Can we afford to fight climate change?

As the world races to ramp up spending to combat climate change, one question looms large:

"Where will the money come from?"

As a global society, we must increase spending to at least $4.13 trillion every year by 2030 to fund an energy transition sufficient to keep the planet below a temperature rise of 1.5 degrees Celsius, according to a 2021 report by environmental think tank Climate Policy Initiative.

Current spending.

The annual global climate investment averaged a meagre $632 billion per year over 2019 and 2020—15 per cent of the $4.13 trillion target.

That $632 billion accounts for direct investment in things like infrastructure, energy efficiency, and other big-ticket initiatives around systemic change to mitigate or adapt to climate change. (The numbers don't include donations or the funding of things like research and development or public information campaigns.)

Governments and intergovernmental organization ($321 billion)

- Governments and intergovernmental organizations—such as the UN—are among the most significant funders of climate change action. The $321 billion in climate finance from public sources account for 51 per cent of total global commitments.

Corporations ($124 billion)

- Since 1988, 100 companies have been responsible for 71 per cent of the entire world's industrial greenhouse gas emissions.12 That's a depressing fact, but a clarifying one, too: Private sector climate investment shouldn't be viewed as philanthropy, but a necessary and just response to the environmental damage corporations have inflicted.

Funds and Institutional Investors ($8 billion) betting on climate action

- "Funds" include things like venture capital and private equity, and institutional investors are big stock market movers, like pension funds. For most folks, the spending in this category can seem a little confusing, but it basically all falls into big-time private sector investing. Fortunately, the rising popularity of ESG investing is helping motivate these forces to channel money toward the good of the planet.

Banks ($122 billion)

- "Banks are playing a more prominent role as an intermediary of sustainable and green debt instruments as well as a broader trend of setting climate-related targets," states the Climate Policy Initiative in their 2021 report.1 There is no doubt that the banking industry has woefully underinvested in the climate in the past—but if there's a silver lining to CPI's new analysis it's that commercial finance institutions increased their spending by 154 per cent since the organization's 2019 report.

Individuals ($55 billion)

- "From the food we eat to clothes we wear or the buildings we live in, carbon is in everything we do. Consumers are increasingly more aware of this," said Duncan Grierson, CEO and Founder of Clim8, a green investment app. "But a Swedish schoolgirl showed the world that no individual is too small to make a difference."

Future

- The amount spent on global climate finance tell a simple story:
    - Everyone needs to do more—much more.
- Banks, corporations, and governments, in particular, have the capacity to ramp up their efforts.
- The Climate Policy Initiative's report urges that "coordination across silos of public and private financial actors is needed to ensure coherence and impact on net-zero and sustainability," and that:
    - Climate investment should ideally count in trillions,
    - Whereas fossil fuel investments should virtually stop in this decade."

As recently as CPI's 2019 report, finance for fossil fuels "far outstripped finance for renewables generation in 2017/2018."
Grim sure, but even the experts are taking an optimistic view.

Developing Countries Need Fossil Fuels

1. Fossil fuels are still the cheapest, most reliable energy resources available.
2. When a developing country wants to build a functional economic system and end rampant poverty, it turns to fossil fuels.

India, for example,

1. Is home to one-third of the world's 1.2 billion citizens living in poverty.
2. 400 million people in one country without sufficient food or shelter (for comparison, the entire U.S. population is roughly 323 million people).
3. India hopes to transition to renewable energy as its economy grows,
    a. But the investment needed to meet its renewable energy goals is:
        i. Equivalent to over four times the country's annual defence spending
        ii. Over ten times the country's annual spending on health and education."

Unless something changes, developing countries like India

1. Cannot fight climate change and provide for their citizens.
2. In fact, developing countries will only accelerate global warming as their economies grow because they cannot afford alternatives.

"Wealthy countries cannot afford to ignore the impact of these growing, developing countries."

Opportunities

1. One way wealthy countries can benefit both themselves and developing countries is through research and development.
2. As wealthier countries develop cheaper forms of alternative energy, developing countries can take advantage of the new technologies.
3. Wealthy countries can also help subsidize renewable energy for countries dealing with higher rates of poverty.

Living standards - Individuals have to accept that it will be affected:

1. The move to green energy initially the cost is likely to rise causing fuel poverty for some people.
2. Increased droughts will increase food prices and food poverty, particularly in countries already affected by droughts.