A New Global Financial Landscape Gains Momentum at COP27

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Key Takeaways

- The Bridgetown Initiative proposes major reforms to the World Bank and the International Monetary Fund that will help the Global South invest in climate resiliency in the face of more severe and frequent natural disasters
- The Initiative gained significant momentum at COP27 in Egypt last month, gaining endorsements from key leaders
- The support won for the Bridgetown Initiative signifies an expansion in global climate action from purely mitigation to remediation and resiliency
- If enacted, the Initiative will help the world's development banks adopt a more ESG-friendly lending process that proactively factors climate risks into monetary policy

The United Nations hosted the first climate change Conference of Parties ("COP") in 1995. Each year since, the conference has provided a venue for world leaders and other stakeholders to gather and build consensus on climate goals, action, and policies, often with varying degrees of success. In recent years, the conference has seen a marked expansion from a purely climate change mitigation-focused agenda to the incorporation of climate remediation and resiliency. Demonstrating that expansion is the Bridgetown Initiative, a revolutionary and potentially game changing proposal that gained significant traction at COP27 in Sharm El Sheikh, Egypt last month. At its core, the Initiative is based on the same philosophies that underpin ESG investing.

The article focuses on two key features:

1. The Bridgetown Initiative
2. The importance of investment in climate resiliency worldwide

Proponents of ESG investing believe that investment strategies should consider more than the bottom line. Boiled down to basics, the logic goes something like this: For any given transaction, when investors ignore environmental risks, for example, in favor of an attractive five-year financial model, they are likelier to face unexpected costs related to an extreme weather event or a change in government regulations. When they factor environmental risks into their investment strategy, however, they can tackle those risks proactively, avoiding the worst financial consequences down the line. This logic is the basis of the Bridgetown Initiative, a revolutionary and potentially game changing proposal that gained significant traction at COP27 in Sharm El Sheikh, Egypt last month.

How the Global Financial System Impacts Disaster Recovery

The Bridgetown Initiative concerns the world's two most powerful financial institutions – the World Bank and the International Monetary Fund ("IMF"). The two institutions were established in the aftermath of World War II to help countries around the world recover from the devastation of the war. They both have maintained great significance extreme levels, largely in the Global South. At the end of the day, however, the World Bank and the IMF still function like conventional banks; they fund riskier loans at higher interest rates than they do safe ones. While wealthy nations can borrow from the World Bank or the IMF at interest rates between three and 10 percent, developing nations borrow at a rate closer to 14 percent.

This discrepancy in borrowing terms has impeded the developing world's access to financial capital, making it difficult to achieve steady economic growth. In the face of climate change, however, the impact of that discrepancy is dramatically heightened. It is no secret that the countries least responsible for climate change are often the ones bearing the brunt of its impacts. Small island nations in the Caribbean, for example, are facing stronger and more frequent hurricanes than ever before, putting enormous stress on their infrastructure systems, despite collectively contributing far less than one percent of global greenhouse gas (GHG) emissions. With each new storm comes a massive recovery effort, wherein these small nations are forced to borrow from development banks at high interest rates to rebuild power lines and other critical infrastructure. To pay back their debts, these governments are often obliged to cut spending, which tends to slash funding for initiatives like public education and green technology. The cycle of debt leaves them less equipped to handle the next storm and impedes their ability to invest in physical and social infrastructure that would strengthen their economies in the long run.

The Bridgetown Initiative, Explained

Feeling firsthand the need to overhaul this system of international financing, the Prime Minister of Barbados, Mia Mottley, gathered a team of economists and policymakers to develop the Bridgetown Initiative. Put simply, the Initiative calls for a more equitable lending system that would lower interest rates for developing countries and pause debt collection in the wake of major disasters. The new approach to risk rating would unlock more than $1 trillion in capital for developing nations to fund climate resiliency projects, including green infrastructure and the transition to renewable energy. This would certainly be an expensive undertaking for development banks and their shareholders – the world's wealthiest nations. However, if executed properly, all parties stand to benefit. When developing nations become more resilient to climate disasters, wealthier nations will no longer need to provide relief funding in the form of aid packages, which are often made available on top of money borrowed from the World Bank or IMF.

The Bridgetown Initiative appeals to the basic logic of ESG investing – that ignoring ESG-related risks will be pricier in the end for everyone. During any one snapshot in time, it may seem cheaper for wealthy nations to pay for disaster relief storm by storm. But as climate-related disasters become more frequent and more severe, ignoring the long-term risks of climate change in favor of short-term cost control makes less and less sense. By getting ahead of risks by proactively funding climate resiliency, developing nations can invest in their futures, which will bolster the global economy.

At COP27 last month, this notion took off as the Bridgetown Initiative gained significant support among world leaders. Prominent figures including French President Emmanuel Macron, U.S. Special Presidential Envoy for Climate John Kerry, and David Malpass, President of the World Bank, embraced calls to reform the world's largest financial institutions to fund climate resiliency in the developing world. Many chided COP27 as a failure, as world leaders failed to commit to concrete carbon reduction goals. While that certainly is a serious failure that will impede our ability to reach key climate targets, the widening support for the Bridgetown Initiative is a major victory for the Global South and the planet more broadly.

Looking Forward

A lot still needs to happen for the Bridgetown Initiative to translate to real change. More detailed reforms must be written for and adopted by the IMF and World Bank, which will require the approval of their stakeholders. However, the demonstrations of support from key leaders bodes well for the future of the initiative. If this support results in concrete policy change, developing nations will finally be able to get ahead of climate risks, achieving true resiliency that will improve lives and economies the world over.

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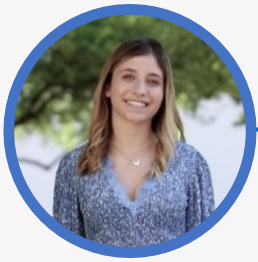

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