Center for Global Development

Ensuring Coherent and Effective Policies on Climate and Development Finance

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With the world's climate future looking increasingly dire, government commitments on emissions reductions and climate finance must be ambitious.

CGD research is informing climate and finance policy across several key areas, including the volume and effectiveness of climate finance; the integration of climate into macro planning; the consequences of climate for migration; and the role of wider economic policy tools on climate.

Climate finance effectiveness and goals

Volumes, access, and impact

While attention rightly focuses on efforts to reduce emissions, climate finance—the resources needed to address climate change—remains a major issue in negotiations. Developed countries now expect to mobilise the $100 billion a year in climate finance they promised by 2023, but the quality of that spend will matter hugely to developing nations.

CGD analysis shows that while the OECD calculates that nearly $80 billion of climate finance was provided in 2019, only around half is additional when considering overall volumes of development finance a decade ago, when the commitment was made. Still, climate finance is becoming the predominant mode of development finance; nearly a quarter of aid is already tagged as climate-related and new commitments from the US, EU, UK, Germany, and others suggest a further $20 billion per year by 2023. As countries make their commitments, we've set out principles for climate finance to make the most of it.

CGD research has also uncovered a lack of high-quality evidence on climate-development impact. We have proposed a climate finance impact observatory to step-up efforts on evaluation and lesson-sharing, and to set common standards to ensure comparability.

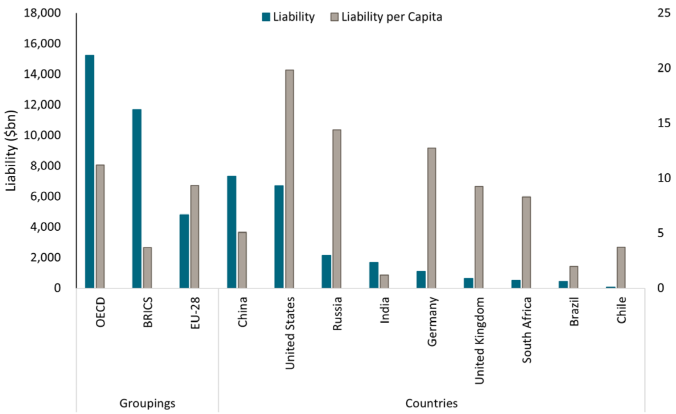
To avert the worst impacts of climate change, climate finance must catalyse transformational change while also delivering development benefits—a dual task that will be difficult to achieve. CGD is examining how the use of pull financing mechanisms can incentivise innovation and risk-taking that will be needed.

Even when finance is available, access to it remains a challenge. In a COP26 Climate and Development meeting in March developing countries ministers highlighted barriers to accessing finance. The UK and Fiji are co-chairing a taskforce of providers and recipients to tackle barriers to access. CGD is reviewing the evidence on access and advising on the principles and recommendations, which will launch during COP, alongside five "pioneer" projects that will test a new approach.

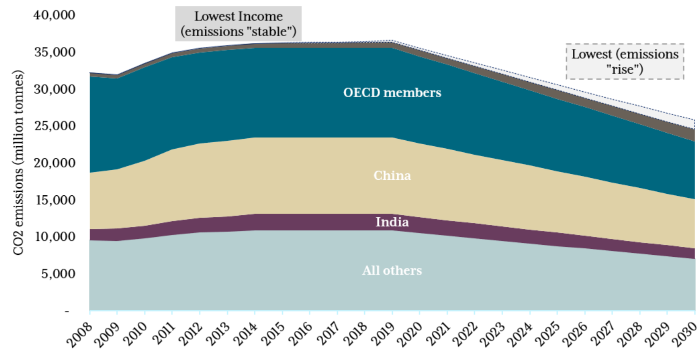
Post-2025 climate finance goals

The Paris Agreement commits developed nations to devise a new climate finance goal after 2025 "from a floor of USD 100 billion per year." Examining the costs of climate change to date by different countries, CGD research finds that the liability for damage amounts to some 28 percent of GNI in OECD countries, and if that was used to set climate finance goals it would suggest those countries contributing $190 billion a year to 2100.

CARBON LIABILITY



EMISSION PROJECTIONS



Note: assumes all countries move to net zero but 52 low-income countries grow with stable or growing emissions intensity.

Economic policy for climate and development

Integrating climate risk in macro planning

There is no doubt that climate change can impact economic growth and well-being at the global and country level. CGD is analysing how international financial institutions, particularly the IMF, should focus their effort on climate risk. The IMF should play a central role both in global policy discussions on climate risk and mitigation and adaptation costs, and in its annual discussion with its member countries as they chart a path to a sustainable future, recognizing that advice may differ with country circumstances— for example, a large carbon emitter, a small island state, or a fossil fuel exporter.

Policy coherence in fighting climate change

Tackling climate change requires more than commitments on emissions and finance. Policies on subsidies, tax, and trade must also address climate without harming development.

For the lowest-income economies, emissions per head are under half a tonne of carbon dioxide equivalent, compared to around 10 tonnes per head in industrialised countries. CGD research shows that even rapid growth in poor countries will leave emissions per head at under 1.5 tonnes. This highlights that efforts to defeat climate change must come from industrialised countries, and low-income countries can grow their economies without undermining Paris goals.

Carbon pricing will be crucial to tackling climate change, but CGD research shows that only a handful of countries are adding around the social cost of $50 to each tonne of carbon. The US barely adds any cost to carbon emissions; the same is true for China, though its newly launched emission scheme has potential.

Climate and COVID response

As the world responds to the damage wrought by COVID-19, support packages like the G7's Build Back Better World Partnership will need to balance short-term recovery with long-term sustainability. The liquidity created by the recent allocation of Special Drawing Rights (SDRs) give many countries extra fiscal and monetary space to confront the crisis, but more can be done with the SDRs that are likely to remain idle on advanced countries' balance sheets. Figuring out how to mobilize these SDRs to support a resilient and sustainable transition will be one of the key challenges at COP and beyond. CGD has developed recommendations for using SDRs to buttress IMF support for the transition, demonstrating that the technical hurdles of using SDRs can be overcome and clearing the way for policymakers to decide on next steps.

CGD's climate work is led by Ian Mitchell (value and effectiveness of climate spending, and policy coherence) and Mark Plant (macro policy and the IMF). Thoughts on our work are welcome.

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