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The response of the international economic architecture to climate change

Reforming global economic governance to meet the Paris goals

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Summary

- The global economy must rapidly decarbonize and scale up support for climate change adaptation if the 2015 Paris Agreement's targets are to be met and the worst effects of climate change averted. The existing 'international economic architecture' is poorly equipped to deliver on this transition. It is fragmented, lacks effective regulatory frameworks for climate action, and relies on institutions that hitherto have not – at least until very recently – considered climate change as central to economic policy.
- This architecture is loosely defined, consisting of a patchwork of multilateral institutions, supervisory agencies and assorted forums. In the context of financing for climate action, it can be considered to include, at a minimum, the World Bank Group; the International Monetary Fund; the World Trade Organization; the Financial Stability Board; 'minilateral' groupings such as the OECD, G7 and G20; and a variety of climate-focused financial networks and environmental funds.
- Many of these entities have, at times, overlapping responsibilities for different aspects of the global economy. Some commentators have argued for the creation of a *single institution* to oversee climate strategies and apply them in more coordinated fashion internationally. Any new global entity, however, would likely face the same governance challenges that afflict existing institutions. Wholesale reform of the Bretton Woods system would also require enormous political capital and global cooperation at a time of rising geopolitical tensions.
- A more realistic approach to catalyse climate action would be to work incrementally with and within existing institutions. This paper recommends measures focused on five areas:
  - **Boosting public finance for climate action** will require addressing the capital constraints of multilateral development banks (MDBs). This would involve increasing the paid-in contributions of shareholder governments, revisiting procedures on callable capital to increase leverage, and working with credit rating agencies to change investor risk calculations around borrowing by MDBs.
  - **Private capital markets must also be mobilized** at much greater scale to provide financing. Investors, however, may demand clarity on the trajectory of decarbonization plans – and on prospects for different energy and emissions mitigation mixes – across the global economy. Institutions in the international economic architecture should agree on a common decarbonization pathway to inform investors' financial modelling. There is also an opportunity for such institutions to act as information repositories on bankable climate projects.

- Organizations in the international economic architecture should fully **embed climate-related issues within all their workstreams** – whether research, policy advice, development aid, market risk assessments or debt sustainability analysis. Reforms could include closer coordination of country policy reviews and adaptation plans between the OECD, the World Bank and the UN Framework Convention on Climate Change (UNFCCC).
- The Task Force on Climate-related Financial Disclosures (TCFD) has provided a global benchmark for reporting and risk comparisons, but its mechanism is voluntary. While institutional support for TCFD standards – and those of the new International Sustainability Standards Board – would be helpful, the most urgent task is to **convert voluntary reporting into mandatory regulatory disclosures**. The G7 and the G20 could complement such a process by introducing their own minimum climate disclosure requirements.
- Many low- and middle-income countries face rising debt. Institutions in the international economic architecture should **promote debt relief to create fiscal room for investment in climate infrastructure**. They can help assess countries' climate risk vulnerabilities, offer guidance on economic restructuring to increase resilience to climate shocks, and scale up the use of performance-based debt instruments (building off the precedent of previous 'debt-for-nature' swaps).

01 Introduction

Today's 'international economic architecture' – encompassing multilateral institutions such as the IMF, World Bank Group and World Trade Organization, and other forums such as the OECD, G7 and G20 – faces an unprecedented challenge in helping to finance global responses to climate change.

The summer of 2022 saw scorching heat waves in Central Europe, extensive flooding in South Asia, major wildfires in the US and Russia, and devastating droughts in central Africa. Scientific assessments indicate that climate change is increasing the likelihood and intensity of such events.[1] Although it is widely recognized that the global economy must shift to a more climate-sustainable model, today's 'international economic architecture' is poorly equipped to deliver this transition. It is fragmented, lacks effective regulatory and policy levers for climate action, and relies, to a large degree, on institutions that were never designed with climate change in mind. Many of the existing institutions within the architecture have not, at least until very recently, considered environmental issues central to economic policy decision-making.[2]

This architecture is loosely defined, consisting of a patchwork of multilateral institutions, supervisory agencies, and assorted forums with sometimes overlapping interests in – and responsibilities for – different aspects of the global economy. In the context of climate policy and financing for climate action, it can be said to be comprised of the World Bank Group, International Monetary Fund (IMF) and World Trade Organization (WTO). It additionally encompasses supervisory bodies, such as the Financial Stability Board (FSB); 'minilateral' forums, such as the OECD, G7 and G20; and a variety of climate-focused financial networks (see 'Defining the international economic architecture', below).

1 Lopez, G. (2022), 'A Summer of Climate Disasters', *New York Times*, 7 September 2022, https://www.nytimes.com/2022/09/07/briefing/climate-change-heat-waves-us-europe.html; and McGrath, M. (2021), 'Climate change: Huge toll of extreme weather disasters in 2021', BBC News, 27 December 2021, https://www.bbc.com/news/science-environment-59761839.

2 Environmental action within the international economic architecture covers a wide range of policy areas. It is not limited to climate change alone. It can include topics around conservation, water and air pollution, biodiversity and overpopulation, among other issues. For the purpose of this research, policy action within the international economic architecture will focus on the issue of climate change.

The current system was heavily shaped by arrangements and institutions that arose after the Second World War. In recent decades, its leading institutions have confronted a series of disruptive trends: financial deregulation, globalization, financial crisis, rapid technical change, geopolitical shifts, and the rise of emerging markets such as China. Many institutions in this architecture have not easily adapted to such developments, yet the challenges arguably pale in comparison with the existential crisis now presented by climate change.

With this context in mind, this research paper takes stock of current efforts within the international economic architecture to address climate change, and proposes areas for improvement. The analysis is organized as follows:

- First, the author proposes a working definition of the 'international economic architecture'. Given the potentially broad interpretation of this term, a preliminary frame of reference is needed to inform analysis of each institution's position in the global system and role in climate-related economic policymaking.
- Second, a brief overview of international policy responses to previous global crises provides historical context to recent efforts on climate action. How has the international economic architecture responded to other crises in the past? What might this reveal about the potential of the architecture to succeed in addressing climate change?
- Third, the current outlook for climate investment and policy cooperation is considered, particularly in light of the COVID-19 pandemic and the geopolitical and energy market impacts of Russia's war on Ukraine.
- Fourth, the paper reviews climate policies currently being undertaken by a select number of institutions and forums. The analysis presents a snapshot of systemically important actors (particularly those relevant to trade, finance and development assistance) and their roles in tackling climate change.
- Fifth, the paper proposes a list of specific policy and regulatory changes, identifying various ways in which international economic institutions, as member-driven organizations, can further drive the investments needed to address the climate crisis.

Climate change is part of a much wider-ranging set of environmental challenges facing the global economy, and it is critical that the international economic architecture also respond to this broader threat. This paper, however, will primarily focus on the response to climate change.

Defining the international economic architecture

As mentioned, there is no clear definition of the international economic architecture. While some have taken the term to encompass the leading international financial institutions (IFIs), the WTO, and other global economic and financial governance bodies, no consensus on its composition or structure exists.[3] The international

3 Petrakis, P. (2022), 'The International Economic Architecture', *Theoretical Approaches to Economic Growth and Development*, pp. 487–514, https://doi.org/10.1007/978-3-030-50068-9_21.

economic architecture is organized in such a broad way, within a fragmented and nebulous global system, that no overarching body exists to provide a consistent designation. For the purposes of this study – and given partial consensus among the recent macroeconomic literature – the international economic architecture can be defined as consisting of three major institutional pillars.

The **first pillar** encompasses the 'core' institutions involved in oversight of the global economy today: among them, the original Bretton Woods agencies, more recent IFIs, and other financial supervisory bodies. This group includes the organizations that comprise the World Bank Group, such as the International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC), and the International Development Association (IDA). It also includes the IMF, the WTO and the FSB.[4]

The international economic architecture is organized in such a broad way, within a fragmented and nebulous global system, that no overarching body exists to provide a consistent designation.

The Organisation for Economic Co-operation and Development (OECD) also falls within this first pillar. Although its membership is not universal, comprising just a select number of industrialized countries, the OECD performs certain functions that are similar to those of the Bretton Woods agencies. The OECD helps coordinate bilateral aid (through its Development Assistance Committee), conducts economic surveillance, negotiates global tax policies, and performs ad hoc climate analysis. Most notably, in the context of climate policy, the OECD tracks progress towards the $100 billion target, pledged at the COP15 climate conference in 2009 by economically advanced countries to catalyse further investments in, and provide policy support for, climate action in developing countries.[5] Regional development banks (RDBs), such as the African Development Bank and the Asian Development Bank, also fall into the above category.

The **second pillar** includes major international governance bodies and networks focused on political leadership and policy coordination in the economic sphere. Examples include the G7, the G20 and the Asia-Pacific Economic Cooperation (APEC) grouping. These networks typically have no permanent secretariat and rotate their presidency annually among member countries. Governance bodies within this second pillar, such as the G20, play a critical role in helping member governments convene to discuss and coordinate on economic policy priorities. They also help coordinate between institutions within the international economic architecture, and between those institutions and the wider international system (i.e., global governance frameworks around climate change).

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4 Note that there may be significant synergies and sometimes overlaps between the responsibilities of different component institutions – thus the IMF works on financial stability surveillance while the FSB coordinates regulatory and supervisory policies.
5 OECD (2021), 'Statement by the OECD Secretary-General on future levels of climate finance', press release, 25 October 2021, https://www.oecd.org/newsroom/statement-by-the-oecd-secretary-general-on-future-levels-of-climate-finance.htm.

The **third pillar** is composed of certain climate-specific organizations that deal primarily with economic and financial issues of relevance to the global economy. Institutions and networks within this category include environmental funds, such as the Global Environment Facility (GEF) and Green Climate Fund (GCF). They also include financial networks focused on environmental issues, such as the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) and the Coalition of Finance Ministers for Climate Action. These organizations and networks are designed, primarily, around the financial and economic challenges of tackling climate change. In some cases, they are closely connected with prominent agencies in the wider climate architecture, such as the United Nations Environment Programme (UNEP) and the United Nations Framework Convention on Climate Change (UNFCCC).

These three pillars are by no means definitive or all-encompassing. Many other institutions play important roles in global economic governance and cooperation, or in addressing aspects of climate change that affect – or are affected by – the global economy. For instance, certain civil society organizations focus on issues at the nexus of climate and economic policymaking. They are therefore useful for driving and coordinating climate action. The private sector plays a similar critical role in financing long-term sustainability investments, reducing energy consumption and interacting with components of the international economic architecture.

Nevertheless, the three pillars outlined above capture the core elements of the international economic architecture that need to be considered in an assessment of current institutional action on climate change.

02
The macroeconomic challenges of climate change

The international system has made limited progress in addressing the macroeconomic implications of climate change and related risks. But new opportunities are arising to incorporate climate action within macroeconomic policy approaches.

Historical context

Before evaluating current international economic policymaking and governance structures in relation to the climate crisis, it is important to highlight the recent historical context in which this architecture has operated. In the last two decades, numerous crises have tested its core functions and the effectiveness of its policy response mechanisms. The unprecedented experience of the COVID-19 pandemic and the ongoing impacts from Russia's war in Ukraine, combined with the legacy of the 2008–09 global financial crisis, have changed the way in which many of these institutions respond to global economic downturns and crises.[6]

A key aspect of the monetary and fiscal policy responses to the 2008–09 global financial crisis was that these policies were, for the most part, separate from any aimed at addressing the climate crisis.[7] Fiscal stimulus packages implemented by national governments and major IFIs during that period were estimated

6 UN News (2022), 'Rescue us from our environmental 'mess', UN chief urges Stockholm Summit', press release, 2 June 2022, https://news.un.org/en/story/2022/06/1119532.
7 Peters, G. P. et al. (2012), 'Rapid growth in CO2 emissions after the 2008–2009 global financial crisis', *Nature Climate Change* 2(1), pp. 2–4, https://doi.org/10.1038/nclimate1332.

to be worth around $3.3 trillion.[8] Of that total, only around $522 billion (approximately 16 per cent) consisted of what could be classified as 'green investments'.[9] Facing the prospect of a second Great Depression, the G20 succeeded in stabilizing financial markets, created a multi-year programme of fiscal expansion aimed at supporting demand and job creation, and facilitated the overhaul of international financial regulatory standards.[10] The coordinated response to the global financial crisis was '… the largest and most coordinated fiscal and monetary stimulus ever undertaken'.[11] The multilateral development banks (MDBs) sharply increased the funds available to member countries, while the IMF overhauled its lending framework and reduced interest rates to zero on concessional loans for low-income countries through to 2011.[12]

Yet many of these efforts, aimed at supporting global demand and economic activity, did little to support long-term greenhouse gas (GHG) emissions abatement.[13] Short-term dips in global GDP, as a result of the financial crisis, led to minor and temporary decreases in global GHG emissions. In 2010, however, global economic activity and carbon dioxide emissions rebounded in tandem.[14] Large-scale quantitative easing, which boosted financial liquidity in the global markets, eventually contributed to a return to 'business as usual' in terms of emissions growth.[15]

In response to the global financial crisis, G20 leaders in 2009 had initially pledged to phase out 'inefficient' fossil fuel subsidies in the 'medium term' to combat the threat of global warming.[16] Yet those pledges were never fulfilled. In fact, between 2008 and 2013, G20 countries spent six times more on fossil fuel subsidies than on renewable energy subsidies.[17] Similarly, in 2014, a group of WTO members launched plurilateral negotiations on establishing the Environmental Goods Agreement (EGA). The idea was to eliminate tariffs on environment-related products and help countries invest in renewable energy.[18] The initiative, however, failed to get off the ground. The failure arose, in part, because of disagreements between negotiating parties, most notably the US and China, over how to address the problem of 'free-riding' by non-participant countries, which would be exempt

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8 Barbier, E. B. (2020), *Building a Greener Recovery: Lessons from the Great Recession*, Geneva: United Nations Environment Programme, https://www.greengrowthknowledge.org/sites/default/files/learning-resources/action//Building%20a%20Greener%20Recovery_%20Lessons%20from%20the%20great%20recession_UNEP.pdf.
9 Barbier, E. B. (2016), 'Building the green economy', *Canadian Public Policy* 42(S1), pp. S1–S9, https://www.researchgate.net/publication/309654300_Building_the_Green_Economy.
10 Kenc, T. (2015), 'Response of the G20 to the Global Financial Crisis', presented at the CBRT-EDB Joint Conference, Frankfurt, Germany, 27 August 2015, https://www.ecb.europa.eu/pub/conferences/shared/pdf/g20framework/Keynote_Turalay.pdf?edff74ffbc8baa7e40d93a445ead7067; OECD (undated), 'Beating the crisis: the role of the OECD and G20', https://www.oecd.org/corruption/beatingthecrisistheroleoftheoecdandg20.html.
11 Triggs, A. (2018), *The economic and political case for coordinating fiscal stimulus*, Washington, DC: Brookings Institution, https://www.brookings.edu/research/the-economic-and-political-case-for-coordinating-fiscal-stimulus.
12 IMF (2009), 'The IMF Response to the Global Crisis: Meeting the Needs of Low-Income Countries', Background Note, 29 July 2009, https://www.imf.org/external/np/lic/2009/072909.htm.
13 UNEP (2020), 'Don't ignore economic lessons of the Great Recession: new UNEP report',13 October 2020, https://www.unep.org/news-and-stories/story/dont-ignore-economic-lessons-great-recession-new-unep-report.
14 Nahm, J., Miller, S. and Urpelainen, J. (2022), 'G20's US$14-trillion economic stimulus reneges on emissions pledges', *Nature* 603(7899), pp. 28–31, https://doi.org/10.1038/d41586-022-00540-6.
15 Peters, G. P. et al. (2012), 'Rapid growth in CO_2 emissions after the 2008–2009 global financial crisis', *Nature Climate Change*, 2, pp. 2–4, https://doi.org/10.1038/nclimate1332.
16 International Institute for Sustainable Development (2020), 'G20 Backtracks on Fossil Fuel Funding Phase-Out in COVID-19 Recovery', press release, 9 November 2020, https://www.iisd.org/articles/press-release/g20-backtracks-fossil-fuel-funding-phase-out-covid-19-recovery.
17 Jaeger, J. (2020), 'Lessons from the Great Recession for COVID-19 Green Recovery', World Resources Institute, 24 November 2020, https://www.wri.org/insights/lessons-great-recession-covid-19-green-recovery.
18 WTO (undated), 'Environmental Goods Agreement', https://www.wto.org/english/tratop_e/envir_e/ega_e.htm.

from cutting their own tariffs on environmental goods.[19] There were additional disagreements over which environmental goods would be included in the EGA. In essence, the EGA process became a political exercise, focused on whether (or not) to liberalize trade in those goods in which each negotiating country had a particular economic interest.[20]

Box 1. Climate change in economic policy

The correlation between economic activity and environmental changes is widely recognized among academics and researchers.

Until quite recently, however, short- and medium-term macroeconomic policies to promote growth and control inflation had been viewed by policymakers as being separate from the policy response to climate change.

At the same time, the philosophy and policies of many leading international economic institutions have tended to reflect the assumption that a trade-off exists between economic growth and decarbonization.[21] For example, the World Bank Group's 'Doing Business' report indicators have been rooted in the premise that less regulation, including on environmental standards, is better for economic growth and business.[22]

These norms, however, are beginning to change.

Interest is growing in the academic and policy research community around whether GDP growth is an adequate measurement tool for societal well-being. This is especially true if environmental pressures need to be factored in.[23]

Institutions within the international economic architecture are also starting to make more concerted attempts to address the macroeconomic implications of climate and other nature-related risks. Recent publications by the Network of Central Banks and Supervisors for Greening the Financial System (NGFS), for instance, have provided central banks with recommendations on fulfilling their macroeconomic policy mandates in the context of biodiversity loss and climate-related events.[24] Several other organizations claim to have learned from their previous mistakes in separating macroeconomic and environmental policy approaches.[25]

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19 De Melo, J. and Solleder, J. (undated), 'Reviving the Environmental Goods Agreement: Why it Matters, Why It Is Stalled, and How to Move Forward', https://envirocenter.yale.edu/sites/default/files/files/CoolHeads_deMelo(1).pdf.
20 Ibid.
21 Mason, J. (2021), 'Climate Policy from a Keynesian Perspective', The Slack Wire blog, 7 December 2021, https://jwmason.org/slackwire/climate-policy-from-a-keynesian-perspective.
22 Picciotto, R. and Thomas, V. (2021), 'Opinion: The real problem in the World Bank's Doing Business indicator', Devex, 19 October 2021, https://www.devex.com/news/opinion-the-real-problem-in-the-world-bank-s-doing-business-indicator-101848.
23 Ward, J. et al. (2016), 'Is Decoupling GDP Growth from Environmental Impact Possible?', *PLOS ONE*, 11(10), https://doi.org/10.1371/journal.pone.0164733.
24 NGFS (2022), 'NGFS acknowledges that nature-related risks could have significant macroeconomic and financial implications', press release, 24 March 2022, https://www.ngfs.net/en/communique-de-presse/ngfs-acknowledges-nature-related-risks-could-have-significant-macroeconomic-and-financial; NGFS (undated), 'Scenarios Portal', https://www.ngfs.net/ngfs-scenarios-portal/explore.
25 D'Orazio, P. (2021), *Prudential responses to COVID-19 in G20 countries: a missed opportunity to enhance 'green' financial policy and regulations?*, SUERF Policy Brief, No 186, The European Money and Finance Forum, https://www.suerf.org/suer-policy-brief/33295/prudential-responses-to-covid-19-in-g20-countries-a-missed-opportunity-to-enhance-green-financial-policy-and-regulations.

There is burgeoning interest among some policy economists in the potential for new investments in renewable energy to become longer-term drivers of economic growth, creating additional jobs and stimulating economic activity.[26] One early illustration of the latter was the American Recovery and Reinvestment Act (ARRA) of 2009, a stimulus package which quadrupled US government spending on energy research and increased market incentives around renewable energy.[27]

Until recently, national governments and international organizations believed they faced a choice: either facilitate a gradual transition towards a renewable-energy future and risk long-term economic and environmental damage; or facilitate a more rapid but disorderly transition, at the cost of significant front-loaded spending on physical assets and land-use system changes.[28]

Increasingly, however, the idea that a real choice still exists between gradual or rapid decarbonization is being challenged by the intensifying climate emergency. Delayed action by governments, international economic institutions and the private sector is increasingly perceived to have increased the likelihood of a *disorderly* transition, as the frequency and severity of extreme weather events and other climate impacts have increased. Just as it has been understood that climate change presents an existential threat, it is also understood that the economic costs of failing to address climate change far outweigh the financial commitments required to transition to a low-carbon economy.[29]

Nonetheless, there remains an active debate about the full financial and economic implications of different scenarios.

For example, a study by the Intergovernmental Panel on Climate Change (IPCC) estimated that it would require up to $3.8 trillion of investment annually to meet the 1.5°C temperature rise target under the Paris Agreement.[30] These investments have the potential to alleviate some of the long-term impacts to the global economy in the face of climate change.

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26 International Energy Agency (2021), *Net Zero by 2050: A Roadmap for the Global Energy Sector*, report, https://iea.blob.core.windows.net/assets/deebef5d-0c34-4539-9d0c-10b13d840027/NetZeroby2050-ARoadmapfortheGlobalEnergySector_CORR.pdf.
27 Harris, J. (2013), 'Green Keynesianism: Beyond Standard Growth Paradigms', Global Development and Environment Institute, Working Paper 13-02, https://www.bu.edu/eci/files/2019/06/13-02HarrisGreenKeynesianism.pdf; and White House (2016), 'FACT SHEET: The Recovery Act Made The Largest Single Investment In Clean Energy In History, Driving The Deployment Of Clean Energy, Promoting Energy Efficiency, And Supporting Manufacturing', Office of the Press Secretary, press release, 25 February 2016, https://obamawhitehouse.archives.gov/the-press-office/2016/02/25/fact-sheet-recovery-act-made-largest-single-investment-clean-energy.
28 Krishnan, M. et al. (2022), 'The economic transformation: What would change in the net-zero transition', McKinsey & Company Sustainability, 25 January 2022, https://www.mckinsey.com/capabilities/sustainability/our-insights/the-economic-transformation-what-would-change-in-the-net-zero-transition.
29 Steinmann, J. (2022), 'One more reason to act fast on climate: economics', World Economic Forum, 24 May 2022, https://www.weforum.org/agenda/2022/05/one-more-reason-for-rapid-climate-action-economics.
30 Broom, D. (2022), 'What's the price of a green economy? An extra $3.5 trillion', World Economic Forum, 28 January 2022, https://www.weforum.org/agenda/2022/01/net-zero-cost-3-5-trillion-a-year; and United Nations (2022), 'Goal 13: Take urgent action to combat climate change and its impacts', Sustainable Development Goals, https://www.un.org/sustainabledevelopment/climate-change.

At the same time, by some estimates, climate change could cost the global economy around $178 trillion by 2070.[31] Additional studies estimate that nearly 100 million people may be pushed into poverty by 2030.[32] The NGFS suggests that a 'delayed transition' to net zero would reduce global GDP by around 5 per cent by 2050. Meanwhile, the OECD anticipates a 10–12 per cent loss in GDP by 2100 under the assumption of uninterrupted climate change (i.e., worst-case scenario).[33]

Some economists believe that the net benefit of climate action is even more decisive than these figures suggest.[34] On the one hand, they believe the dynamic nature of the net zero transition will lead to the development of new technologies which will further reduce the level of investment required for the transition. At the same time, under some plausible climate scenarios, the impact of temperature and sea-level rise would make significant (and highly populated) areas of the planet unviable. This scenario would lead to far greater losses in economic activity and societal welfare than the above analysis suggests.

Given the enormous, long-term economic impacts that will be felt by climate change, $3.8 trillion per annum in climate action would be a worthwhile economic and moral investment in the future.

Current outlook for climate investment and policy cooperation

According to recent estimates by the Intergovernmental Panel on Climate Change (IPCC), investments in climate action totalling $1.6 trillion–3.8 trillion annually will be needed within the next several years to avoid global temperatures from increasing by more than 1.5°C above pre-industrial levels.[35] Given that current global temperatures are 1.1°C higher than pre-industrial levels, and only 20 per cent of those estimated investment levels are being met, this will be very difficult.[36] Under the Paris Agreement in 2015, developed countries reiterated their 2009 commitment to provide $100 billion per year in financing by 2020 for climate change mitigation

31 Deloitte (2022), 'Deloitte research reveals inaction on climate change could cost the world's economy US$178 trillion by 2070', press release, 13 June 2022, https://www2.deloitte.com/global/en/pages/about-deloitte/press-releases/deloitte-research-reveals-inaction-on-climate-change-could-cost-the-world-economy-us-dollar-178-trillion-by-2070.html.
32 World Bank (2015), 'Rapid, Climate-Informed Development Needed to Keep Climate Change from Pushing More than 100 Million People into Poverty by 2030', 8 November 2015, https://www.worldbank.org/en/news/feature/2015/11/08/rapid-climate-informed-development-needed-to-keep-climate-change-from-pushing-more-than-100-million-people-into-poverty-by-2030.
33 Page, D. (2021), 'Climate change: the economic cost of inaction', AXA Investment Managers, 27 October 2021, https://www.axa-im.co.uk/research-and-insights/investment-institute/macroeconomics/macroeconomic-research/climate-change-economic-cost-inaction.
34 University College London (2021), 'Economic cost of climate change could be six times higher than previously thought', press release, 6 September 2021, https://www.ucl.ac.uk/news/2021/sep/economic-cost-climate-change-could-be-six-times-higher-previously-thought.
35 Gross, S. and Espinosa, M. F. (2021), 'At COP26, leaders got a climate reality check. Here's what they must do next', Brookings Institution, 17 November 2021, https://www.brookings.edu/blog/planetpolicy/2021/11/17/at-cop26-leaders-got-a-climate-reality-check-heres-what-they-must-do-next; United Nations (undated), 'Financing Climate Action', https://www.un.org/en/climatechange/raising-ambition/climate-finance.
36 IPCC (2021), *Climate Change 2021: The Physical Science Basis – Summary for Policymakers*, https://www.ipcc.ch/report/ar6/wg1/downloads/report/IPCC_AR6_WGI_SPM_final.pdf.

and adaptation projects in low- and middle-income countries.[37] Sadly, those pledges have not been fulfilled.[38] The failure to put in place even this relatively small amount, in the context of the very large investments associated with effective climate action, illustrates the obstacles faced by the international community in generating additional climate investments. As part of an accompanying decision to the Paris Agreement, a New Collective Quantified Goal (NCQG) was initiated within the COP process to reinvigorate climate finance goals by 2025, but recent reports suggest that many countries are merely diverting funds from other development projects.[39]

Notwithstanding these setbacks and challenges, an overall expectation of raising trillions in climate investments is not necessarily as unrealistic as might be assumed. The example of the COVID-19 pandemic illustrates that very large amounts of public finance can be raised in a very short space of time if the threat is clear. A UNEP report states that between the start of the COVID-19 pandemic and May 2021, $16.7 trillion was spent on pandemic recovery packages by national governments and MDBs.[40]

In light of the economic devastation caused by the pandemic, institutions such as the FSB and the World Bank have begun to shift their focus towards green economic recovery frameworks (see Chapter 3). The phrase 'building back better' has often been used by governments and institutions to describe efforts to promote recovery while addressing environmental degradation.[41]

The example of the COVID-19 pandemic illustrates that very large amounts of public finance can be raised in a very short space of time if the threat is clear.

Policy and rhetorical endeavours to incorporate analysis of climate change in macroeconomic evaluations have, however, had mixed success in catalysing efforts to meet the ambitions of the Paris Agreement. Recent analyses of G20 fiscal stimulus in response to the pandemic, for example, have contradicted government rhetoric of a 'green recovery'.[42] Only around $860 billion in such stimulus (about 6 per cent of the total) has been allocated to areas that would reduce GHG emissions, such as electric vehicle investments and energy efficiency improvements.[43] Moreover, 3 per cent of the spending has gone towards fossil

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37 Timperley, J. (2021), 'The Broken $100-Billion Promise of Climate Finance – and How to Fix It', *Nature*, 20 October 2021, https://www.nature.com/articles/d41586-021-02846-3.
38 Ibid.
39 Eyassu Melkie, M. (2022), '"New Collective Quantified Goal": How Much Should Rich Nations Pay Developing Nations for Climate Mitigation?', *Energy Post*, 28 June 2022, https://energypost.eu/new-collective-quantified-goal-how-much-should-rich-nations-pay-developing-nations-for-climate-mitigation; Perinchery, A. (2022), 'Despite Talk of New Funds for Climate Change, Rich Nations Are Only Diverting Development Aid', *The Wire*, https://thewire.in/environment/despite-talk-of-new-funds-rich-nations-are-only-diverting-development-aid-to-tackle-climate-change.
40 UNEP (2021), *Emissions Gap Report 2021*, http://www.unep.org/resources/emissions-gap-report-2021.
41 OECD (2017), *Employment Implications of Green Growth: Linking jobs, growth, and green policies*, June 2017, https://www.oecd.org/environment/Employment-Implications-of-Green-Growth-OECD-Report-G7-Environment-Ministers.pdf.
42 Nahm, Miller and Urpelainen (2022), 'G20's US$14-trillion economic stimulus reneges on emissions pledges'.
43 Harvey, F. (2022), 'Only 6% of G20 pandemic recovery spending 'green', analysis finds', *Guardian*, 2 March 2022, https://www.theguardian.com/environment/2022/mar/02/only-6-of-g20-pandemic-recovery-spending-green-analysis-finds.

fuel subsidies. Indeed, G20 investments in climate action have accounted for a lower percentage of recovery spending, in relation to the pandemic, than was the case with economic recovery packages in the aftermath of the 2008–09 global financial crisis.[44] Several major GHG-emitting countries are expected to invest heavily in their coal industries over the next decade. In the case of India, the figure is $55 billion.[45]

G20 investments in climate action have accounted for a lower percentage of recovery spending, in relation to the pandemic, than was the case with economic recovery packages in the aftermath of the 2008–09 global financial crisis.

Use of fossil fuels could also be prolonged as a result of Russia's invasion of Ukraine and the consequent decision by Russia to cut energy supplies to Europe by 80 per cent, in response to G7 sanctions.[46] It is worth noting, however, that Russian action has galvanized European countries' efforts to improve their energy efficiency and substitute alternatives to hydrocarbon energy sources, spurring further investments in renewable energy systems.[47] Nevertheless, European dependence on natural gas has, in part, simply shifted to other global sources.[48] A few Western economies have also reinvested in fossil fuel industries, in light of recent higher energy prices.[49]

An unintended consequence of the European response may also be the increase of GHG emissions in other parts of the world. For example, if Europe continues to corner the international market for liquefied natural gas (LNG), other countries, particularly in Southeast Asia, may be forced to use more coal in the short term.[50] Higher global energy prices, combined with the ability to demand sharp discounts, have prompted India and China to increase their purchases of Russian LNG. It is unclear, however, if this will be a permanent change, underpinned by new investments in fossil fuels.

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44 Hanna, R., Xu, Y. and Victor, D. (2020), 'After COVID-19, Green Investment Must Deliver Jobs to Get Political Traction', *Nature* 582 (7811), pp. 178–80, https://doi.org/10.1038/d41586-020-01682-1.
45 Kumar Singh, R. and Chaudhary, A. (2021), 'India Sees $55 Billion Investment in Clean Coal Over Next Decade', Bloomberg UK, 11 January 2021, https://www.bloomberg.com/news/articles/2021-01-11/india-sees-55-billion-investment-in-clean-coal-over-next-decade.
46 Seddon, M., Sheppard, D. and Foy, H. (2022), 'Russia switches off Europe's main gas pipeline until sanctions are lifted', *Financial Times*, 5 September 2022, https://www.ft.com/content/2624cc0f-57b9-4142-8bc1-4141833a73dd.
47 Temko, N. (2023), 'How Russian war machine sparked a clean energy drive in the West', *Christian Science Monitor*, 2 March 2023, https://www.csmonitor.com/World/2023/0302/How-Russian-war-machine-sparked-a-clean-energy-drive-in-the-West.
48 IEA (2022), 'European demand for LNG sets off global competition for supplies, even as demand tumbles in Europe and Asian growth stalls, according to latest IEA market report', press release, 3 October 2022, https://www.iea.org/news/natural-gas-markets-expected-to-remain-tight-into-2023-as-russia-further-reduces-supplies-to-europe.
49 Muggah, R. (2022), 'The war in Ukraine is triggering a re-evaluation of global systemic risk', World Economic Forum, 30 June 2022, https://www.weforum.org/agenda/2022/06/ukraine-war-global-systemic-risk-resilience.
50 Tollefson, J. (2022), 'What the war in Ukraine means for energy, climate and food', *Nature*, 5 April 2022, https://www.nature.com/articles/d41586-022-00969-9.

Compounding the challenges for international economic policymakers in addressing climate change is the continued bifurcation of the international political system. G7 and European powers are often at political odds with China and Russia. The paradox is that the emergence of greater bipolarity in geopolitics comes precisely at a time when *more*, not less, international cooperation is needed to reduce global GHG emissions. As the war in Ukraine has placed enormous stress on international cooperation, major economies are becoming more 'siloed' in their policy responses to the pandemic, high energy prices and other inflationary pressures. As the US treasury secretary, Janet Yellen, recently remarked, the US will seek to favour the 'friend-shoring' of supply chains – i.e., using trusted partners – to lower the risk of future shocks to US market access.[51] Geopolitical tensions have strained global cooperation on climate change, and are reshaping strategic and defence policy calculations around energy security.

As this chapter has outlined, there is a fundamental need for increased multilateralism in the global economy and financial system as a means of promoting and protecting the global climate 'commons'. One way to do this is for collective political and economic decision-making on climate action to be embedded in the mandates and actions of the institutions that comprise the international economic architecture. This could help reinforce existing policy frameworks to deliver predictable schedules for transitions to a low-carbon economy, which would include fossil fuel phase-outs, technical capacity support and debt service refinancing.

At the same time, there remain real challenges to such multilateralism. These are likely to increase as the economic and financial impacts of climate change intensify. Institutions in the international economic architecture will have to address the possibility of more frequent macroeconomic shocks linked to extreme weather events, sharp policy changes by governments, shifts in financial and product markets, and technological changes. Failure to prepare for such developments is likely to lead to further financial instability. The urgent task for 'green' recovery strategies, implemented by various institutions and networks within the international economic architecture, is to break decisively the link (see Box 1) between economic growth and increased GHG emissions.

51 Atlantic Council (2022), 'US Treasury Secretary Janet Yellen on the next steps for Russia sanctions and 'friend-shoring' supply chains', transcript, 13 April 2022, https://www.atlanticcouncil.org/news/transcripts/transcript-us-treasury-secretary-janet-yellen-on-the-next-steps-for-russia-sanctions-and-friend-shoring-supply-chains.

03 Current institutional actions on climate change

Although certain institutions in the international economic architecture are making progress in addressing climate change, their efforts are insufficiently coordinated and in many cases lack scale.

Some of the most prominent multilateral institutions are beginning to address the financial liquidity, global development and macroeconomic policy implications and impacts of climate change. Progress, however, remains uneven. Even where institutional responses on climate issues are more advanced, approaches have remained fragmented.[52]

Delays in recognizing the importance of climate change mean that many institutions now face the reality of having to implement very large operational and financial changes in a short period.[53] The carbon emissions budget – the total volume of emissions that can be released before the UNFCCC's 1.5°C temperature

52 World Bank (2008), 'Climate Change and the World Bank Group – Phase I: An Evaluation of World Bank Win-Win Energy Policy Reforms', *IEG Fast Track Brief*, Washington, DC: World Bank, https://openknowledge.worldbank.org/handle/10986/10594.
53 Pisani-Ferry (2021), *Climate policy is macroeconomic policy, and the implications will be significant*, p.15.

rise target is surpassed – will be exhausted in less than eight years.[54] Responding to this threat necessitates a rapid, system-wide and globally coordinated approach within almost every part of the world economy.

This chapter will review the climate activities of the core institutions of the international economic architecture, offering a snapshot of their ongoing efforts to address climate change within the macroeconomic space. The analysis covers the World Bank Group, the IMF, the FSB, the G20, the G7, the NGFS, the Coalition of Finance Ministers for Climate Action, and the WTO.

The World Bank

Of the major MDBs, the World Bank Group[55] was one of the first to acknowledge the importance of climate change within the field of development aid.[56] The bank plays a vital role as a lender and catalyst for private investments in developing countries. It is the largest MDB funder of climate investments, having delivered around $109 billion in climate finance between 2016 and 2021.[57]

In 2021, the World Bank released its Climate Change Action Plan (CCAP), which proposed a substantial increase in climate financing to developing countries. This included a commitment to increase the share of financing for climate efforts to 35 per cent of total financing delivered by the World Bank, up from an average of 26 per cent over the previous five years.[58] The CCAP also includes Country Climate and Development Reports (CCDRs), intended to help countries prioritize climate action through national investment strategies. In a joint report with its sister organization, the International Finance Corporation (IFC), the World Bank has additionally sought to identify barriers to private investment in climate change adaptation and establish 'blueprints for action' for further climate investment.[59] More recently, the World Bank unveiled a new trust fund, Scaling Climate Action by Lowering Emissions (SCALE), which aims to mobilize additional climate finance for developing countries. Launched at the COP27 climate summit in late 2022, the trust fund seeks to provide grant payments on a results basis to client countries as a way to lower their GHG emissions.[60]

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54 According to the latest IPCC report, the earth's atmosphere can absorb no more than 400 gigatons (Gt) of CO_2 to stay below the 1.5°C target of the Paris Agreement. For context, annual emissions of CO_2 are estimated to be 42.2 Gt per year.
55 The World Bank Group comprises the International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC), the International Development Association (IDA) and the Multilateral Investment Guarantee Agency (MIGA).
56 World Bank (2022), 'Green Bonds', https://treasury.worldbank.org/en/about/unit/treasury/ibrd/ibrd-green-bonds.
57 World Bank (2022), '10 things the World Bank Group is doing on climate change', https://www.worldbank.org/en/news/factsheet/2021/10/29/10-things-you-didn-t-know-about-the-world-bank-group-s-work-on-climate.
58 World Bank (2021), 'What You Need to Know About the World Bank Group's 2nd Climate Change Action Plan', 22 June 2021, https://www.worldbank.org/en/news/feature/2021/06/22/what-you-need-to-know-about-the-world-bank-group-2nd-climate-change-action-plan; World Bank (2021), 'World Bank Group Increases Support for Climate Action in Developing Countries', press release, 22 June 2021, https://www.worldbank.org/en/news/press-release/2021/06/22/world-bank-group-increases-support-for-climate-action-in-developing-countries.
59 World Bank (2022), 'Unlocking Private Investment in Climate Adaptation and Resilience', https://www.worldbank.org/en/news/feature/2021/03/04/unlocking-private-investment-in-climate-adaptation-and-resilience.
60 World Bank (2022), 'The World Bank at COP27', 5 December 2022, https://www.worldbank.org/en/news/feature/2022/12/05/the-world-bank-at-cop27.

On the debt front, the World Bank is in the early stages of creating a platform through which developing countries could seek funding for climate initiatives linked to debt relief.[61] Advisers would be drawn from a wide range of organizations associated with economic governance, and would recommend systemic, climate-friendly economic solutions that could be implemented after any debt relief is agreed upon. In effect, the platform would seek to address the problem faced by developing countries which may be unable to afford investments in climate action because of their immediate debt servicing commitments. The bank is also developing a framework to connect debt relief plans with investments in what it terms 'green, resilient and inclusive development' (GRID). The framework would offer countries conditional debt relief support, on top of increased concessional loans, to finance GRID-related initiatives.[62]

While these efforts are commendable, the World Bank has been repeatedly criticized for doing too little to tackle GHG emissions.[63] Its outgoing president, David Malpass, created controversy last year when he claimed he was 'not a scientist', after a reporter had asked him whether the burning of fossil fuels had contributed to global warming.[64] His views have recently shifted, and he has spoken openly about the severe impacts of climate change on humanity and economic development.[65] Nevertheless, climate change experts, including former US vice-president Al Gore, have called for new leadership to provide a bolder strategic vision for the bank's climate change adaptation and mitigation efforts. On 15 February 2023, Malpass announced he would step down later in the year.[66]

Many critics of the World Bank's recent climate strategy have argued that the CCAP's 35 per cent target for climate financing is far too low, given the severity of present climate threats.[67] The CCAP also does not mention a phasing out of fossil fuel financing, only that it would assess all investments in new gas infrastructure for consistency with the Paris Agreement.[68] The World Bank has provided around $15 billion in direct financing to fossil fuel projects since 2015, while having simultaneously pledged to suspend funding for upstream oil and gas projects by 2019.[69] Despite the bank's pledge, financial support for fossil fuels continued to flow during 2021.[70] A recent study by the International Institute for Sustainable Development (IISD) also found that the World Bank provided 12 per cent of all

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61 Shalal, A. (2021), 'Exclusive: World Bank, IMF eye ways to link debt relief to climate change spending', Reuters, 7 April 2021, https://www.reuters.com/article/us-imf-world-bank-climate-change-debt-ex/exclusive-world-bank-imf-eye-ways-to-link-debt-relief-to-climate-change-spending-idUSKBN2BU3FO.
62 World Bank (2022), 'Debt Service Suspension Initiative', https://www.worldbank.org/en/topic/debt/brief/covid-19-debt-service-suspension-initiative.
63 Hodgson, C. (2021), 'World Bank under fire for being 'missing in action' on climate change', *Financial Times*, 13 December 2021, https://www.ft.com/content/a3147c81-a356-462a-811b-0a8b939f2488.
64 Rugaber, C. (2022), 'World Bank head says he's not a climate denier, won't quit', AP, 23 September 2022, https://apnews.com/article/al-gore-world-bank-david-malpass-climate-and-environment-60f4e5c061c2fd164a7b0b8cf93f1013.
65 Rappeport, A. (2021), 'Out of Trump's shadow, World Bank President embraces climate fight', *New York Times*, 9 April 2021, https://www.nytimes.com/2021/04/09/us/politics/david-malpass-world-bank-climate.html.
66 World Bank Group (2023), 'World Bank Group President Malpass Announces Intention to Step Down', press release,15 February 2023, https://www.worldbank.org/en/news/press-release/2023/02/15/world-bank-group-president-malpass-announces-intention-to-step-down.
67 Rappeport (2021), 'Out of Trump's shadow, World Bank President embraces climate fight'.
68 Bretton Woods Project (2021), 'World Bank's new climate change action plan fails to deliver much-needed transformative agenda', 13 July 2021, https://www.brettonwoodsproject.org/2021/07/world-banks-new-climate-change-action-plan-fails-to-deliver-much-needed-transformative-agenda.
69 Harvey, F. (2022), 'World Bank 'has given nearly $15bn to fossil fuel projects since Paris deal'', *Guardian*, 6 October 2022, https://www.theguardian.com/business/2022/oct/06/world-bank-has-given-nearly-15bn-to-fossil-fuel-projects-since-paris-deal.
70 The Big Shift Global (2022), *Investing in Climate Disaster: World Bank Group Finance for Fossil Fuels*, https://bigshiftglobal.org/Investing_In_Climate_Disaster.

G20- and MDB-related public financing for gas infrastructure development between 2017 and 2019.[71] This raises questions around the bank's definition of climate-related investments, as well as the effectiveness of its net zero transition plans, and whether the CCDRs will have any real impact on national investment decisions around climate-related projects.[72]

Nevertheless, the CCAP may have significant implications for future 'green' infrastructure investments from the private sector. In 2008, through the IFC, the World Bank Group became the first global institution to issue a green bond.[73] Since then, interest in the use of green bonds has increased among private and public investors alike, with billions of dollars raised for investments in climate-related projects. Just as the IFC's issuance of green bonds has helped to establish the market for such instruments and attract new investors, there is now a similar hope that the CCAP's enhanced focus on climate investments may lead the way in encouraging financial investors to engage with developing countries on climate change mitigation and adaptation.[74]

The International Monetary Fund

The International Monetary Fund (IMF) has only recently begun to give serious consideration to climate change as a determinant of economic performance and risk to global financial stability.[75] It has, however, caught up quickly. The IMF's efforts to address climate change now fall into four categories: economic surveillance, standard-setting, development of new financial instruments, and policy advocacy.

The first category of activity involves the IMF identifying potential risks to member states and recommending policy adjustments to promote financial and economic stability.[76] Through its Article IV process and Financial Sector Assessment Programs (FSAPs), the IMF advises its members on the macro-financial impacts of climate change. It stress-tests evaluations of physical and transition risks for member countries through FSAPs, and uses its bilateral surveillance mandate under Article IV to recommend policies around climate change adaptation.[77] IMF programmes also include climate-related policy proposals for resolving member states' balance-of-payment problems through fiscal adjustments, such as reforms of fuel and energy subsidies.[78]

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71 Cunningham, N. (2021), 'Rich countries subsidizing 'dash for gas' in developing world', The Fuse (blog), 7 June 2021, https://energyfuse.org/rich-countries-subsidizing-dash-for-gas-in-developing-world.
72 Bretton Woods Project (2021), 'Civil Society Research Finds World Bank Over-Reported Adaptation Finance', 23 March 2021, https://www.brettonwoodsproject.org/2021/03/civil-society-research-finds-world-bank-over-reported-adaptation-finance.
73 World Bank (2021), 'Climate Explainer: Green Bonds', https://www.worldbank.org/en/news/feature/2021/12/08/what-you-need-to-know-about-ifc-s-green-bonds.
74 IFC (2016), 'Climate Investment Opportunities in Emerging Markets, An IFC Analysis', https://www.ifc.org/wps/wcm/connect/59260145-ec2e-40de-97e6-3aa78b82b3c9/3503-IFC-Climate_Investment_Opportunity-Report-Dec-FINAL.pdf?MOD=AJPERES&CVID=lBLd6Xq.
75 Buckley, E. (2021), 'Climate Cooperation', IMF, September 2021, https://www.imf.org/en/Publications/fandd/issues/2021/09/imf-on-risks-opportunities-climate-change-buckley.
76 IMF (2021), 'IMF Surveillance', 1 March 2021, https://www.imf.org/en/About/Factsheets/IMF-Surveillance.
77 Ramos, L. et al. (2022), 'Climate Risk and IMF Surveillance Policy: A Baseline Analysis', *Climate Policy* 22(3), pp. 371–88, https://doi.org/10.1080/14693062.2021.2016363.
78 IMF (2021), '2021 Comprehensive Surveillance Review– Background Paper on Integrating Climate Change into Article IV Consultations', https://www.imf.org/en/Publications/Policy-Papers/Issues/2021/05/18/2021-Comprehensive-Surveillance-Review-Background-Paper-on-Integrating-Climate-Change-into-460303.

In the second category, standard-setting, the IMF has devised additional climate disclosure standards for implementation within the developing global system of climate information. Specifically, this has involved coordinating with the NGFS to create an analytical framework for climate risks. The aim of these additional standard-setting initiatives is to use the reporting of financial data to assess the exposure that a central bank or private company may have to climate-related financial risks.[79] These efforts are essential to unlocking trillions of dollars in green financing, as well as to mobilizing additional investments in climate resiliency.

The third area of the IMF's climate work is the development of new financial institutions and instruments to help low- and middle-income countries deal with climate-related development challenges. A new $40 billion Resilience and Sustainability Trust (RST) aims to support long-term structural policy reforms around sustainability, digitalization and economic resilience in developing countries.[80] It can be expected to play an important role in ramping up investments in climate change adaptation and renewable energy.[81] The RST was established in 2022, following the IMF's $650 billion allocation of Special Drawing Rights (SDRs) in 2021 as part of the global response to the pandemic economic shock. Only $21 billion of the total allocation, however, was directed to low-income countries. The purpose of the RST is to recycle SDRs issued in this allocation from countries that do not need them to low- and middle-income countries that do. Recipients would need to meet various macroeconomic conditions. The repurposed SDRs have the potential to provide affordable, long-term financing to low-income countries, boosting their balance-of-payments resilience.[82]

The fourth area of activity is policy advocacy, which has been a major component of the IMF's recent focus on climate change. In addition to programmes providing advice on renewable fuel and energy subsidies, the IMF has advocated carbon pricing in member countries to improve energy efficiency and redirect innovation towards renewable energy technologies.[83]

Box 2. The Bridgetown Initiative – implications for the IMF

The Bridgetown Initiative was introduced by the prime minister of Barbados, Mia Mottley, in mid-2022 in the run-up to the COP27 climate conference and provides a blueprint for international financial institutions, such as the IMF and multilateral development banks (MDBs), to expand their financing of poor and climate-vulnerable countries. In the case of the IMF, it proposes easier access to IMF liquidity facilities such as the

79 Grippa, P., Schmittmann, J. and Suntheim, F. (2019), 'Climate Change and Financial Risk', *Finance & Development*, IMF, https://www.imf.org/external/pubs/ft/fandd/2019/12/pdf/climate-change-central-banks-and-financial-risk-grippa.pdf.
80 Pazarbasioglu, C. and Ramakrishnan, U. (2022), 'A New Trust to Help Countries Build Resilience and Sustainability', IMFBlog, 20 January 2022, https://blogs.imf.org/2022/01/20/a-new-trust-to-help-countries-build-resilience-and-sustainability.
81 IMF (2022), 'IMF Executive Board Approves Establishment of the Resilience and Sustainability Trust', press release, 18 April 2022, https://www.imf.org/en/News/Articles/2022/04/18/pr22119-imf-executive-board-approves-establishment-of-the-rst.
82 IMF (2016), 'Special Drawing Rights (SDR)', https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/14/51/Special-Drawing-Right-SDR.
83 IMF (2022), 'IMF Lending', https://www.imf.org/en/About/Factsheets/IMF-Lending; Gaspar, V. and Parry, I. (2021), 'A Proposal to Scale Up Global Carbon Pricing', IMFBlog, 18 June 2021, https://blogs.imf.org/2021/06/18/a-proposal-to-scale-up-global-carbon-pricing.

Rapid Financing Instrument and the Rapid Credit Facility. The initiative also argues for temporary suspension of IMF interest rate surcharges for countries facing climate shocks.[84] Many of these countries continue to struggle with debt repayments and lack additional sources of financing. However, the proposal to eliminate the IMF's practice of surcharging interest rates, which has previously exacerbated financial and political instability in borrower countries dealing with various crises,[85] failed to gain support from the IMF's Executive Board.

The Bridgetown Initiative also proposes re-channelling $500 billion in Special Drawing Rights (SDRs), which are not needed by the countries they are originally allocated to, directly to resilience projects in target countries through the establishment of a new Global Climate Mitigation Trust. SDRs provide individual IMF member countries with the right to borrow from other members via an SDR basket of currencies at low interest rates. The initiative proposes that the trust use SDRs as collateral, borrow in currencies in the SDR basket, and directly invest the funds raised in climate-oriented projects in low- and middle-income countries,[86] acquiring shares in those projects in the process.

This operational framework would differ from existing IMF loan facilities as it would involve investing directly in individual climate projects rather than providing loans to governments where potential projects are located. Some commentators believe the trust would additionally benefit climate-focused projects in low- and middle-income countries, as basket-currency funding reduces exchange rate risks and potential losses would be spread across a broad range of investors (private, IFI, national governments).[87]

The Financial Stability Board

The Financial Stability Board (FSB) was established through the G20 in 2009 to monitor the global financial system and provide recommendations to financial policymakers and authorities.[88] The FSB has since laid out a roadmap for addressing climate-related financial risks and embedding climate change considerations within all financial decisions. As with investment in other sectors, efficient allocation of capital to climate-sustainable assets or projects relies on financial markets having accurate disclosures from companies. To encourage this, in 2015 the FSB created the Task Force on Climate-related Financial Disclosures (TCFD) to recommend cohesive and comparable metrics that would support lenders, insurance underwriters and investors in assessing risks related to climate change.[89]

84 Ellmers, B. (2023), 'The Bridgetown Initiative to reform the international financial architecture', Global Policy Forum, 22 February 2023, https://www.globalpolicy.org/en/news/2023-02-23/bridgetown-initiative-reform-international-financial-architecture.
85 Ibid.
86 Ibid.
87 Persaud, A. (2022), 'Bridgetown Initiative calls for new Global Climate Mitigation Trust financed via Special Drawing Rights', Bretton Woods Project, 8 December 2022, https://www.brettonwoodsproject.org/2022/12/bridgetown-initiative-calls-for-new-global-climate-mitigation-trust-financed-via-sdrs.
88 FSB (2018), 'History of the FSB', 1 December 2018, https://www.fsb.org/about/history-of-the-fsb.
89 FSB (undated), 'About', Task Force on Climate-related Financial Disclosures, https://www.fsb-tcfd.org/about.

Although established as voluntary commitments, the TCFD's recommendations have been adopted by more than 1,000 organizations, including corporations with a combined market capitalization of $12 trillion and major asset holders managing $139 trillion.[90] Eight countries have already incorporated the TCFD's recommendations into their financial and regulatory frameworks, thus providing clear and comparable environmental data for international investors.[91] The FSB has also proposed that it should act as a coordinator of work on cross-sectoral and systemic issues in the global financial system, including implementation of the UN's Sustainable Development Goals (SDGs) and climate change adaptation.[92] The FSB similarly provides international policy advice and support to facilitate communication across national financial authorities and international standard-setting bodies.

Box 3. The TCFD and climate-disclosure mechanisms

The Financial Stability Board (FSB) has several key roles, which contribute to aligning private sector incentives with international development goals. The FSB encourages national financial and regulatory authorities to explore potential alignment between macroprudential policy responses and microprudential measures to address climate-related risks. The FSB also created the Task Force on Climate-related Financial Disclosures (TCFD) as a way to improve and increase reporting of climate-related financial information.[93] The existence of the TCFD encourages green financing by providing greater market certainty around climate exposures for all investments. It allows investors to understand the climate-related risks and opportunities associated with investments, drawing on analysis of comparable data across firms, sectors and geographies. Only $500 million of climate change adaptation financing (1.6 per cent of the total) came from private sources in 2021.[94] The low levels of investment in climate change adaptation can be attributed, in part, to the lack of climate-related risk disclosures to inform capital investment planning.

Any increase in financial disclosures needs careful coordination. Consistency of reporting frameworks and a comparable taxonomy of regulations are essential to avoid market fragmentation. In other words, all investors need to follow the same rules and should be able to measure their investment decisions using consistent, climate-related financial metrics. An illustration of the challenge can be seen in the European Union's implementation of its own 'sustainable finance taxonomy', which provides business leaders with online tools that identify potential climate-friendly investment opportunities.[95] While such a taxonomy is certainly necessary in principle for the EU, its establishment, in isolation from other jurisdictions that do not use

90 Mace, M. (2022), 'Business giants failing to disclose climate-related risks', Edie News, 19 May 2022, https://www.edie.net/business-giants-failing-to-disclose-climate-related-risks.
91 Leder, R. (2022), 'The Right-Wing Campaign to Kill a SEC Climate Rule, Explained', Vox, 21 Jun 2022, https://www.vox.com/23058987/sec-climate-finance-disclosure.
92 FSB (2021), 'FSB Roadmap for Addressing Climate-Related Financial Risks', press release, 7 July 2021, https://www.fsb.org/2021/07/fsb-roadmap-for-addressing-climate-related-financial-risks.
93 TCFD (2023), 'Task Force on Climate-related Financial Disclosures', https://www.fsb-tcfd.org.
94 Tall, A. et al. (2021), *Enabling Private Investment in Climate Adaptation & Resilience*, World Bank Group, Global Facility for Disaster Reduction and Recovery, https://openknowledge.worldbank.org/bitstream/handle/10986/35203/Enabling-Private-Investment-in-Climate-Adaptation-and-Resilience-Current-Status-Barriers-to-Investment-and-Blueprint-for-Action.pdf?sequence=5&isAllowed=y.
95 EU (2022), 'EU taxonomy for sustainable activities', https://finance.ec.europa.eu/sustainable-finance/tools-and-standards/eu-taxonomy-sustainable-activities_en.

the system, risks creating a balkanized regulatory regime. This may divert potential investors from under-resourced regions, while the lack of a coherent international financial disclosure mechanism may result in suboptimal allocation of capital due to information asymmetries around climate risk data.[96]

Although the FSB's creation of the TCFD in 2015 was a foundational step towards realizing the goals of a unified global climate information framework,[97] wider adoption of the TCFD's recommendations is needed for the system to be truly effective (see Chapter 4).

The G20

The G20 was formed in 1999, in the aftermath of the Asian financial crisis. It brought together central bankers and finance ministers from 20 of the world's largest economies (19 countries plus the EU), as well as representatives of the World Bank, the IMF and other international organizations.[98] A decade later, in response to the 2008–09 global financial crisis, the G20 was upgraded to leader level and designated as the world's 'premier economic forum'.[99] The aim was for the G20 – and particularly its finance track – to act as a coordinating body for the international economic architecture. While the G20's response to the financial crisis was praised, its subsequent performance has been patchy, and relations between its member countries have become increasingly strained.[100] For example, while G20 countries agreed during the COVID-19 pandemic to suspend debt service payments owed by developing countries, the grouping's overall response to the pandemic was criticized for being uncoordinated.

Similar problems have affected G20 cooperation on climate policy. Ever since the grouping's creation, several members (particularly among the emerging economies) have wished to restrict its role to what they deemed 'core' economic issues. As a result, its work on climate change was initially very limited. China and India (among others) notably argued that coordinating efforts on climate change should be left to the UNFCCC.

During Germany's presidency of the G20 in 2017, this changed somewhat. For the first time, the issues of climate change and energy were handled in the same working group, under the Sherpa track. Attempts were made to push for a global agreement on climate action. However, Donald Trump's tenure as US president made any agreement extremely difficult. The result was that the G20 communiqué on climate change in 2018 was split into two parts: the first covered the US position, stating that the US 'affirms its strong commitment to economic

96 OECD (2020), 'Framework for SDG-Aligned Finance', https://www.oecd.org/development/financing-sustainable-development/Framework-for-SDG-Aligned-Finance-OECD-UNDP.pdf.
97 United Nations Environment Programme (UNEP) (2022), 'TCFD – Task Force on Climate-related Financial Disclosures', United Nations Environment Finance Initiative, https://www.unepfi.org/climate-change/tcfd.
98 Butler, C. (2012), 'The G-20 framework for strong, sustainable, and balanced growth: glass half empty or half full?', *Oxford Review of Economic Policy* 28(3), pp 469–92, https://www.jstor.org/stable/43741308.
99 OECD (2009), 'Leaders' Statement', The Pittsburgh Summit, 24–25 September 2009, press release, https://www.oecd.org/g20/summits/pittsburgh/G20-Pittsburgh-Leaders-Declaration.pdf.
100 Butler (2012), The G-20 framework for strong, sustainable, and balanced growth.

growth and energy access and security, utilizing all energy sources and technologies, while protecting the environment'; the second part reflected the position of the other 19 members, restating their commitments to the Paris Agreement and to tackling climate change.[101]

Following the Biden administration's arrival in office in 2021, the Italian presidency of the G20 re-established and upgraded the G20 Sustainable Finance Working Group under the finance track. Disagreements among G20 members around the creation of substantive new climate pledges have, however, continued.[102] China, India, Russia and Saudi Arabia reportedly blocked an agreement on the phasing out of coal and fossil fuel subsidies at the G20 ministerial meeting on environment, climate and energy in July 2021. They agreed only to 'pursue efforts' at limiting global warming, without any real pledge to meet the goals of the Paris Agreement.[103] Ministers also failed to agree to a date by which they would phase out 'inefficient' fossil fuel subsidies – something the group first promised in 2009 but has made little progress on. (The smaller, wealthier G7 made 2025 its deadline.)

Debt relief is vital to create the necessary fiscal space in recipient countries for climate investments.

G20 initiatives on core economic areas, such as the Debt Service Suspension Initiative (DSSI), are also critically important to the financing of climate action. Debt relief is vital to create the necessary fiscal space in recipient countries for climate investments. Prior to its expiry in December 2021, the DSSI sought to help governments concentrate their financial resources on pandemic recovery. It did this by suspending bilateral debt service repayments.[104] Subsequently, the G20 established the Common Framework to address longer-term debt restructuring needs in low-income developing economies.[105] G20 creditors, including members of the 'Paris Club' (i.e. France and the US) and new creditors (i.e. China and India), agreed in principle to negotiate debt relief for borrower countries in debt distress.[106] Progress, however, has been slow. Only three countries currently have applied for relief under the scheme, with substantial progress being made only on two (Chad and Zambia).

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101 Stewart, E. (2018), 'The US Got Its Own Section in the G20 Statement on Climate Change', Vox, 3 December 2018, https://www.vox.com/policy-and-politics/2018/12/3/18123684/trump-g20-climate-change-paris-agreement.
102 Redmond-King, G. (2022), 'Energy & Climate Intelligence Unit, G20 Meetings & Climate Pledges', https://eciu.net/analysis/briefings/international-perspectives/g20-meetings-climate-pledges.
103 G20 Energy Transition and Climate Sustainability Working Groups (2021), 'Joint G20 Energy-Climate Ministerial Communiqué', 23 July 2021, http://www.g20.utoronto.ca/2021/2021_G20-Energy-Climate-joint-Ministerial-Communique.pdf.
104 World Bank (2022), 'Debt Service Suspension Initiative', 10 March 2022, https://www.worldbank.org/en/topic/debt/brief/covid-19-debt-service-suspension-initiative.
105 Ahmed, M. and Brown, M. (2022), 'Fix the Common Framework for Debt Before It Is Too Late', Center for Global Development, https://www.cgdev.org/blog/fix-common-framework-debt-it-too-late.
106 Georgieva, K. and Pazarbasioglu, C. (2021), 'The G20 Common Framework for Debt Treatments Must Be Stepped Up', IMFBlog, 2 December 2021, https://blogs.imf.org/2021/12/02/the-g20-common-framework-for-debt-treatments-must-be-stepped-up.

The G7

The G7 arose out of the oil shocks of the early 1970s and the collapse of the Bretton Woods fixed exchange rate system.[107] In 1975, six of the wealthiest countries at the time (France, Italy, Japan, the UK, the US and West Germany) met to discuss ways to address the oil price hike and the subsequent economic recession. With the addition of Canada, the following year, and later the EU, the group became the G7. Between 1998 and 2014, Russia became a member of the group (which temporarily became the G8), but the country was suspended by other members in response to its annexation of Crimea.

Over the last several years, the G7 has made several major pledges to tackle climate change.[108] In 2009, developed countries agreed to contribute $100 billion a year in climate financing to emerging economies.[109] The G7 agreed to contribute funds as part of that pledge, but the target has still not been fully met. Under the Trump administration, the US tried to sideline discussions around climate change at the G7. In 2018, President Trump skipped the discussions on climate change, and at the last minute refused to join the other members in signing the 2018 communiqué, even though it had already been drafted to reflect the US position on climate change.[110]

Under President Joe Biden, the US has again become much more engaged on climate issues. With other G7 members, it has pledged to help countries move away from coal power generation, offering $2.8 billion in financing and an end to government support for new coal power facilities in emerging economies. At the 2022 G7 leaders' summit, the group renewed its commitments to a 'green revolution' and promised to reach net zero GHG emissions by 2050.[111] The G7 also released a statement on a new 'Climate Club' to boost international partnerships to facilitate climate action and promote a 'just' energy transition.[112] The club would serve as an intergovernmental forum and be open to all countries committed to implementing the Paris Agreement.[113] In December 2022, G7 members endorsed the Climate Club's terms of reference and established a Climate Club Task Force.[114] The club's interim secretariat will initially be housed under the OECD, in tandem with the International Energy Agency.[115]

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107 Bundesregierung (2022), 'The history of the G7', https://www.bundesregierung.de/breg-en/service/the-history-of-the-g7-397438.
108 Council on Foreign Relations (2022), 'Where Is the G7 Headed?', press release, 28 June 2022, https://www.cfr.org/backgrounder/where-g7-headed.
109 Harrabin, R. (2021), 'G7 summit: Leaders pledge climate action but disappoint climate activists', BBC News, 13 June 2021, https://www.bbc.com/news/world-57461670.
110 Inside Climate News (2018), 'Six of the G7 Commit to Climate Action, Trump Wouldn't Even Join Conversation', 10 June 2018, https://insideclimatenews.org/news/10062018/g7-summit-climate-change-communique-trump-allies-estranged-germany-france-canada.
111 IISD (2022), 'G7 Agrees to Establish "Climate Club" Amid Energy Security Concerns', 29 June 2022, press release, https://sdg.iisd.org/news/g7-agrees-to-establish-climate-club-amid-energy-security-concerns.
112 G7 Germany (2022), 'G7 Statement on Climate Club', 28 June 2022, https://www.g7germany.de/resource/blob/974430/2057926/2a7cd9f10213a481924492942dd660a1/2022-06-28-g7-climate-club-data.pdf?download=1.
113 Ibid.
114 Bundeskanzleramt (2022), 'G7 establishes Climate Club', Federal Ministry for Economic Affairs and Climate Action of Germany, 12 December 2022, https://www.bmwk.de/Redaktion/EN/Pressemitteilungen/2022/12/20221212-g7-establishes-climate-club.html.
115 Prime Minister's Office (2022), 'G7 Leaders' Statement: 12 December 2022', press release, 12 December 2022, https://www.gov.uk/government/news/g7-leaders-statement-12-december-2022.

Box 4. Carbon border adjustment mechanisms

Within the G7, the European Union has reached a provisional deal for the implementation of carbon border adjustment mechanisms (CBAMs) to reduce the risk of 'carbon leakage'.[116] Carbon leakage describes situations in which high-emitting businesses transfer their operations from a country with strict GHG emissions rules to one with lower restrictions – with the result that there is no fall in the combined emissions of both jurisdictions. The pros and cons of CBAMs, as potential measures that could support global efforts to reduce GHG emissions, have been discussed by the IMF, the OECD and G20 finance ministers. In December 2022, the EU agreed to the implementation of a CBAM which would target imports of carbon-intensive products from non-EU countries, where carbon abatement policies in product manufacturing may not be as robust or as well regulated as in the EU.[117] The EU's CBAM policies would similarly discourage the relocation of product manufacturing from the EU to non-EU countries with less ambitious climate policies; these CBAMs would initially target the manufacturing of cement, iron, steel, aluminium and fertilizers.[118] After an initial, voluntary three-year transition phase, the EU's CBAM will go into full force in 2026 and become fully operational by 2034.

Despite the obvious attraction of CBAMs in reducing carbon leakage, there are legitimate concerns that CBAMs and similar trade policies could indirectly put low-income and emerging economies at a disadvantage. For example, how would stricter trade measures, focused on pollution and climate impacts, affect the ability of these countries to compete in a greener global economy? Additionally, the proliferation of national climate agendas has already led to trade friction, resulting from international price differentials associated with the carbon content of traded goods.[119] There are also questions around the compliance of CBAMs with WTO rules. Under GATT Article II.2 (a), WTO members are allowed to apply tax adjustments at their borders.[120] Some critics have claimed, however, that CBAMs act more as tariffs.[121]

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116 European Commission (2022), 'Carbon Border Adjustment Mechanism', https://ec.europa.eu/commission/presscorner/detail/en/qanda_21_3661.
117 European Council (2022), 'Council agrees on the Carbon Border Adjustment Mechanism (CBAM)', press release, 15 March 2022, https://www.consilium.europa.eu/en/press/press-releases/2022/03/15/carbon-border-adjustment-mechanism-cbam-council-agrees-its-negotiating-mandate.
118 Sapir, A. (2021), 'The European Union's carbon border mechanism and the WTO', Bruegel, 19 July 2021, https://www.bruegel.org/blog-post/european-unions-carbon-border-mechanism-and-wto.
119 WTO (1992), 'Arthur Dunkel Calls on Governments to Develop Constructive Links Between Trade and Environmental Policy-making', 23 January 1992, https://www.wto.org/gatt_docs/English/SULPDF/91600268.pdf; Lee, B. and Vaughan, S. (2020), 'Inevitable Clash When Climate Meets Trade at the Border', Chatham House Expert Comment, 8 November 2020, https://www.chathamhouse.org/2020/11/inevitable-clash-when-climate-meets-trade-border.
120 WTO (1994), 'Article II, Schedule of Concessions', https://www.wto.org/english/res_e/publications_e/ai17_e/gatt1994_art2_gatt47.pdf.
121 Bray, S. and Muresianu, A. (2022), 'Carbon Taxes in the Global market: Changes on the Way?', Tax Foundation, 27 June 2022, https://taxfoundation.org/cbam-carbon-price-tariffs.

Furthermore, how does a country or international body ensure that CBAMs are not discriminatory? GATT Article XX on General Exceptions provides member countries with exceptions for protecting the environment. The article states: 'WTO members may adopt policy measures that are inconsistent with GATT disciplines, but necessary to protect human, animal or plant life or health (paragraph (b)) or relating to the conservation of exhaustible natural resources (paragraph (g)).' The legal eligibility of these exceptions may come down to whether CBAMs discriminate between domestic and foreign suppliers, as well as between foreign suppliers.[122]

The NGFS and Coalition of Finance Ministers for Climate Action

Two relatively new groups, the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) and the Coalition of Finance Ministers for Climate Action, have recently been formed to address climate change within the financial sector.

The NGFS was launched at the Paris One Planet Summit in 2017. It is a group of central banks and supervisory bodies that have committed to share best practices, contribute to the development of climate risk management, and mobilize further investments in climate action.[123] At present, the NGFS consists of 116 members and 19 observers.[124]

The Coalition of Finance Ministers for Climate Action, born out of the 2018 annual meetings of the World Bank and the IMF, similarly encourages cooperation between governments in aligning their financing needs with national climate action agendas. It encourages members to factor climate risks and vulnerabilities into their economic planning.[125] The coalition has members from more than 70 countries and has 25 institutional partners.[126]

Despite some similarities, the two groups differ in certain respects. The NGFS seeks to use collective approaches to enhance the role of the financial system to manage risks and mobilize additional capital around environmental and sustainable development objectives.[127] By contrast, the Coalition of Finance Ministers for Climate Action focuses on sharing best practice among members to achieve climate goals without seeking to impose common approaches.

122 Sapir (2021), 'The European Union's carbon border mechanism and the WTO'.
123 NGFS (2022), 'Origin and Purpose', https://www.ngfs.net/en.
124 NGFS (2022), 'Membership', https://www.ngfs.net/en/about-us/membership.
125 The Coalition of Finance Ministers for Climate Action (2022), 'About Us', https://www.financeministersforclimate.org/about-us.
126 The Coalition of Finance Ministers for Climate Action (2022), 'Member Countries', https://www.financeministersforclimate.org/member-countries.
127 CFA (2019), 'NGFS and Coalition of Finance Ministers for Climate Action Put Financial Markets Front and Center', 7 May 2019, https://climatefinanceadvisors.com/2019/05/ngfs-and-coalition-of-finance-ministers-for-climate-action-put-financial-markets-front-and-center.

The World Trade Organization: climate and trade policies

Action on global trade is critical to reducing GHG emissions. Emissions generated by the production and transport of goods and services have risen over the last several decades, representing an average of 20–30 per cent of global GHG emissions over this period.[128] As the leading global trade body, the World Trade Organization (WTO) has a central role to play in promoting emissions reduction: the WTO acts as both a forum for climate trade negotiations and as a body to negotiate further openness in the trade of environmentally sustainable goods and services. It also performs important functions handling international trade disputes and providing regulatory oversight.

The climate-related trade policy challenges facing the WTO are formidable. To date, the international trading system has been unable to align with the ambitions of the Paris Agreement. WTO negotiations have hit roadblocks on measures around fossil fuel subsidies and the establishment of clear rules of trade for decarbonization.[129] Many WTO members fear that unilateral decarbonization would put them at a competitive disadvantage relative to countries that continue on a path of 'business as usual' trade-related emissions.[130]

To address these concerns, in 2021 more than 70 members launched the Trade and Environmental Sustainability Structured Discussions (TESSD), a new plurilateral initiative on climate and trade. In tandem with the Coalition of Finance Ministers for Climate Action, the TESSD provides an additional avenue for climate cooperation and for addressing tensions around climate-focused trade. A complementary mechanism, the Fossil Fuel Subsidy Reform (FFSR) initiative, was established in 2021 to examine how trade and trade rules could be aligned with international environmental ambitions. More specifically, the FFSR initiative seeks to phase out inefficient fossil fuel subsidies, which have steadily increased among WTO members over the last decade and are estimated at over $500 billion per annum.[131] The initiative also aims to build momentum for policy reform by encouraging members to share information.[132]

Progress in these various areas has been limited. While the TESSD and FFSR initiatives both aspire to widen their participation (currently 74 members,

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128 Brenton, P. and Chemutai, V. (2021), 'The Trade and Climate Change Nexus', World Bank Group, https://openknowledge.worldbank.org/bitstream/handle/10986/36294/9781464817700.pdf?sequence=5%20&isAllowed=y; Rafaël, C. and Tancrède, P. (2020), 'CO_2 emissions embodied in international trade', Banque de France Bulletin no. 228: Article 1, 30 March 2020, https://publications.banque-france.fr/en/co2-emissions-embodied-international-trade.
129 De Melo, J. and Solleder, J. (2019), 'What's wrong with the WTO's Environmental Goods Agreement: A developing country perspective', Vox EU, 13 March 2019, https://cepr.org/voxeu/columns/whats-wrong-wtos-environmental-goods-agreement-developing-country-perspective; Lim, A., Ramos, D. and Kiskinova, G. (2022), 'Where Do WTO Trade and Environmental Sustainability Initiatives Stand Today?', IISD, press release, 2 March 2022, https://www.iisd.org/articles/policy-analysis/where-do-wto-trade-and-environmental-sustainability-initiatives-stand.
130 Eliason, A. and Howse, R. (2009), 'Domestic and International Strategies to Address Climate Change: An Overview of the WTO Legal Issues', https://www.researchgate.net/profile/Antonia-Eliason/publication/265185747_Domestic_and_International_Strategies_to_Address_Climate_Change_An_Overview_of_the_WTO_Legal_Issues/links/559e4bb208aec7200182cc98/Domestic-and-International-Strategies-to-Address-Climate-Change-An-Overview-of-the-WTO-Legal-Issues.pdf.
131 WTO (2021), 'New initiatives seek to put environment at heart of trade discussions', 15 December 2021, https://www.wto.org/english/news_e/news21_e/envir_15dec21_e.htm.
132 WTO (2022), 'Fossil Fuel Subsidy Reform (FSSR)', June 2022, https://www.wto.org/english/thewto_e/minist_e/mc12_e/ffsr_press_background.pdf.

representing around 84 per cent of global trade, for the TESSD; 48 members for the FFSR),[133] both initiatives still have a long way to go to achieve consensus.[134] This partly reflects the fact that the WTO itself is grappling with existential challenges about its relevance within the current international system, with the debate punctuated by mounting protectionist trade policies and geopolitical disputes.

Politically, the WTO is one of the most difficult institutions in the international economic architecture in which to enact climate-related reforms.[135] This is due to several factors. The very nature of the WTO, as a consensus-based organization with near-universal membership, makes it difficult to find mutual agreements on tariff reductions for low-carbon technologies or on disciplinary measures against fossil fuel subsidies.[136] Reflecting this constraint, progress on sharing information and best practice around the reduction of emissions within the global trading system has been achievable only on a plurilateral basis among WTO member subgroups. The politicization of the WTO's dispute settlement mechanisms and the erosion of its monitoring and enforcement functions have created obstacles for efforts to embed climate considerations in global trade policies.

A further challenge is the uncertainty over whether developed economies are prepared to go it alone to levy additional taxes on their own industries in order to achieve global climate goals. Such policies would potentially put those economies at a competitive disadvantage relative to countries without such taxes. These policies could encounter significant political resistance unless, for example, they were accompanied by the introduction of CBAMs (see Box 4).

Nevertheless, the WTO may be the only body with the technical expertise and enforcement power to address climate-related trade challenges. As mentioned, plurilateral efforts within WTO subgroups may provide an avenue through which to effect marginal improvements in policies. For example, discussions on the nexus of climate and trade issues began with the facilitation of Ecuador, the EU, Kenya and New Zealand.[137] The discussions have led to the establishment of the Coalition of Trade Ministers on Climate, which aims to integrate climate change considerations throughout global trade policies and support technical work overseen by the WTO.[138] The coalition is the first ministerial-level global forum dedicated exclusively to the integration of climate and sustainable development in the global trade system.[139] The establishment of the coalition reflects the urgency felt by many member states to ensure that actions in the WTO, G20, G7 and other international forums align with net zero ambitions.[140]

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133 As of June 2022.
134 WTO (2022), 'Trade and environmental sustainability', https://www.wto.org/english/tratop_e/tessd_e/tessd_e.htm.
135 Solís, M. and Dollar, D. (2021), 'Why Is WTO Reform so Difficult?', podcast, Brookings, 6 December 2021, https://www.brookings.edu/podcast-episode/why-is-wto-reform-so-difficult.
136 WTO (2022), 'Climate Change and the Potential Relevance of WTO Rules', https://www.wto.org/english/tratop_e/envir_e/climate_measures_e.htm.
137 European Commission (2022), 'The EU teams up with Ecuador, Kenya, New Zealand to forge cooperation on trade and climate', 13 June 2022, https://policy.trade.ec.europa.eu/news/eu-teams-ecuador-kenya-new-zealand-forge-cooperation-trade-and-climate-2022-06-13_en.
138 Ibid.
139 European Commission (2023), 'Trade and Climate: EU and partner countries launch the 'Coalition of Trade Ministers on Climate'', European Commission, press release, 19 January 2023, https://ec.europa.eu/commission/presscorner/detail/en/IP_23_248.
140 O'Connor, D. (2022), 'Joint Statement: New Zealand teams up with Ecuador, Kenya, and the EU to forge cooperation on trade and climate', Beehive.govt.nz, 13 June 2022, https://www.beehive.govt.nz/release/joint-statement-new-zealand-teams-ecuador-kenya-and-eu-forge-cooperation-trade-and-climate.

04 Recommendations

Institutions in the international economic architecture urgently need to step up their support for climate action. Priorities must include providing more climate finance of their own, mobilizing private investment, mainstreaming climate issues across their operations, making climate disclosures mandatory, and addressing sovereign debt distress to unlock private climate finance.

The institutions of the international economic architecture can and should do more to help achieve the goals of the 2015 Paris Agreement on climate change. They will need to develop more ambitious internal policies, provide more comprehensive and effective policy advice, and above all generate much higher investments in reducing GHG emissions and fossil fuel dependency.

This chapter proposes action in five specific areas to address these challenges. First, and where relevant, MDBs should move quickly to increase their *own* climate-related lending and take on more climate risk. Second, institutions in the international economic architecture should step up their work as conveners between the public and private sectors, to mobilize private capital for 'green' investments. In particular, the adoption of a common decarbonization pathway to inform investment modelling and decision-making would help to support such a process. Third, individual institutions should increase their efforts to mainstream climate change mitigation and adaptation across all their activities, and to coordinate more effectively with each other around these activities within the international economic system. Fourth, they should establish a single, common financial disclosure framework for consistent identification of the financial risks from asset exposures to GHG emissions. Fifth, they should prioritize addressing the problem of debt distress in developing countries, as this is essential to both free up scarce domestic resources for climate-related investments and to attract the required international finance.

Stepping up public climate finance

Leading MDBs, such as the World Bank Group, have a key role to play in increasing public sector finance for climate action. Some commentators argue that the MDBs have not fully realized their potential to support the work of developing countries in meeting sustainability goals, and that such banks have been too hesitant in supporting an aggressive response to climate change.[141] Through the 2015 Addis Ababa Action Agenda and the G20, the international community has called for MDBs to 'make optimal use of their resources and balance sheets, consistent with maintaining their financial integrity', but so far these statements have not translated into a marked shift in MDB behaviour.[142]

Contributing to the strong case for increasing the climate financing capacity of the MDBs is the fact that deferring investments in climate change mitigation and adaptation will increase the long-term borrowing costs of recipient countries.

For instance, the International Development Association (IDA), a loan facility within the World Bank Group, dedicated only $38 billion for climate interventions in low- and middle-income countries in 2020.[143] That same year, total climate financing by the eight largest MDBs totalled $151 billion, surpassing the 2025 climate finance goals that were set at the 2019 UN secretary-general's Climate Action Summit.[144] While noteworthy, the $151 billion total is less than the $222 billion in financing that was provided by major MDBs in the wake of the 2008–09 global financial crisis.[145] In addition, the $151 billion figure is nowhere near the estimated $6.9 trillion a year needed to achieve the goals of the Paris Agreement, including reaching net zero by 2050.[146]

Contributing to the strong case for increasing the climate financing capacity of the MDBs as quickly as possible is the fact that deferring investments in climate change mitigation and adaptation will increase the long-term borrowing costs of recipient

141 Prizzon, A. and Leautier, F. (2022), 'Multilateral development banks need a bolder vision and urgent reform to tackle the climate crisis', ODI, 12 November 2022, https://odi.org/en/insights/multilateral-development-banks-need-a-bolder-vision-and-urgent-reform-to-tackle-the-climate-crisis.
142 UN (2015), 'Resolution adopted by the General Assembly on 25 September 2015', United Nations General Assembly, 21 October 2015, p. 17, para. 70, https://www.un.org/en/development/desa/population/migration/generalassembly/docs/globalcompact/A_RES_70_1_E.pdf.
143 European Investment Bank (2022), *Joint Report on Multilateral Development Banks' Climate Finance*, https://www.miga.org/sites/default/files/2021-08/2020-Joint-MDB-report-on-climate-finance_Report_final-web.pdf.
144 European Investment Bank (2022), 'Multilateral development banks' climate finance in low and middle-income countries reaches $51 billion in 2021', press release, 14 October 2022, https://www.eib.org/en/press/all/2022-402-multilateral-development-banks-climate-finance-in-low-and-middle-income-countries-reaches-usd51-billion-in-2021; World Bank (2021), 'Multilateral Development Bank Climate Finance for Developing Countries Rose to US$38 Billion, Joint Report Shows', press release, 2 July 2021, https://www.worldbank.org/en/news/press-release/2021/07/02/mdbs-climate-finance-for-developing-countries-rose-to-us-38-billion-joint-report-shows.
145 US Treasury (2023), 'Multilateral Development Banks', U.S. Department of the Treasury, https://home.treasury.gov/policy-issues/international/multilateral-development-banks.
146 OECD (2018), 'Financing Climate Futures, Rethinking Infrastructure, Policy Highlights', https://www.oecd.org/environment/cc/climate-futures/policy-highlights-financing-climate-futures.pdf.

countries. Recent studies note that, under the projected high-emissions scenario of the Paris Agreement, the sovereign credit ratings of nearly 80 countries will face an average downgrade of 2.5 notches within the next decade.[147] Climate-induced downgrades of sovereign ratings may be seen as early as 2030, causing annual interest payments on sovereign debt to increase by between $22 billion and $33 billion.[148]

Addressing capital constraints in the MDBs

Under the conventional funding model, MDBs raise funds in the private capital markets by issuing bonds that are underwritten one-for-one by their government shareholders. Under this system of 'callable capital', a small proportion of capital (e.g. 10 per cent) is paid in, but the remainder can be called up if needed to cover losses. Given the high credit ratings of a number of major MDB shareholders, this system, combined with the customary preferred creditor status of MDB lending, helps ensure that MDBs maintain the highest credit ratings (AAA in the case of the IBRD) and can raise funds at the lowest possible interest rates.[149] Moreover, when the MDBs deploy funding raised in this way, there is a considerable multiplier effect – it is estimated that for every $1 invested by the World Bank, $4 is mobilized in new private financing.[150]

One option to scale up MDB-driven climate finance is for MDB shareholders to commit substantially more subscribed capital, which would then be deployed by the MDBs themselves under the conventional funding model. The implications of such a step for the public finances in shareholder countries are actively debated. How much risk would be involved in the associated additional callable capital contribution required? What would be the accounting treatment in different countries, regardless of the true economic risk? Is this the best way to use scarce public funds, given that a substantial element of control would be ceded by shareholders (i.e., governments) to MDB leaders? As a result, agreement on a capital increase is currently hard to achieve.

As an alternative, some commentators have argued that the current capital adequacy frameworks for MDBs, which measure how much capital MDBs need to have in order to be able to pay back their bondholders in case of default by a borrowing country, are unnecessarily conservative.[151] They have advocated for callable capital to be included in MDB capital adequacy assessments, arguing that this would facilitate a significant increase in MDB climate lending without requiring as much new

147 Klusak, P. et al (2021), 'Rising temperatures, falling ratings: The effect of climate change on sovereign creditworthiness', CAMA Working Paper No. 34, 26 March 2021, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3811958.
148 Ibid.
149 World Bank (2021), 'Information Statement, International Bank for Reconstruction and Development', 22 September 2021, https://thedocs.worldbank.org/en/doc/6ee1ff1f6a70a464f83f212eeb9d1bbc-0340022021/original/IBRD-Information-Statement-FY21.pdf.
150 Watkins, K. (2022), 'MDBs fail to meeting [sic] poor world's finance needs', The Asset, 13 May 2022, https://theasset.com/article-esg/46728/mdbs-fail-to-meeting-poor-world-s-finance-needs.
151 Linn, J. (2022), 'Expand multilateral development bank financing, but do it the right way', Brookings Institution, 29 November 2022, https://www.brookings.edu/blog/future-development/2022/11/29/expand-multilateral-development-bank-financing-but-do-it-the-right-way; and Gold, S. (2022), 'Exclusive: G-20 report says MDBs are holding back hundreds of billions', Devex, 20 July 2022, https://www.devex.com/news/exclusive-g-20-report-says-mdbs-are-holding-back-hundreds-of-billions-103673.

paid-in capital from shareholders.[152] Major MDBs, such as the World Bank Group, are 'de facto embedding rating agency methodologies'[153] into their capital adequacy measures, which are often more conservative than their charters permit.[154] This conservative approach is said to have been championed by a select number of major MDB shareholders in order to avoid any chance of a drawdown of callable capital. Ironically, callable capital, which is designed to provide greater financial security and liquidity for MDBs, is seen by some as a significant limitation on MDBs doing more.[155]

The counterargument to this is that 'loosening' the MDB approach to capital adequacy requirements could result in a significant downgrade in MDBs' credit ratings. Ultimately, this may raise the cost of the finance that MDBs provide and add to the hesitancy of shareholders in providing more capital.[156] Regardless of the economic case, there may also be statutory limits on leverage and portfolio growth, which are hard to change.[157]

Support for easier capital constraints, however, comes from a critical analysis of the evaluation methodology used by credit rating agencies. This research suggests that such agencies fundamentally underestimate the financial strength of MDBs.[158] If correct, this means the current conservative approach to risk is unnecessarily restricting the ability of MDBs to leverage their balance sheets for climate financing.[159]

More broadly, it could be argued that the MDBs' dependence on capital market financing for their day-to-day operations may weaken any pressure by shareholder governments to steer MDB activities and investments towards climate-related projects.[160] This is why the evaluation criteria used by credit rating agencies, which act as for-profit entities, are weakening the development and climate mandates of MDBs.[161] In 2021, the G20 sought to address this very issue by creating an independent panel to review the potential for MDBs to lend more without risking their long-term financial integrity.[162] The panel released its findings in a 2022 report,[163] which recommended reforms to unlock hundreds of billions of dollars

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152 MDB call to action signatories (2022), 'Reforming the World Bank and MDBs to Meet Shared Global Challenges', Center for Global Development, 6 October 2022, https://www.cgdev.org/publication/reforming-world-bank-and-mdbs-meet-shared-global-challenges.
153 Each MDB has its own method of capital adequacy modelling. Many of these methods are not made public. It is, therefore, difficult to gauge and compare the capital adequacy of various MDBs.
154 Gold (2022), 'Exclusive: G-20 report says MDBs are holding back hundreds of billions'.
155 Humphrey, C. (2021), 'The case for an external review of multilateral development bank capital adequacy', ODI, https://odi.org/en/insights/the-case-for-an-external-review-of-multilateral-development-bank-capital-adequacy.
156 Watkins (2022), 'MDBs fail to meeting [sic] poor world's finance needs'; Inter-American Development Bank (undated), 'Capital Funds Under Administration', IDB Finance, https://www.iadb.org/en/idb-finance/english/capital-and-funds-under-administration-frequently-asked-questions%2C2425.html.
157 Humphrey, C. (2015), *Are Credit Rating Agencies Limiting the Operational Capacity of Multilateral Development Banks?*, Intergovernmental Group of Twenty-Four, 30 October 2015, https://www.g24.org/wp-content/uploads/2016/01/Are-Credit-Rating-Agencies-Limiting-the-Operational.pdf.
158 Humphrey, C. (2017), 'He who pays the piper calls the tune: Credit rating agencies and multilateral development banks', *The Review of International Organizations* 12, pp. 281–306, 9 March 2017, https://link.springer.com/article/10.1007/s11558-017-9271-6.
159 Fitch Ratings (2020), 'Suspension of Debt Payments to MDBs a Risk to Ratings', Fitch Wire, press release, 22 April 2020, https://www.fitchratings.com/research/sovereigns/suspension-of-debt-payments-to-mdbs-risk-to-ratings-22-04-2020.
160 Humphrey (2017), 'He who pays the piper calls the tune'.
161 Ibid.
162 Humphrey, C. (2022), 'Higher lending, bigger impact: tackling global crises through multilateral development bank reform', ODI, 25 July 2022, https://odi.org/en/insights/higher-lending-bigger-impact-tackling-global-crises-through-multilateral-development-bank-reform.
163 Léautier, F. et al. (2022), *Boosting MDBs' investing capacity: An Independent Review of Multilateral Development Banks' Capital Adequacy Frameworks*, https://www.dt.mef.gov.it/export/sites/sitodt/modules/documenti_it/news/news/CAF-Review-Report.pdf.

in additional MBD lending. The recommendations included revising risk tolerance limits in MDB capital adequacy modelling by credit rating agencies, improving data transparency and MDB capital adequacy benchmarking to improve evidence-based decisions, and enhancing dialogue between credit rating agencies and MDBs to increase understanding of ratings methodologies.

There are further questions as to how risk management approaches are currently being evaluated by financial managers within MDBs, including uncertainty around the risk appetite of MDB shareholders. Some commentators have argued that MDB financial managers have taken a risk-adverse, conservative approach to lending in order to preserve MDBs' preferred creditor status.[164] Given the urgency of climate action, it is critical for MDB shareholders and organizational leaders to overcome the current obstacles to scaling up MDB climate-related investments.

It is also essential that the member state shareholders of MDBs, themselves, take a bolder approach to lending. This would involve a combination of increasing their paid-in capital contributions to MDBs *and* agreeing with MDB reforms to the utilization of callable capital. In 2018, for example, a $13 billion increase in paid-in capital to the World Bank Group and the IFC led to an average $41 billion annual increase in projected lending capacity through to 2030.[165] If a similar ratio of capital increases were leveraged for climate action purposes, it is estimated that a $32 billion increase in capital contributions to the World Bank Group, for example, would result in $100 billion in additional annual lending until 2030.[166]

A combined approach of this kind – i.e., involving action by both MDBs and their shareholders – may still come with risks of credit rating downgrades for the MDBs. These potential downgrades, however, may be limited in scope if both the above steps are taken in tandem. If such steps are additionally accompanied by a push to reform how credit rating agencies and financial markets view the risk inherent in MDB borrowing, MDB financing could substantially increase the funding available for future climate change mitigation and adaptation projects.

Box 5. The argument for evolution, not revolution

The failure so far of the MDBs and other institutions in the international economic architecture to fully address the urgency of the climate crisis has led some commentators to call for an entirely new Bretton Woods system.[167] In the last two decades, policymakers and prominent academics have proposed the creation of several organizational structures to address financing gaps and oversee initial national commitments to climate goals. Their argument is that without a new Bretton Woods system, the world will continue to be mired in climate chaos and political dysfunction. Many have argued that

164 Linn (2022), 'Expand multilateral development bank financing, but do it the right way'.
165 Kenny, C. and Morris, S. (2021), 'A Climate-Dedicated Capital Increase at the World Bank and IFC', CDG Notes, Center for Global Development, 15 March 2021, https://www.cgdev.org/publication/climate-dedicated-capital-increase-world-bank-and-ifc.
166 Ibid.
167 Gallagher, K. P. and Kozul-Wright, R. (2021), *The Case for a New Bretton Woods*, Wiley, https://www.wiley.com/en-us/The+Case+for+a+New+Bretton+Woods-p-9781509546541.

the current institutions in the architecture, and their member governments, should agree on the creation of a *single* institution to oversee climate strategies and apply them across the entire global economy.

These considerations, however, fail to take into account the wider, endemic nature of governance challenges around climate action within the broader international system, as well as within the international economic architecture in particular.[168] These same governance challenges would very likely occur in any new organization or forum dedicated to addressing gaps in climate financing and policy inaction.[169] In addition, wholesale reform of the Bretton Woods system would require enormous political capital and could take several years – time which is simply not available given the urgency of the climate threat.

Despite current institutional shortcomings, there is really no practical alternative but to work incrementally through the existing institutions, strengthening their own individual responses, improving coordination between them, and making further targeted institutional changes and additions where the need is greatest, and the political will can be generated. A much greater global sense of urgency and appreciation of the need for enhanced cooperation will be critical to underpin this. Ironically, this is in some ways similar to the spirit behind the creation of the original Bretton Woods system.[170] The systemization of climate-focused initiatives within the international economic architecture has the potential to foster the crucial investments and aggressive policy actions needed to stem global GHG emissions.

Mobilizing private investment and unifying decarbonization pathways

While national governments and MDBs are central to meeting climate-related investment needs, the private sector is also a critical source of financing. Organizations such as the IMF, World Bank and FSB have essential roles to play in mobilizing private capital, both directly (i.e., as catalytic conveners or financial standard-setters) and indirectly (i.e., through the provision of liquidity facilities in response to macroeconomic shocks).

By acting as convening bodies between the public and private sectors, such institutions and their associated agencies can help to encourage private sector participation in global development priorities such as the SDGs and the Paris Agreement.[171] For example, the Global Infrastructure Facility (GIF), a G20 initiative supported

168 IPCC (2022), 'Climate Change 2022: Impacts, Adaptation and Vulnerability', IPCC Sixth Assessment Report, https://www.ipcc.ch/report/ar6/wg2/downloads/report/IPCC_AR6_WGII_SummaryForPolicymakers.pdf.
169 Luomi, M. (2020), 'Global Climate Change Governance: The search for effectiveness and universality', International Institute for Sustainable Development, 8 December 2020, https://www.iisd.org/articles/deep-dive/global-climate-change-governance-search-effectiveness-and-universality.
170 Watkins, K. (2022), 'Can the International Community Still Do Big Things?', Project Syndicate, 9 May 2022, https://www.project-syndicate.org/commentary/rich-world-fails-development-financing-for-climate-education-recovery-by-kevin-watkins-2022-05.
171 Global Investors for Sustainable Development Alliance (undated), 'Mobilize Finance and Investment', https://www.gisdalliance.org/our-work/mobilize-finance-investment.

by the World Bank and some economically advanced countries, provides funding and advisory services to countries seeking to structure, design and select sustainable infrastructure projects in emerging markets.[172] The GIF also acts as a platform for information on bankable public–private partnerships (PPPs) using private capital.

A further step to scale up private climate investment (alongside public investment) is for all institutions in the international economic architecture to adopt a common climate scenario framework.[173] Specifically, if such institutions, and as many of their member countries as possible, agreed to adopt the same decarbonization pathway towards net zero GHG emissions, it could render economic and financial modelling more effective in influencing future private investment decisions. Currently, different decarbonization pathway scenarios envisage a variety of policy permutations: (1) a supply-side mix of renewable energy systems with some high-cost elements (e.g. hydrogen), combined with more energy-efficient infrastructure; (2) continued fossil fuel usage – at least for a period – combined with much higher energy efficiency; or (3) increased use of bioenergy with carbon capture and storage (BECCS) technology.[174] Making a choice as to which pathway is best – or at least, given the many complex variables, finding a working consensus to that effect – and determining how it should be applied in individual countries with particular characteristics would reduce policy uncertainty. Consequently, it would reduce the perceived riskiness of private investments in climate action. It would, therefore, lower investors' required rates of return. This could help to accelerate climate action, increasing the scope for investments to capture economies of scale and reduce transition costs.

In short, just as the TCFD provides a global, common disclosure framework for climate risks in investment portfolios, a common climate scenario framework adopted by institutions across the international economic architecture would provide consistent decarbonization assumptions to inform private climate-related investment.[175]

Mainstreaming climate change in the international economic architecture

Many of the institutions in the international economic architecture were late to recognize climate change as a macroeconomic issue.[176] These organizations should move rapidly now to fully embed climate-related issues within all their workstreams – whether research, policy advice, development aid, market risk assessments or debt sustainability analysis.

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172 https://www.globalinfrafacility.org.
173 Quiggin, D. (2014), 'Modelling The Expected Participation Of Future Smart Households In Demand Side Management, Within Published Energy scenarios', Loughborough University, Loughborough, Leicestershire, https://repository.lboro.ac.uk/articles/thesis/Modelling_the_expected_participation_of_future_smart_households_in_demand_side_management_within_published_energy_scenarios/9454208/1.
174 Department of Energy and Climate Change and Ofgem (2011), *Smart Metering Implementation Programme – Response to Prospectus Consultation, Technical Report March*, Ofgem – the Energy Regulator of Great Britain, 29 March 2011, https://www.ofgem.gov.uk/publications/smart-metering-response-prospectus-consultation.
175 Ault, G. et al. (2006), 'SuperGen Future Network Technologies Consortium Electricity Network Scenarios for 2020, Technical Report July', https://www.researchgate.net/publication/253506020_Electricity_Network_Scenarios_for_2020.
176 Hodgson (2021), 'World Bank under fire for being 'missing in action' on climate change'.

According to the Sixth Assessment Report by the IPCC,[177] the international community has just a few years to avoid the worst effects of global warming. To catalyse global efforts on climate change, macroeconomic policy measures need to be fully aligned with national climate change strategies. Economic recovery packages during and after the 2008–09 global financial crisis and the COVID-19 pandemic missed unique opportunities to address interconnected economic and environmental crises. It is imperative now that institutions and governments treat climate change holistically rather than as a standalone issue.

A coordinated climate response is required from the international economic architecture, preferably with strong links to the scientific climate community as well. For example, better coordination of country policy reviews and adaptation plans between the OECD, the World Bank and the UNFCCC would pinpoint specific policy issues and the financing needs associated with meeting countries' nationally determined contributions (NDCs) – which commit to climate change mitigation targets and adaptation plans. Similarly, initiatives such as the OECD's Green Growth Policy Reviews and the UNFCCC's National Adaptation Action Plans – already important efforts to assist countries in understanding their exposure to climate risks – would benefit from greater coordination between institutions in the international economic architecture. This is particularly relevant to the task of aligning development goals and scaling up technical capacity support.

One specific example of enhanced coordination is the International Just Energy Transition Partnership, launched by France, Germany, the UK, the US, the EU and South Africa to support the latter's decarbonization efforts.[178] The partnership's goal is to mobilize $8.5 billion through grants, concessional loans and risk-sharing instruments.

Another option would be to use the G20 or G7 to convene quarterly meetings to consider and address specific financing gaps in major GHG-emitting countries. Such a process could assist in providing policy and financial support, backed up by continual reassessments of country NDCs. It would also identify the annual financing gaps that would need to be filled to ensure countries meet their NDCs within the next few years.

A further challenge is to phase out international public financing of development projects that contribute to increased GHG emissions in developing economies.[179] This is where the full mainstreaming of climate action could play a role – encouraging institutions in the international economic architecture to examine the exposures to climate risk in their own portfolios, as well as the exposures implied in the policy reviews and technical support they offer to member states. MDBs should lead by example and apply TCFD disclosure criteria to their own portfolios. This would demonstrate commitment to the Paris Agreement and facilitate further

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177 IPCC (2022), *Climate Change 2022: Mitigation of Climate Change. Contribution of Working Group III to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change*, https://www.ipcc.ch/report/ar6/wg3.
178 European Commission (2021), 'France, Germany, UK, US and EU launch ground-breaking International Just Energy Transition Partnership with South Africa', press release, 2 November 2021, https://ec.europa.eu/commission/presscorner/detail/it/ip_21_5768.
179 Mainhardt, H. (2022), 'World Bank and IMF are courting big oil in debt-laden Suriname', Climate Home News, 17 February 2022, https://www.climatechangenews.com/2022/02/17/world-bank-imf-courting-big-oil-debt-laden-suriname.

private investments. The IFC has already begun to take steps to offer disclosures under the TCFD guidelines and is working with partner institutions to manage and identify potential climate risks. Other MDBs should emulate its actions.

Systemic efforts to embed climate considerations throughout the operational systems of economic institutions should be complemented by coordination with national finance ministries.[180] Finance ministers in some countries are already coordinating climate efforts through the G20 finance track, as well as through the Coalition of Finance Ministers for Climate Action. These efforts, however, are not taking place in all member countries. Some of the policy support and guidance that certain MDBs provide to member states could help countries shape five- and 10-year development priorities around climate goals. The World Bank's CCDRs, for example, could be used to identify issues around financial stability and the risks of climate change.

While fully mainstreaming climate action in the international economic architecture is a critical step, it is also important that it is done in a way sensitive to three key concerns of developing countries. The first is that MDBs should continue to perform vital roles not perceived as central to action on climate change (although they may, in practice, be closely linked). These include funding international priorities on global health – seen as particularly important in the context of responses to the COVID-19 pandemic – but also wider national development finance needs in education and infrastructure. A second key concern is that the policies adopted by institutions in the international economic architecture should take full account of the differences between countries in terms of how each needs to respond to climate change. Such policies should include recognition that key features of the transition may vary from one country to the next. Thirdly, it is essential that international economic institutions give enough attention to adaptation measures as well as mitigation, given the lack of emphasis on the former in the past, particularly in private sector investment.

Making climate disclosure mechanisms mandatory

The international economic architecture has an important role to play in widening the use of climate-related financial disclosures. A mixture of positive incentives and regulatory requirements – in other words, 'carrot' and 'stick' measures – will be needed. Organizations such as the OECD should incentivize national governments to establish dialogues with the private sector with the aim of boosting corporate interest in the TCFD. Institutions such as the IMF (which has already undertaken such efforts) can support the rollout of a global disclosure and compliance process by encouraging asset managers to disclose their corporate and investment

180 World Bank (2014), 'Heads of World Bank, IMF & UN Discuss Climate Risks & Policies with Finance Ministers', press release, 11 April 2014, https://www.worldbank.org/en/news/feature/2014/04/11/heads-world-bank-imf-un-discuss-climate-risks-policies-finance-ministers.

strategies for climate-oriented investments.[181] The benefit of these dialogues would be not only to align private sector interests with national climate ambitions, but to create a common reporting framework across countries. Institutions in the international economic architecture can also lead the way by giving their full support to the International Financial Reporting Standards (IRFS) Foundation as the central oversight body for climate-related accounting standards. Such a consensus would make practical sense, given its recent establishment of the International Sustainability Standards Board (ISSB), which has proposed rules on climate-related disclosures.[182]

A key step to catalyse further private investments and align the international financial system with the goals of the Paris Agreement is to convert voluntary reporting into *mandatory* regulatory disclosures.

While the TCFD has provided a global benchmark for reporting and risk comparisons, its reporting mechanism is ultimately voluntary. A key step to catalyse further private investments and align the international financial system with the goals of the Paris Agreement, in tandem with full recognition of the climate risks inherent in existing assets, is to convert voluntary reporting into *mandatory* regulatory disclosures.[183] This process would require a concerted effort by world leaders, through diplomatic negotiations and global investor input, to agree on a set of baseline targets and reporting requirements. Some countries, such as the UK, are already moving to align TCFD recommendations with their domestic regulatory reporting frameworks.[184] The G7 and the G20 should complement these efforts by introducing minimum requirements of their own for mandatory climate disclosures. All signatories to the Paris Agreement should follow suit by aligning their regulatory guidelines with the disclosure recommendations set forth by the TCFD.

181 Ferreria, C., Natualucci, F., Singh, R. and Suntheim, F. (2021), 'How Strengthening Standards for Data and Disclosure Can Make for a Greener Future', IMFBlog, 13 May 2021, https://www.imf.org/en/Blogs/Articles/2021/05/13/how-strengthening-standards-for-data-and-disclosure-can-make-for-a-greener-future.
182 IFRS Foundation (2022), https://www.ifrs.org/; and Fairfax, J. et al. (2022), 'International Sustainability Standards Board releases draft sustainability and climate change disclosure proposals for public comment', Osler, Hoskin & Harcourt LLP, 24 May 2022, http://www.osler.com/en/resources/governance/2022/international-sustainability-standards-board-releases-draft-sustainability-and-climate-change-disclo.
183 Bingler, J., Kraus, M., Leippold, M. and Webersinke, N. (2022), 'Cheap talk and cherry-picking: What ClimateBert has to say on corporate climate risk disclosures', *Finance Research Letters*, 47(B), June 2022, https://www.sciencedirect.com/science/article/pii/S1544612322000897.
184 Caldecott, B. (2020), 'Climate risk management (CRM) and how it relates to achieving alignment with climate outcomes (ACO)', *Journal of Sustainable Finance & Investment*, 21 December 2020, https://www.tandfonline.com/doi/full/10.1080/20430795.2020.1848142.

Linking debt relief to climate action

Organizations such as the World Bank and the IMF already promote debt relief (debt service suspension, debt restructuring or debt forgiveness) where needed. However, they need to integrate this policy area more closely with action on climate change.

Faced with rising debt as a result of COVID-19 relief efforts, energy price shocks and continued geopolitical tensions, many developing countries have struggled to balance competing development priorities.[185] This increases the risk of climate policies being sacrificed or delayed in order to make fiscal room for other spending priorities, including debt servicing. As of February 2023, around 62 countries are currently in or at risk of debt distress, compared to only 22 countries in 2015.[186] While pandemic recovery and climate resiliency measures need not be mutually exclusive, many countries are choosing to prioritize the former, rather than commit to longer-term climate change adaptation investments. This is exacerbated by fiscal constraints.[187] In other words, rising debt in developing economies is ultimately inhibiting essential investments in climate change adaptation and mitigation.

It is therefore imperative that major creditor nations support debt relief efforts aimed at freeing up fiscal resources in low- and middle-income countries. They should additionally facilitate ways of increasing these countries' ability to make new climate infrastructure investments (including by attracting private capital). Institutions in the international economic architecture can support this by, for example, helping countries assess their climate risk vulnerabilities in the context of their national debt profiles. They can also offer guidance on economic restructuring to render countries more resilient to future climate shocks.

Some of these approaches, along with 'debt-for-nature' programmes (see below), are already being considered, including through the World Bank's GRID framework. Debt relief and debt restructuring, linked to climate action, should be better supported and coordinated across the international economic architecture. Despite the efforts of the IMF and World Bank, disagreements between Paris Club members, China and the private sector have slowed decision-making for several debt-distressed African countries seeking debt relief.[188]

Debt-for-nature swaps are not new. In the 1980s, many middle-income countries renegotiated repayment obligations in return for commitments to fund conservation and community forest management.[189] One example was Costa Rica, which used debt-for-nature swaps to invest in ecotourism and enlarge the country's national

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185 Wittenberg, A. (2021), 'Pandemic Economic Recovery Could Worsen Climate Change Health Impacts', News E&E, *Scientific American*, 21 October 2021, https://www.scientificamerican.com/article/pandemic-economic-recovery-could-worsen-climate-change-health-impacts.
186 Georgieva and Pazarbasioglu (2021), 'The G20 Common Framework for Debt Treatments Must Be Stepped Up'; Debt Justice (2023), 'Countries in crisis', https://debtjustice.org.uk/countries-in-crisis; and IMF (2023), 'LIC DSAs for PRGT-Eligible Countries', 28 February 2023, https://www.imf.org/external/pubs/ft/dsa/dsalist.pdf.
187 Scott, A. and Locke, A. (undated), 'How to build back greener in the Covid-19 recovery', ODI, https://odi.org/en/insights/how-to-build-back-greener-in-the-covid-19-recovery.
188 Vines, A., Butler C. and Yu, J. (2022), *The response to debt distress in Africa and the role of China*, Research Paper, London: Royal Institute of International Affairs, https://www.chathamhouse.org/2022/12/response-debt-distress-africa-and-role-china.
189 Manuel Rodríguez Echandi, C. and Thiaw, I. (2021), 'How rescheduling debt for climate and nature goals could unlock a sustainable recovery', World Economic Forum, 25 March 2021, https://www.weforum.org/agenda/2021/03/rescheduling-debt-climate-sustainable-recovery.

parks.[190] Today, Costa Rica is on the path to becoming carbon-neutral, thanks in large part to previous debt relief and increased investments in conservation and ecotourism.[191]

Such initiatives need to be replicated and increased in scale. Historically, debt-for-nature swaps have been very small relative to the trillions of dollars needed for climate investments. Between 1985 and 2015, only $2.6 billion was leveraged through such swaps, while 39 countries were involved.[192] Institutions in the international economic architecture need to support the development of additional performance-based debt instruments that build off the successful precedent of previous debt-for-nature swaps. Potential options include 'blue bonds', which are financial instruments that support investment in healthy oceans and maritime ecologies; and nature-based performance bond (NPB) programmes, which involve reducing debt payments for countries in return for increased investments tied to measurable nature-based targets (e.g. wetland restoration, forest protection, wildlife conservation).[193] An example of the latter involved the US government, in coordination with the Nature Conservancy, providing $15 million for debt-for-nature swaps to the Jamaica government in 2004. The 20-year bilateral debt swap was aimed at forest conversation activities, with the intention to conserve the country's tropical forests as carbon sinks for GHG emissions reduction. Beyond conservation efforts, debt-for-nature swaps can be used to finance the long-term maintenance of adaptation measures established under existing short-term projects with limited budgets.[194]

International economic institutions should facilitate the establishment of a coalition of creditors and debtors as potential participants in climate-based debt swap programmes and related instruments.

These actions may, in turn, support climate change adaptation and/or mitigation, while the NPBs that underpin them can attract private investors with a new suite of green asset purchases. To support this work, international economic institutions should facilitate the establishment of a coalition of creditors and debtors as potential participants in climate-based debt swap programmes and related instruments. Additionally, the institutions should support the scaling up of such instruments through demonstrations and provisions of structural advice and assessment support for viable GHG emissions reductions projects. They should

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190 Potier, M. (1991), 'Debt-for-Nature Swaps', *Land Use Policy* 8(3), pp. 211–13, https://doi.org/10.1016/0264-8377(91)90034-G.
191 Dobles Mora, R. (2007), 'Costa Rica's Commitment: On The Path To Becoming Carbon-Neutral', United Nations, *Green Our World!*, Volume XLIV(2), https://www.un.org/en/chronicle/article/costa-ricas-commitment-path-becoming-carbon-neutral.
192 Manuel Rodríguez Echandi and Thiaw (2021), 'How rescheduling debt for climate and nature goals could unlock a sustainable recovery'.
193 Nature Finance (2022), 'Aligning Sustainability & Sovereign Debt', https://www.f4b-initiative.net/sovereigndebt; and Honadia, M. (2021), 'How Debt Relief Can Help Developing Countries Go Green', *Foreign Policy*, 9 December 2021, https://foreignpolicy.com/podcasts/heat-of-the-moment-climate-change/debt-relief-mamadou-honadia-julie-robinson.
194 Thomas, A. and Theokritoff, E. (2021), 'Debt-for-climate swaps for small islands', *Nature Climate Change* (11) 889–91, 11 October 2021, https://www.nature.com/articles/s41558-021-01194-4.

also support the establishment of regulatory standardization processes to provide investors with comparable data on climate outcomes. For instance, the UN Economic Commission for Africa has begun to develop medium-term green investment strategies linked to immediate debt relief.[195] Similarly, the Finance for Biodiversity Initiative (F4B), composed of several MDBs and international organizations, has proposed a nature and climate sovereign bond facility.[196] Such efforts, however, need to be better consolidated and coordinated.

Debt relief tied to climate action is not a quick or comprehensive solution to the challenge of debt distress. There are concerns, for example, as to whether developing countries will agree to conditional debt forgiveness when alternative arrangements may come with very limited or no climate conditionalities.[197] These concerns have been articulated by the IMF's Independent Evaluation Office, which detailed how conditional international support during the Asian financial crisis in the late 1990s led many Asian governments to take subsequent steps to ensure they would not be reliant on IMF loans in the future.[198] While these policy concerns may have some validity, it is also important to recognize that imperfect solutions may be necessary, given the urgency of the climate challenge. It is also worth reiterating that climate change may contribute more to debt burdens in the future if borrower countries and international organizations do not address the risks today.

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195 United Nations Department of Economic and Social Affairs (2022), 'UN DESA Policy Brief No. 131: Credit rating agencies and sovereign debt: Four proposals to support achievement of the SDGs', 21 March 2022, https://www.un.org/development/desa/dpad/publication/un-desa-policy-brief-no-131-credit-rating-agencies-and-sovereign-debt-four-proposals-to-support-achievement-of-the-sdgs.
196 Finance for Biodiversity Initiative (2021), 'Greening sovereign Debt, Building a Nature and Climate Sovereign Bond Facility', https://a1be08a4-d8fb-4c22-9e4a-2b2f4cb7e41d.filesusr.com/ugd/643e85_021432a338a34c3e92237ffdd128404c.pdf.
197 Triggs, A. (2021), 'The Problem with Linking Debt Forgiveness to the Sustainable Development Goals', Brookings, 10 March 2021, https://www.brookings.edu/blog/future-development/2021/03/10/the-problem-with-linking-debt-forgiveness-to-the-sustainable-development-goals.
198 IMF (2003), *The IMF and Recent Capital Account Crises: Indonesia, Korea, Brazil*, Evaluation Report, https://www.imf.org/external/np/ieo/2003/cac/pdf/all.pdf.

05 Conclusion

International economic institutions need to do more, individually and collectively, to support responses to climate change. Without immediate and coordinated action, the Paris Agreement goals will not only be missed but future climate-related macroeconomic shocks will be more severe.

The investment decisions made now will determine whether the world meets the ambitions of the Paris Agreement or continues on an emissions path of 'business as usual'. Global 'build back better' roadmaps, put forward during the COVID-19 pandemic by many organizations within the international economic architecture, have called for climate-friendly national recovery packages.[199] So far, these roadmaps have failed to have a substantial impact on GHG emissions.[200] In a pattern similar to that following the 2008–09 global financial crisis, global GHG emissions are rising again, following a pandemic-related dip.[201]

This research paper has outlined a minimum set of policy measures that need to be prioritized by institutions in the international economic architecture to support climate change mitigation and adaptation. The proposed measures include institutions expanding their own provision of climate finance, doing more to mobilize private investment, mainstreaming climate considerations through all their operations, making climate disclosures mandatory, and addressing sovereign debt distress to unlock private climate finance.

Climate change is an existential crisis facing humanity. Yet, it cannot be addressed purely as an environmental issue. There needs to be recognition that it is also a macroeconomic challenge on a global scale. The various organizations, forums, trade regimes, institutions, regulatory agencies and governance bodies that make up the international economic architecture must step up their own efforts to integrate climate action into their planning and policymaking. They must coordinate these

199 OECD (2022), 'Focus on green recovery', https://www.oecd.org/coronavirus/en/themes/green-recovery.
200 Wittenberg (2021), 'Pandemic Economic Recovery Could Worsen Climate Change Health Impacts'.
201 Peter, G. et al. (2011), 'Rapid growth in CO_2 emissions after the 2008–2009 global financial crisis', *Nature Climate Change*, https://www.globalcarbonproject.org/global/pdf/pep/Peters_2011_Budget2010.pdf.

efforts both among themselves and with other actors – including governments, private corporations and members of the climate-specific policy community. Coordination should cover both mitigation and adaptation initiatives. Although many international organizations are already taking concerted action, the climate crisis demands a far more aggressive response. Failure to do this, in the face of the growing incidence of extreme weather events, raises the potential of macroeconomic shocks or 'climate economic crises' linked to the emergency adoption of radical policy mitigation and adaption measures by countries around the world.

There is insufficient time and political will to undertake a wholesale reform, or reinvention, of the international economic architecture. Instead, the international community needs to work with the architecture that already exists, including its component institutions, to make it function more coherently on climate action. This can make a very substantial contribution towards meeting the Paris Agreement goals.

Abbreviations and acronyms

APEC	Asia-Pacific Economic Cooperation
ARRA	American Recovery and Reinvestment Act
BECCS	bioenergy with carbon capture and storage
CBAM	carbon border adjustment mechanism
CCAP	Climate Change Action Plan
CCDR	Country Climate and Development Report
COP	Conference of the Parties
DSSI	Debt Service Suspension Initiative
EGA	Environmental Goods Agreement
F4B	Finance for Biodiversity Initiative
FFSR initiative	Fossil Fuel Subsidy Reform initiative
FSAP	Financial Sector Assessment Program
FSB	Financial Stability Board
G20	Group of 20
G7	Group of 7
GATT	General Agreement on Tariffs and Trade
GCF	Green Climate Fund
GEF	Global Environment Facility
GHG	greenhouse gas
GIF	Global Infrastructure Facility
GRID	green, resilient and inclusive development
IDA	International Development Association
IFC	International Finance Corporation
IFI	international financial institution
IFRS Foundation	International Financial Reporting Standards Foundation
IISD	International Institute for Sustainable Development
IMF	International Monetary Fund
LNG	liquefied natural gas
MDB	multilateral development bank
NCQG	New Collective Quantified Goal
NDC	nationally determined contribution
NGFS	Network of Central Banks and Supervisors for Greening the Financial System
NPB	nature-based performance bond
OECD	Organisation for Economic Co-operation and Development
PPP	public–private partnership
RDB	regional development bank
RST	Resilience and Sustainability Trust
SDGs	Sustainable Development Goals
SDRs	Special Drawing Rights
TCFD	Task Force on Climate-related Financial Disclosures
TESSD	Trade and Environmental Sustainability Structured Discussions
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change
WTO	World Trade Organization

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Cover image: A tuk-tuk drives through a flooded street near the Sri Lankan capital, Colombo, in October 2022.
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