep investing in making the transition to net zero, which otherwise might be too risky.

"Meanwhile, many banks are asking hard questions of companies about net zero and their environmental, social and governance (ESG) policies. The problem is that each bank and financial institution has its own approach, making it hard to benchmark across companies and to coordinate action to ensure the best possible impact."

The insurance sector will play an important part in managing climate change: it will help to facilitate the movement of money into areas that require investment – through reducing the level of risk associated with those investments – and it will also help to provide the necessary resilience for the most vulnerable communities, which are more likely to be uninsured. This will help build equity in a world where individuals, businesses and governments will all face new risks.

This can only help to ensure that the transition to net zero happens at a fast pace. ●

Download the full report at: aon.com/weather-climate-catastrophe

Closing the climate inequality gap

Trillions are needed to help poorer countries cope with the consequences of global warming

By Sarah Dawood



Monsoon season in Nepal is typically from June to August. But in October 2021, the country witnessed an unseasonal amount of rainfall that led to disastrous consequences. Floods stemming from the Karnali River killed more than 100 people; homes, roads and bridges were destroyed; livestock was lost; essential crops were ruined. “People were crying in the rice paddy lands,” Radha Wagle, joint secretary of Nepal’s Ministry of Forests and Environment, tells *Spotlight*. “We could do nothing.”

Sadly, extreme weather events like this are becoming commonplace. The Nepalese Ministry of Home Affairs reports that between June and late October 2021, water-induced disaster has caused nearly 700 deaths and 200 injuries, while 69 people are still missing. Livelihoods are also jeopardised; up to 80 per cent of the crop harvest has been lost in some



When Hurricane Maria struck the Caribbean island of Dominica in 2017, more than 90 per cent of its structures were destroyed

areas, while crucial infrastructure such as renewable energy systems have been destroyed, undoing years of hard work in climate change mitigation.

“Many bridges, infrastructure, hydropower and drinking water schemes have been washed away over time,” says Wagle.

Nepal is a developing country that contributes very little to climate change yet is hardest hit by its consequences. It is expected to see a 2.2°C rise in temperature as a best-case scenario. As a small economy, it cannot afford to manage this problem on its own and needs both financial and technical support from richer nations.

In 2009, at the 15th Conference of the Parties (COP15) of the United Nations Framework Convention on Climate Change (UNFCCC) in Copenhagen, a commitment was made that developed nations would provide \$100bn in climate finance per year to poorer nations

starting in 2020. At Cop21 in Paris six years later, this was extended to providing \$100bn every year from 2020 through to 2025.

This promise was broken. In 2019, the OECD confirmed only \$80bn had been spent, and the latest figures show that developed nations have still not reached this milestone. Following Cop26 last year, the Glasgow Climate Pact set a new goal of reaching \$100bn per year by 2023 “at the latest”, as well as working with private organisations to unlock “trillions”. The Cop26 president, Alok Sharma (see pages 8-10), tells *Spotlight* that while it is “later than expected” he will be “working to ensure the commitments are implemented in full”.

Why was the \$100bn target missed?

Sources close to the negotiations tell *Spotlight* there were multiple reasons the \$100bn was not met. As the world’s largest economy, the US plays a significant part;

Donald Trump’s administration, known for its cavalier approach to the issue, took many steps to deregulate and weaken environmental protection.

Conversely, tackling climate change is a central part of Joe Biden’s policymaking, and he has committed hundreds of billions towards clean energy, electric vehicles, and defences for extreme weather. “Now we have an administration in place that puts climate front and centre and very much wants to do the right thing,” says the climate economist Gernot Wagner. “We are passing policies now after a four-year drought.”

In 2020, international funding and attention was also inevitably diverted towards the pandemic, putting many climate projects on hold. The \$100bn target had already been missed by this point but Covid-19 certainly stagnated plans further. Wagner says that climate change merits a similar “emergency” ▶

◀ funding approach, given its severity. Alongside halting progress, funding dedicated to pandemic economic recovery actually worsened the climate crisis – while lockdowns did result in a drop in carbon emissions, research from consultancy Vivid Economics found that only a tenth of the \$17trn bailout money went towards activities that positively impact the environment.

Iskander Erzini Vernoit, policy advisor on climate finance at the climate change think tank E3G, is optimistic that the \$100bn target will be met by 2023, and says nations have “erred on the side of caution” to avoid over-promising and under-delivering. “The estimates used by developed countries are intentionally quite cautious because they were wary of making the same mistake again,” he says.

The make-up of climate finance

While the UNFCCC’s promised \$100bn per year is majority publicly-funded, it does also include private contributions, which has been a point of contention. In 2019, nearly four-fifths of the \$80bn provided was from governments.

It is distributed in multiple forms, including loans, grants, guarantees (where a third party takes on a loan’s debt) and export credits (financial support to help buyers in developing countries purchase overseas goods). Funding can be bilateral (from one country directly to another) or multilateral (provided by many governments and institutions, then pooled and distributed by an international organisation such as the World Bank).

Prior to Cop26, it was announced in the Climate Finance Delivery Plan initiated by Sharma that \$500bn would be delivered in total by 2025. Some have queried why this misses out the \$100bn due from 2020, and say it could break the trust between developed and developing nations. “[The plan] falls short of committing to meet \$600bn over six years,” says E3G’s Erzini Vernoit. “It’s not retrospective, and only looks across 2021 to 2025.”

However, there was a “shift” in Glasgow from talking about the “billions” to the “trillions”, he says. The \$100bn figure is a starting point rather than the end goal, says Wagner – public funds would never be enough to tackle climate change, and the \$100bn should

be used productively to “mobilise” much greater private investment. “It’s a good focal point but a small number in the grand scheme of things,” he says. “It’s just a down payment.”

Concerns have also been raised about the “additionality” of the \$100bn – the UK and US have slashed their international aid contributions to 0.5 per cent and 0.2 per cent of GDP, respectively, in recent years, and there are worries that climate finance replaces this. Wagle says there is a “lack of clarity” between the two funding avenues in Nepal, and it is unclear whether money is intended to address climate change or to right past wrongs.

“The UK’s decision to cut its aid is profoundly misguided,” says Erzini Vernoit. “We cannot expect developing countries to applaud us for increasing climate finance if it is displacing [aid], and we cannot achieve resilience, adaptation and low emissions if countries are not able to meet their essential development needs in the first place.”

Grants vs loans

For smaller countries with unstable economies, such as Caribbean islands, taking on loans can place them further into debt. Charities such as Oxfam have argued that too many loans are being delivered via climate finance instead of grants, which do not require repayment. In 2019, 71 per cent of public climate finance was provided as loans while just 27 per cent came in the form of grants.

Wagle, the Nepalese civil servant, says that smaller, poorer nations should be treated accordingly. “We should not be getting loans for climate action,” she says. “We need grants. It is unfair – we do not contribute much to climate change or greenhouse gas emissions.”

E3G’s Erzini Vernoit says that financial instruments that create debt need to be “approached with a great degree of care” and that concessional loans – essentially discounted loans at

lower than market rates – should be offered. “Loans play an important part, but certain developing countries will have a better ability to take these on than others,” he says.

For private businesses, concessional loans can be extremely helpful to get projects off the ground and subsidise much larger investments. Dinesh Dulal, head of sustainable banking at Nepal’s NMB Bank, says that it is “very hard” to access concessional loans or loan guarantees (where a third party takes on debt) from institutions such as the World Bank. Instead, NMB borrows from the World Bank’s private sector arm, the International Financial Corporation, but is stifled by very high borrowing and foreign currency rates.

“Public funding is not sufficient to meet the bigger climate goals – \$100bn sounds high, but if [Nepal] doesn’t get anything from that it’s no use to us,” says Dulal. “There needs to be a holistic approach that engages private institutions to leverage public funding. We are not looking for grants – we just need easy access to concessional resources.”

Nepal is rich in natural resources such as water and, with the right intervention, could successfully support itself through energy systems such as hydropower, and export to neighbouring countries that rely heavily on coal such as India – but currently the Indian government blocks exports. “We are wasting clean energy and they continue to use fossil fuels,” says Dulal. “The UNFCCC could put pressure on [India] to give us market access.”

There are other clever ways to generate private investment, says economist Wagner. One mechanism is the “auctioning” of limited public funds to the highest bidder. Private companies submit ideas of how they would use the money and the company with the “biggest bang for their buck” – highest emission reductions for the lowest cost – wins. “This ‘effective altruism’ can potentially leverage massive private funds with limited public money,” he says.

Government “demonstration projects” can also be used to encourage private investors to take on similar ventures. For instance, International Climate Finance (ICF) – a portfolio of projects from multiple UK government departments – invests in climate projects such as resilience-building and

“The decision to cut aid is profoundly misguided”



A downpour causes flooding in Accra, Ghana in 2020

clean energy for developing countries. These are used to prove to investors that such projects can be scaled up or replicated and create positive returns.

A new focus on adaptation

Most climate finance is currently spent on mitigation (reducing climate change, such as by moving countries off fossil fuels) rather than adaptation (adapting people to life in a changing climate, such as through building a sea wall to tackle sea level rises).

Mitigation projects tend to be prioritised because they reduce carbon emissions and therefore have a global impact, whereas adaptation is localised and benefits specific communities. The OECD estimates that mitigation takes up nearly two-thirds – 64 per cent – of climate finance spend.

Mechanisms such as “auctions” or “demonstration projects” make more sense for mitigation projects, such as building a solar or wind farm. Adaptation projects, such as safeguarding a community against increased drought or flooding, tend to be more complex and less commercially viable, says E3G’s

Erzini Vernoit, so public funding will play a “massive role” in this. A commitment was made at Cop26 to double the amount of adaptation finance levels by 2025.

Countries such as Nepal urgently require adaptation, as they are severely impacted by extreme weather. Dulal believes that climate finance is dominated by bigger developing countries such as India and China, and that the UNFCCC should create “country-specific budgets” based on risk and vulnerability assessments – according to Oxfam, 14 per cent of climate finance goes to the least developed nations and only 2 per cent to small island developing states.

There is an obvious need to move giants such as China, India and Indonesia off coal if we are to limit global warming to 1.5°C. But there are ethical questions around whether public money should be spent on the world’s second-largest economy, rather than smaller countries facing significant “loss and damage” – when the impacts of climate change are so severe that they breach the limits of adaptation, such as

a town having to relocate. “With China, there is a question of whether they lack finance or political will,” says Erzini Vernoit. “Small, developing countries will ask why other countries should be rewarded for being bigger polluters; they need help too, even if it doesn’t create the same dent in emissions.”

For bigger countries, country-led partnerships could be a successful way to shift off fossil fuels without expending too much public finance. At Cop26, an \$8.5bn South Africa partnership was agreed with Canadian company Just Energy. This will see developed countries work with South Africa to cut its emissions significantly through a mix of public and private funding, with the initial money just a starting point to get the project running.

Excessive red tape

Even applying for public funding is a major hurdle for developing countries. Civil servant Wagle says that the laborious, slow process requires Nepal to find an “accredited agency” and has hindered the country’s nationally determined contributions (NDC) – its ▶

◀ national climate plan. “I don’t know why it’s so complicated – we cannot directly access funds,” she says.

It can take years to get projects through, meaning plans are out of date by the time they come to fruition. Despite formulating its NDC in 2020 with targets to meet in 2025 and 2030, Wagle says that Nepal has not seen any support for its proposals. “Over a year has passed since we developed our NDC,” she says. “We have huge plans but we don’t have the budget.”

She believes that developed countries are “escaping their responsibilities” by placing the onus of navigating the system on poorer nations. “They should be helping to make us more coordinated,” she says. “They need to motivate us by setting aside money – this is not our duty.”

Accessibility was an issue acknowledged at Cop26, and the UNFCCC has committed to setting up a Taskforce on Access to Climate Finance working with five pilot countries. Erzini Vernoit says there is more that needs to be done to “expedite” access, particularly via multilateral avenues such as the Green Climate Fund, which pool money from multiple governments. “Countries need to go through enormous bureaucratic, costly and labour-intensive processes, often when [their plans] are time-sensitive,” he says. “I think we still have a lot more to see delivered on that agenda.”

What needs to happen next?

The \$100bn goal is not an ultimate target, says the economist Wagner – there should be a focus on innovating to generate more money through private means. “Is being able to ‘declare success’ actually what we want to do?” he says. “More money is always better.”

No government will be able to provide the trillions necessary, says Julian Havers, programme leader of public banks at E3G; private and public sources will need to work together to “co-share risks”. Creating such an environment would encourage more private investors to commit to projects in developing countries. For instance, the green bonds market – where investors lend to private institutions or governments to help them finance environmental projects, then receive interest on the investment – might be more attractive if the burden was shared.



Extreme climate events restrict Nepalese communities’ access to drinking water

A more organised and cohesive system would help ensure individual countries’ needs are met, says Erzini Vernoit – for example, collating every country’s national climate plan, or NDC, could help to calculate overall costs for similar projects and develop more accurate financing strategies. Establishing country or region-specific online platforms where countries log their needs and send clear requests to developed countries on providing contributions would also improve finance flow.

Divvying up money is a difficult task and Wagner believes that there are three core considerations: the ability to leverage private funds rather than relying on public funding long term; the scale of public benefit, so how many lives and livelihoods will be saved; and whether it compensates for past sins, helping those most impacted by climate change. “There are three criteria of cost-effectiveness, efficacy and equity,”

“Marginalised communities are hit harder than anyone”

he says. “Sometimes projects capture two or three, but often they compete with each other.”

Wagle also believes that developing countries need to ensure local people feel the benefits of governments’ plans. Nepal’s climate policy states that 80 per cent of the funding it receives from international mechanisms must help on a local level. “Grassroots people who depend on natural resources, including marginalised and indigenous communities, are hit harder than anyone,” she says. “Every country has to be responsible for a strategy that reaches them.”

There is no easy solution for helping developing countries tackle climate change. There is an obvious conflict between targeting big emitters for the global good and helping smaller nations adapt to a changing world. What is clear is that \$100bn per year would never be enough, and collaboration between governments and private organisations is essential to generate the trillions needed. Translating those 13-figure sums into real-life affirmative action is the next hurdle. “Developed countries are the biggest polluters and the [poorest] countries are the victims of that development,” says NMB Bank’s Dulal. “Our contributions are negligible, but we are very vulnerable. We need support – so please provide us with easy access.” ●

“Everything the neoliberals said was wrong”

The Nobel laureate Joseph E Stiglitz on the economics of the climate emergency

By Jonny Ball

In 1960, Gary, Indiana, was home to 178,000 people. The town’s lifeblood was the steel industry – Gary was even named after the first chairman of the United States Steel Corporation, Elbert Gary – and at its height the steelworks directly employed over 30,000 people. In the early 20th century, waves of migrants flowed into the city seeking work on the southern coast of Lake Michigan in factories well-placed to feed the assembly lines of Chicago and Detroit as the US became the world’s dominant industrial powerhouse following the First World War. But in the second half of the 1900s, the city went into decline. Like many Rust Belt towns, its over-reliance on a single

industry left it vulnerable to the ebbs and flows of world trade, globalisation and technological advance.

Today, the town’s population is barely over a third of its peak. The exodus began as US steel became exposed to lower-cost imports. The industry now employs just a sixth of the workers it once did, and Gary is more likely to be mentioned for its 13,000 abandoned, decaying buildings than for its impressive output of quality steel.

“There must have been something in the air of Gary that led one into economics,” writes Joseph E Stiglitz, the Nobel prize-winning economist, former chief economist at the World Bank, former chair of Bill Clinton’s Council of

Economic Advisers, and university professor at Columbia University. “Certainly, the poverty, the discrimination, the episodic unemployment could not but strike an inquiring youngster: why did these exist, and what could we do about them?”

Far from echoing the paeans to economic liberalisation that have often been the hallmark of mainstream economists for the past four decades, Stiglitz has been a consistent critic of untrammelled globalisation and laissez-faire, free-market orthodoxies. Speaking over the phone from his office in New York, he tells *Spotlight* “the world faces a huge inequality crisis. Anybody looking at the data of the last 40 or 50 years has been astounded... in my own academic lifetime I have seen numbers moving in ways that are hard to believe.”

Born in 1943, the neo-Keynesian came of age in a period of healthy post-war growth; robust, interventionist states; and a heavily unionised labour force. He was a fervent opponent of the extreme fiscal conservatism embraced by governments in response to the 2008 financial crisis. During the Occupy movement he wrote that inequality and austerity dampened productivity, harmed growth and threatened the future of our democratic politics (as well as hampering our ability to deal with long-term threats such as climate change). “What is disturbing to me,” he says, “is that when people are not content, if they don’t understand the underlying sources... They can fall prey to a demagogue.”

In the 1990s, Stiglitz sat on the Intergovernmental Panel on Climate Change (IPCC), the UN body established to monitor and study human-induced global warming and its effects. At that time, he says, “it was already clear that it was real, significant, and was going to have a big impact”. But since then, the potentially devastating shockwaves have only become more apparent.

The latest IPCC report, released in February of this year, warned that the impacts of climate change were making themselves felt beyond the upper limit of previous estimates. Secondary effects are accelerating warming in ways that were previously unforeseen. “Several of the issues that have come to prominence over the last 30 years just weren’t part of our awareness,” Stiglitz says. “The melting of the Arctic ice cap, which ▶



BRENDAN HOFFMAN / GETTY IMAGES

◀ leaves the Earth unable to absorb as much heat; the methane gas release in the tundra, which is again an explosive kind of event; the breaking off of the Antarctic ice caps and glaciers – we were aware of the presence and possibilities of these non-linear systems and feedbacks of that kind but we weren't really aware of the magnitude of it. We just didn't really know.”

In spite of the increasingly dire warnings of climate scientists, the Nobel laureate remains “basically fairly optimistic” that the world can limit warming, adapt and mitigate its effects. But it will take new approaches to public investment, a rethinking of the relationship between markets and the state, and dynamic ways of mobilising financial resources that break with the past four decades of omnipotent market fundamentalism.

Not everyone is convinced. Conservatives on both sides of the Atlantic have the green agenda in their crosshairs. The Trumpist Republican Party remains resolutely opposed to the Paris Agreement. Stiglitz recalls that “even Republicans were worried [about the climate]” 30 years ago. “The question was only how fast we should take action. There was no movement of climate denial... It hadn't been politicised in the way that it has now.”

In the UK, a Net Zero Scrutiny Group has formed on the Tory party's backbenches, hoping to emulate the success of the Eurosceptic Spartans of the European Research Group. Some are sceptical of man-made climate change, some think we should save ourselves the trouble while China opens up new coal power stations, and others baulk at the government's Green Industrial Revolution for its excessively statist, tax-and-spend, Labour-ish policy proposals. Traditional, small-state Thatcherites and deficit hawks on the government benches bemoan the exorbitant cost of the green transition: the Chancellor, Rishi Sunak, is known to be a stickler for balanced budgets that have reined in the natural tendencies of a spendthrift Prime Minister.

In the post-Covid era, with bloated levels of sovereign debt, a squeeze on household spending power, and rapid inflation on the horizon, some question the affordability of ambitious environmentalism. “I focus on the real side of the economy,” Stiglitz says. “I

focus on questions like, ‘do we have enough demand for labour and capital to keep everybody fully employed?’ But in terms of the questions raised about finance, of ‘can we afford it?’ Well, if we can manage the real side, then the finance can always be triggered to ensure that it's not a problem. I'm not worried about the finance side, particularly in a world where interest rates have remained relatively low.”

We're speaking at the beginning of the year, before the Bank of England and the Federal Reserve raised interest rates citing concerns over the highest inflation figures in 30 years. That will mean the cost of both public and private borrowing will grow, government debt will be more expensive to service, and investment, consumer demand and economic activity will be suppressed. Economists in the monetarist tradition have pointed the finger at the bulky stimulus programmes and coronavirus-related recovery spending initiated by governments in response to the pandemic. That spending was buttressed by successive rounds of quantitative easing – newly created money pumped into government bonds in order to support stressed treasuries.

But the celebrated economist is sceptical of excess demand being at the root of inflationary pressures. “Any economist will tell you [that] you have to live within your resource boundaries, that there are limitations on resources,” he says, pouring cold water on the more extreme claims made at the fringes of so-called Modern Monetary Theory. “But we've been obsessively focused on that. Inflation has not been a significant problem for 40 years. And even the inflation we had in the 1970s, 50 years ago, was supply-side not demand-side inflation, when the price of oil soared. It wasn't profligacy that led to that inflation, it was a supply shock. And the way to respond to a supply shock is not to kill the economy by raising rates.”

“Discontented people can fall prey to a demagogue”

Yet these warnings look set to be ignored. Spooked by rising prices, the major central banks are expected to begin successive rounds of rate increases in the coming months and even years (although, at 0.5 per cent, the cost of money is still extremely low in historical terms). The ongoing conflict in the Ukraine will further increase pressure on prices, as agricultural exports from the bountiful Black Sea region, as well as from the world's largest wheat exporter, Russia, are disrupted. With much of their foreign currency reserve cut off by sanctions, Moscow's lucrative trade in oil and gas to Europe – now effectively financing their foreign wars both in Syria and in Europe's periphery – will come under intense scrutiny as costs per barrel reach 14-year highs. Despite troop build-ups and the warnings of US and UK intelligence, when Stiglitz spoke to *Spotlight* the mooted invasion of Ukraine felt distant and implausible. He referred ominously to “new tensions that have arisen between the advanced democracies and some of the countries that are not so democratic”, hoping that “we can manage those, recognising that we need to cooperate even if we don't agree with somebody”.

The coming years could see a period of “stagflation”, with growth stymied by geopolitical instability, energy insecurity, an effective severing of the economic ties between the West on the one hand and China and Russia on the other, continued price rises in the midst of resource scarcity, and a period of deglobalisation. Even prior to the conflict, a shift in economic thinking had been diagnosed in a world transformed by both the imperatives of the coronavirus and of accelerating climate change. The age of neoliberal triumphalism, of worldwide market integration, of trade liberalisation and of limited government is over.

“I think that many people took globalisation too far,” Stiglitz contends. “Everything that the neoliberals told us – that everything was going fine, that there was trickle-down economics, that everybody was doing well – that was all so obviously a lie, was so obviously wrong. And there was such discontent growing, with people not knowing why it was failing – but something was clearly wrong.” ●

Working towards a greener financial future

Investors must focus on real-world impact to enable the transition to net zero

By Eva Cairns

In association with 

Climate change is one of the largest threats of our time and impacts not only future generations, but also many countries and companies around the globe today. Tackling it requires trillions of dollars of investment every year to transform our world into one that emits net-zero greenhouse gases. It also requires public and private sector collaboration and the right incentives and infrastructure to accelerate the transition at the rate needed. As we look ahead post-Cop26, it is clear that promises need to be translated into binding actions, not just to decarbonise, but also to build resilience and adapt to the physical impacts of climate change. The recent Intergovernmental Panel on Climate Change report on climate impacts, adaptation and vulnerability emphasises that impacts will be severe and, in some cases, irreversible – even if warming is limited to 1.5°C. Investment in adaptation is therefore just as important as mitigation.

In November 2021, during Cop26, the UK government announced it would become the world's first net-zero-aligned financial centre. Under the proposals, there will be a requirement for all UK-based financial institutions to produce credible transition plans setting out their decarbonisation strategies in order to meet net-zero 2050 targets. We welcome and support this initiative and transparency as we strongly believe that unified, clear standards are an integral component to success. However, it is also important to recognise the complexity of being a global UK-based company working across continents with different commitments and policies and the challenges that can bring.

Achieving net zero – the importance of real-world decarbonisation

To reach the global ambition of net zero, we believe that the asset management industry has a significant role to play in allocating capital that can support the transition and invest in the new climate solutions the world needs. To do this, the industry must seek real-world decarbonisation – that means supporting the transition of carbon-intensive sectors through active ownership. We believe that this is a more effective strategy than simply decarbonising portfolios by moving



Bolder, collective action is desperately needed to achieve global climate goals

away from these sectors. We aim to meet our own target to reduce the carbon intensity of our portfolios by 50 per cent by 2030 by delivering on our Net Zero Directed Investing strategy. It is underpinned by research and data to ensure that we are truly integrating climate change factors into our investments. We also have a range of investment solutions that enable clients with climate goals to meet them. Our membership of the Net Zero Asset Managers initiative demonstrates that we are committed to supporting the path to net zero and will collaborate with clients to increase our assets under management (AUM) aligned with net-zero goals.

Another critical factor in reaching net zero is active ownership via engagement and voting. We engage with our investee companies to understand how they consider climate risks and opportunities in their business plans and the credibility of their transition strategies. We engage with

companies across our equity and credit holdings seeking transparency on progress against clear transition milestones assessed against relevant standards such as the Climate Action 100+ net-zero benchmark. We will divest from these companies where, after two years, we consider insufficient progress has been made against the transition milestones set.

Accelerating the transition

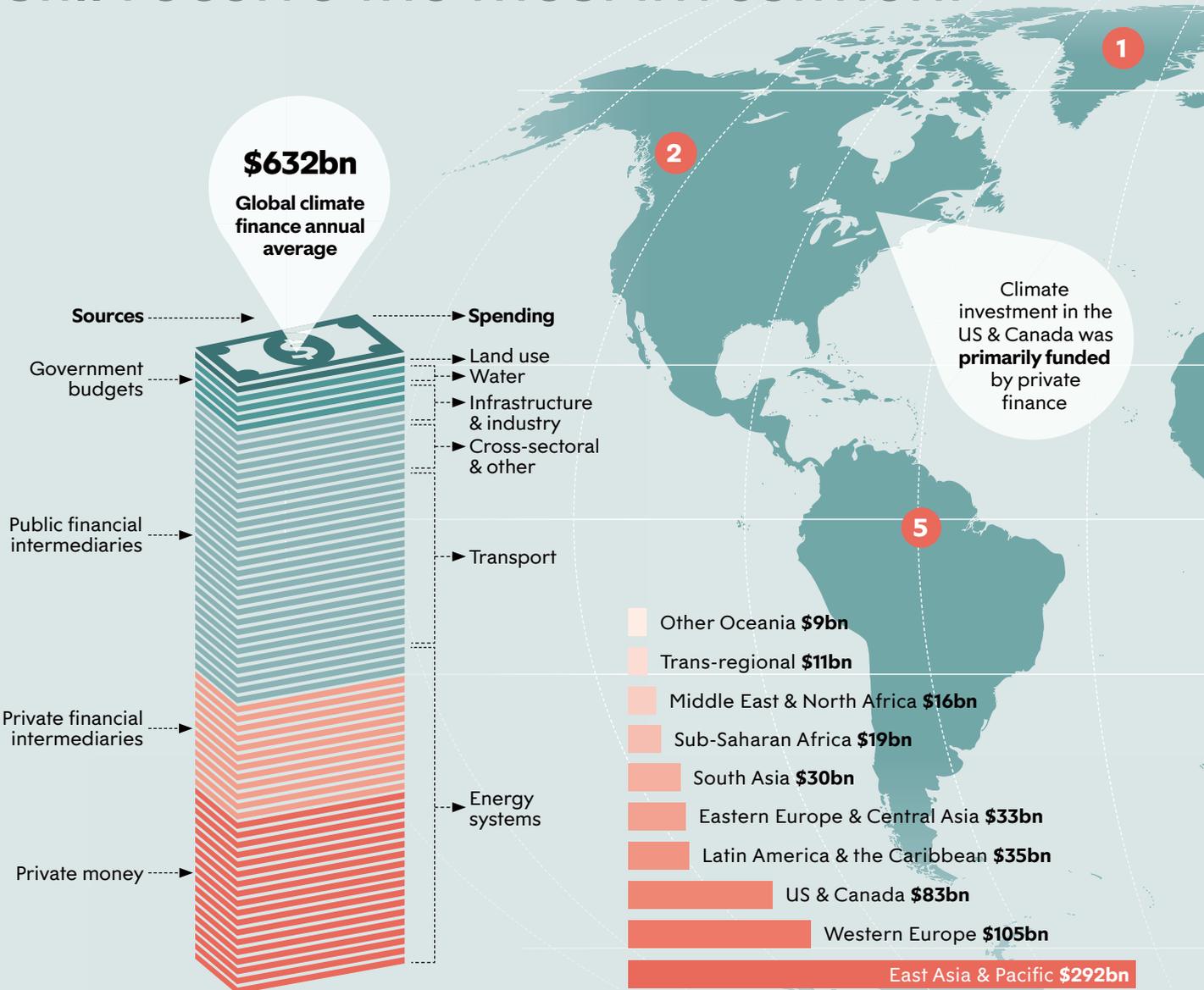
In order to accelerate the transition, the promises made at Cop26 need to be put into practice. Bolder, collective action is desperately needed both to achieve the overall climate goal and for corporates and asset managers to achieve their own net-zero ambitions. Importantly, developed nations should move faster and support developing nations in their transition. The side agreements made at Cop26 are usually not legally binding and we are concerned they will not be transposed into concrete national legislative changes at the pace required.

Critically, countries' aggregate nationally determined contributions (NDCs) would still take us to a 2.4°C world according to the latest Climate Action Tracker analysis. This is broadly in line with our own climate scenario analysis where our mean climate scenario results in temperature rises of 2.2°C. Effective incentives in the form of appropriate carbon pricing are absolutely critical to enable capital allocation in line with net zero and create an investment environment that rewards companies and investors that take climate action. Together, the private and public sectors can collaborate to accelerate the pace of change and we are looking to Cop27 in November 2022 in the hope that updated NDCs will take us closer to the 1.5°C goal. This is the decade in which global emissions need to be halved and we're rapidly running out of time. ●

Eva Cairns is Head of Climate Change Strategy at abrdn

How climate finance flows globally

Money is moving but rich nations still receive the most investment



Finance flows

How climate finance is split between funding sources

Spending by region

Developed countries receive the most financial assistance

Climate events

2021 was a historic year for extreme weather events

It rained – rather than snowed – for the first time on record at the peak of the Greenland ice sheet **1**

A heatwave in Canada – and adjacent parts of the US – pushed temperatures to nearly 50°C in a village in British Columbia **2**

Flash floods in the province of Henan, China, were linked to more than 302 deaths, with reported economic losses of \$17.7bn **3**

Syria faced its worst drought in 70 years. Aid groups described the situation as an “unprecedented catastrophe” **4**

Persistent high rainfall led to significant flooding in South America – the Rio Negro, Brazil, reached its highest level on record **5**

East Asia & Pacific accounted for **almost half** of 2019/2020 tracked global climate investments

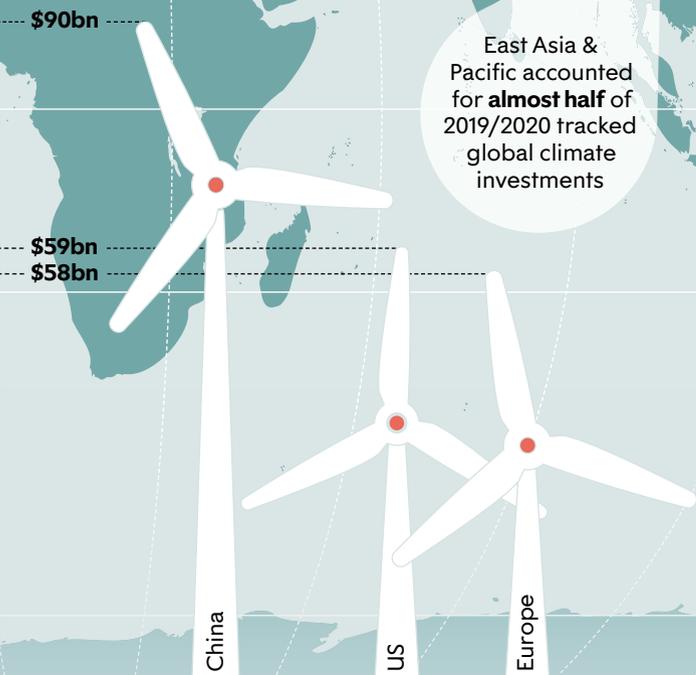
Success stories

From April 2011 to March 2021, it is estimated that UK International Climate Finance projects have...

Directly supported 88 million people to cope with the effects of climate change 

Reduced or avoided 51 million tonnes of greenhouse gas emissions 

Installed 2,400 megawatts of clean energy capacity 



Renewable energy

China was the biggest renewable energy investor in 2019

SOURCES: PUBLIC.WMO.INT (STATE OF CLIMATE IN 2021); CLIMATEPOLICYINITIATIVE.ORG (GLOBAL LANDSCAPE OF CLIMATE FINANCE 2021); STATISTA.COM (NEW INVESTMENTS IN RENEWABLE ENERGY WORLDWIDE IN 2019); GOV.UK (UK CLIMATE FINANCE RESULTS 2021); ALJAZEERA.COM; UNFCCC.INT (STATE OF CLIMATE IN 2021)

Calculated risks

Insurance companies are coming under scrutiny for their climate actions

By Samir Jeraj

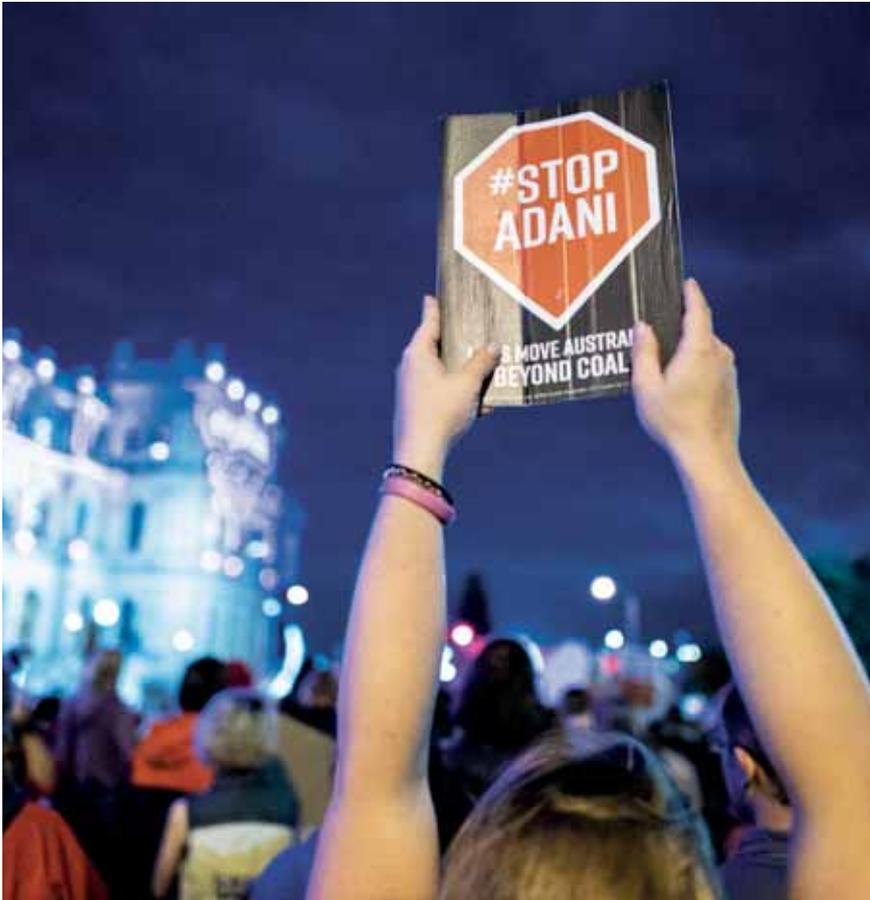
In 2017, Henri de Castries, the head of the multinational insurance firm Axa, announced that not just his company, but his industry, would become unviable due to climate change if warming reached 4°C. It was a stark warning from an industry founded to understand, manage and balance risk.

Insurers have been raising the issue of climate change for decades. In 1973, Munich Re published a report on flooding that highlighted the risk from future climate change on weather-related losses. From the 1980s, insurers saw a steady increase in losses from “disaster” events, and started to better understand the role of climate change. However, despite these warnings and being one of the first industries to understand the potential impact of global warming, most companies continued to finance and enable fossil fuels. Action across the sector has, however, peaked due to pressures from outside and within.

“The insurance industry had a lot of interest earlier because it understood some of the uncertainties and the modelling that’s needed to look to the physical risks of climate change,” explains Bronwyn Claire, ClimateWise lead at the University of Cambridge’s Institute for Sustainability Leadership. ClimateWise represents a network of leading insurance industry organisations aiming to work with academics to tackle climate change.

“We’ve moved from what has historically been a qualitative analysis,” she continues. “[Now] the IPCC [Intergovernmental Panel on Climate Change] data becomes much more detailed and you are understanding particular perils and particular geographies – you are then able to update the natural catastrophe models and see how it’s going to alter your business model yourself.”

“This is a massive shortcut to climate action,” says Adam McGibbon, UK campaign lead at climate activist group Market Forces. “The reason why we’re going after insurance companies is because they play a critical role,” he explains. Without insurance a company cannot get a bank loan, and in a sector such as coal, oil and gas, it is critical to enabling the extraction, production and transportation of fossil fuels around the world. “It’s a weak spot; that’s why we’re going after it,” he says,



Climate activists are putting pressure on insurers that enable fossil fuel projects

adding: “The insurance industry doesn’t need the fossil fuel industry, whereas the fossil fuel industry does need the insurance industry.”

One of the key international campaigns for non-governmental organisations (NGOs) such as Market Forces is the Adani Carmichael coal mine in Australia. So far, around 44 insurance companies have pulled out of the project, or have committed not to insure it in the future. Some have gone further, with Convex, which confirmed it would not be involved with the Adani mine in early February, committing to never insuring any new coal mines anywhere in the world.

Multinational corporations that struggle to find an insurer willing to take on the risk sometimes take it on themselves. They can set up a “captive insurance company” owned by the parent firm. However, this is an expensive way to secure insurance and a red flag to the wider market that the project is too risky to be insured.

“Insurers are rapidly withdrawing from coal,” explains McGibbon, at a time when 19 major global insurers had policies that restrict coverage of the coal sector (with seven doing the same for tar sands). This means that the remaining insurers can raise their prices and increase the cost of business for coal. “The key is to branch that out into oil and gas,” he says.

Projects such as tar sands, fossil fuel pipelines, and new oil and gas projects are already the subject of intense scrutiny and campaigning, so bringing that to bear on the insurance companies providing coverage could see a similar shift happening. “We are probably going to see a very accelerated move away from oil and gas in the insurance industry, but it’s not happening fast enough at the moment,” McGibbon observes.

The need for a rapid move away from fossil fuels is shared by some other unlikely and influential players. In 2021, the International Energy Agency (IEA) – historically seen as being sympathetic to the fossil fuel industry

– published its *Net Zero by 2050* report. It says, at a minimum, there should be no new fossil fuel exploration. Warnings from players such as the IEA have had an impact on the financial sector and their investment decisions. Insurers, too, are investors in their own right, buying up stocks and securities to realise dividends, and around 40 have divested from fossil fuels, according to the NGO Insure Our Future.

“The entire global economy is underpinned by the global financial system,” explains Butch Bacani, programme leader of the UN Environment Programme’s Principles for Sustainable Insurance Initiative. If the financial system is geared towards sustainable development, he continues, then it could be an ally. Insurance companies can play a role in understanding and reducing the risks from climate change, providing insurance cover to ensure protection, and being a responsible institutional investor.

In 2006, the UN launched a set of Principles for Responsible Investment with institutional investors, including insurance companies. The principles covered environmental, social and governance (ESG) issues – including climate change, biodiversity, human rights and corruption – as “material” issues that would have an impact on the performance of their investments, Bacani explains. From there came a set of principles for sustainable insurance, and in 2021 the Net Zero Insurance Alliance, bringing together 21 global insurance companies that are committed to using their power to help decarbonise the economy.

The next steps are to get a better handle on the scale of the challenge. But the current standard for the carbon accounting of financed emissions only covers investment and lending, not insurance, explains Bacani. From here, institutions can set targets to align their investments to net zero – and can be accountable for whether meeting those targets leads to an active reduction in emissions.

“Insurance is now not only being viewed as a form of financial protection, it’s being viewed as an enabler of activities. Whether it’s enabling sustainable or unsustainable activities is a question to be answered,” says Bacani. ●

The hidden threat

How the spectre of corruption haunts the climate crisis

By Zoë Grünewald

In Bangladesh's Barguna district, a government-built cyclone shelter was supposed to protect the local fishing community from dangerous rising sea levels and heavy rainfall. As much of the land mass of Bangladesh is less than 12m above sea level, millions of people are increasingly vulnerable to the effects of climate change. In 2020, a devastating monsoon left one quarter of the country under water, 1.3 million homes damaged and hundreds dead.

Many of the climate adaptation projects in Bangladesh are designed to be dual-use, meaning embankments can act as roads when not in use, or cyclone shelters can double as schools or

community centres. In this case, research by Transparency International – an international organisation dedicated to the global fight against corruption – revealed the engineer responsible for building the shelter had persuaded the authorities that there was a madrasah (a religious school) nearby, which the cyclone shelter could house when not being used for its intended purpose. In reality, there was no madrasah, and, instead, the engineer built the shelter next to his own house – because doing so was more convenient – leaving many of the locals cut off from it by a river.

Iftekhar Zaman, the executive director of Transparency International

Bangladesh, had been monitoring this case for a while. When Zaman's team investigated the progress of the project, it was clear the engineer had lied about the school: "He managed to get some youngsters dressed up as students to come around the shelter, but they couldn't enter the so-called madrasah because everything was shut down." When Zaman interviewed the community, the locals despaired – they were left with an empty, unusable shelter when there were plenty of schools nearby that could have benefitted from it.

Unfortunately, this case is not unusual. In reality, corruption in climate financing efforts is an all too common occurrence across the globe. U4, a team of anti-corruption advisers at the Chr. Michelsen Institute (CMI) in Norway, says that although "financial losses from corruption are notoriously difficult to determine", some estimates show that in the water sector alone, it may be that as much as 15 per cent of climate funds are lost to corruption. As U4 points out, this has serious consequences, reducing the effectiveness of climate programmes, increasing the rate of damaging activities, such as deforestation or pollution, and increasing the influence of corporate interests. Transparency International has drawn attention to the various forms of corruption evident in climate financing, including governments making laws under the influence of fossil fuel companies, forests and biodiversity lost to illegal logging, and failed infrastructure projects like coastal defences or emergency shelters, where contracts are given to those who have prior ties to the government.

For many experts, much of the challenge of addressing corruption in climate financing is a result of how difficult it is to identify. This is in part due to the insidious nature of behind-the-scenes corruption, but also that it takes years, and a natural disaster, to realise the full extent of the abuse. Brice Böhmer, head of regional projects at Transparency International, also points out that many climate aid projects take place where oversight is difficult – often in poorer, more isolated areas. Böhmer explains that because much of the science behind climate change projects "is quite technical and starts to be complicated quite quickly", often the importance of



Cyclone Jawad devastated parts of Bangladesh in 2021

a project can be lost in translation when trying to provide local citizens with oversight.

As Böhmer says, there is a strong correlation between states that are highly vulnerable to climate change and those that are high on Transparency International's Corruption Perceptions Index. U4 substantiates this claim, stating that "the largest recipients of climate-related ODA [official development assistance] are notorious for having significant systemic corruption". Some of this can be explained by the rich resources of those countries, which are in high demand due to their rarity, but Böhmer also says that some of it is just

"bad luck", resulting in high-importance projects being left in the wrong hands.

Mushtaq Khan is a professor at SOAS University of London and the executive director of the Anti-Corruption Evidence (SOAS-ACE) research consortium. Khan is concerned that there is a political refusal to address climate corruption on the world stage for fear of harming the greater cause.

"The media is always looking for evidence of taxpayers' money being wasted," he tells *Spotlight*. "So, if the development agencies themselves start talking about corruption in these projects, there is a risk of destroying the

public's appetite to pay taxes [to fund these investments]."

Böhmer agrees: "I think it's important to recognise that and to be very careful in the way we present that so it doesn't appear like a reason for not investing... because I think that would be much more harmful."

Of course, for some, exposing corruption is also a dangerous game. Whistle-blowers in the US have faced prosecution, and in parts of Latin America, those who have tried to fight corrupt forces have faced violence and threats to their life.

Traditionally, anti-corruption policy has focused on the role of

◀ international oversight, with global organisations such as the World Bank and the United Nations Development Programme overseeing the financing of international climate aid projects. In a recent article, Dana Schran, a project manager in the Transparency International Secretariat, called for more international oversight of climate financing: “[It] is needed in the form of a governance body that will oversee and ensure robust common international accounting, including detailed rules rather than general principles to avoid fraud.”

Increasingly, however, climate anti-corruption is taking on a new approach. Khan’s view is that it is time for anti-corruption policy to encourage effective horizontal, peer-driven monitoring based on real incentives. Having analysed corruption eradication throughout history, Khan’s team believes that to successfully deal with corruption, projects need to have more immediate built-in incentives for locally powerful citizens, so that they too care about the success of the project.

This is where the design of dual-use climate projects, such as the one in Barguna, should prove themselves. When the design was such that the community benefitted immediately (when embankments that served as roads were built where they were useful, or cyclone shelters serving as schools were usefully located) powerful groups in the community engaged in monitoring and corruption fell dramatically. Khan says “the more effectively climate change projects provide immediate benefits – particularly to groups with the capacity to play an effective monitoring role – the more likely they are to take an interest in the quality of construction and monitor progress on an ongoing basis”.

The key, Khan says, is to trigger the immediate interest of locally powerful citizens, not in corruption (that they may otherwise engage in) but in getting the construction done properly. Monitoring by locally important people based on real interests “is much more effective than formal monitoring by citizens’ groups when their immediate interests are not clear”. This is where the shelter in Barguna failed – as the location and design was not appropriate for the dual-use it promised (right next to the engineer’s house and nowhere



Boris Johnson greets President Biden and the UN chief António Guterres at Cop26

near a local school), the locally empowered individuals could not take an interest in the project.

Luca Tacconi, professor of environmental governance at the Crawford School of Public Policy, also believes that the traditional approach to anti-corruption has been inadequate. He says that using a one-size-fits-all method, such as is often seen in blanket global governance approaches, assumes the same tweaks can be made to the behaviour of all individuals, regardless of country of origin.

Instead, Tacconi believes anti-corruption policy needs to be tailored to the individual needs of each state. “Each country is very specific in terms of needs. We need to understand: what are the corruption processes that take place in that country, and what are the best anti-corruption policies that can be implemented given [the socioeconomic] situation of the country?”

From there, countries then need support to change their own corrupt practices. In the case of Bangladesh,

encouraging dual-purpose climate projects has this exact intention. If government and law enforcement cannot ensure the eradication of corruption in these projects, then perhaps local elites can. “We need to support civil society to actually push for change in a country,” says Tacconi. “We need to help civil society.”

So, do international organisations still have a role to play? Tacconi says that global institutions are still important, as they collate global efforts and funding: “They can take a longer-term perspective on funding and addressing problems.” But, as Khan explains, international agreements and governments need to work out “innovative and entrepreneurial enterprising solutions which are effective in developing countries because they use existing interests and capabilities. They have to understand the game that is being played and then intervene in it continuously to break up corruption and encourage enterprise. Formal monitoring and ticking boxes do not work in these dynamic environments.”

If governments are serious about addressing climate change, then they must acknowledge how corruption is hampering global efforts. Both Böhmer and Khan believe that governments should start by putting corruption eradication on the table at global climate events, such as the UN Climate Change Conference. Once this has happened, work can begin to establish the best methods to bring corruption to an end once and for all. ●

“Financial losses from corruption are notoriously difficult to determine”

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