Policy Liaison Group
Environmental, Social, and Governance

Tuesday 21 January 2025

plgesg.org

ESG's role in supporting sustainable development in the Global South

Michael Wilkins, Executive Director and Professor of Practice at Imperial College Business School's Centre for Climate Finance and Investment; Millie May, Cambridge Zero; Madeline Young-Touré, PhD Researcher, University of Exeter; and Arjun Dutt, Senior Programme Lead, CEEW Centre for Energy Finance.

Westminster


Michael Wilkins


Millie May


Madeline Young-Touré


Arjun Dutt

Introduction

Despite the recent COP29 agreement's commitment to triple annual climate finance for developing countries to $300bn by 2035 participants expressed concerns that a shifting geopolitical climate would affect investor attitudes, limiting spending. The World Economic Forum's Global Risks Report, released the previous week at Davos, included four environmental dangers in its top five longer-term risks, asserting that threats disproportionately affect the Global South. Participants explored the geopolitical scene following President Trump's inauguration the day before, youth involvement at international summits and on the ground; and crucially, how to enhance green finance instruments, de-risking emerging markets to mobilise more climate finance.

Key takeaways

Managing diversity among developing countries

- The "Global South is not a single box, we need to recognise it involves different countries, different individuals with different experiences" — the scenario in Brazil or China is very different to most African countries.
- Partners in less developed countries should have an equal voice so that funding from more developed countries is effectively deployed. However, "large private corporations making those decisions don't have that level of peer-to-peer representation in their decision-making".
- A representative perspective, rooted in local knowledge and lived experience, is essential for accurately identifying risks and crafting effective, context-specific solutions.
- Circumstances differ wildly — e.g. Sudanese governments cannot receive funding because they are facing conflict — NGOs and civil society etc. are critical partners.

COP commitments — "continuous shortfall in funding"

- COP15's $100bn, primarily government-funded, annual climate finance target was nominally met in 2022, two years behind schedule. However, there are concerns over the accuracy, verifiability, and methodological robustness of reported climate finance figures.
- COP29 negotiators agreed on a government-led climate finance target of $300bn, accompanied by a $1.3tn public-private funding objective — collectively known as the New Collective Quantified Goal (NCQG), hence the summit being billed as the 'Finance COP' — however private sector contributions are limited by risk perceptions associated with investing in developing countries. De-risking instruments can help mitigate these perceptions.
- Repeated delays and unfulfilled promises at COPs have led to scepticism and "angst" among developing countries, undermining trust — likely to worsen amid the shifting geopolitical climate.

Emerging markets are high risk — low multiplier effect

- Public funding has consistently failed to generate adequate private investment. According to the OECD, in 2022, $91bn of public funding mobilised only $21bn in private finance — "this ratio should be flipped around".
- Public funds should be allocated to mechanisms like guarantees and risk-sharing arrangements to create confidence in private investments, especially in higher-risk markets. Without these measures, large-scale private investment won't flow into developing countries.

- "More than 60 developing countries face sovereign debt distress", highlighting the need for non-sovereign financing mechanisms to deliver effective climate finance.
- COP29 set out how carbon markets will operate under Article 6 of the Paris Agreement. Countries need to operationalise these markets as they can help generate supplemental income for private sector projects through the sale of carbon credits.
- Debt-for-climate or debt-for-nature swaps provide financial relief to heavily indebted countries in exchange for environmental action, bypassing sovereign debt challenges.
- Redirecting unused Special Drawing Rights (SDRs) to fund trusts that lend directly to the private sector avoids overburdening governments in debt distress.
- The UNFCC Loss and Damage Fund negotiated at Paris is outside the $300bn/$1.3tn NCGQ agreement, there is still a critical need for focused, long-term financial support for the Fund.

The role of youth — "representation goes beyond tokenism"

- Youth are already active participants in international climate policy playing an "instrumental role" as negotiators, practitioners, and observers, contributing expertise and holding governments accountable, particularly in developing countries.
- Initiatives like the Loss and Damage Youth Coalition demonstrate youth-led action — $400,000 already distributed to 18 Global South countries through grants.
- "Essential that ESG projects are representative of populations' demographics" — in Sub-Saharan Africa, 70% of the population is under 30.
- Future custodians of the planet transcend national and territorial boundaries, the active role of youth in decision-making and governance is therefore crucial to driving innovative, inclusive solutions.

Issues raised

The "development we seek in the West is often in competition with the Global South"

The existing economic advantage of the developed world puts downward pressure on resource access and economic opportunities in developing countries. Global investments from developed nations are frequently driven by self-interest rather than equitable partnerships, creating a power imbalance, undermining trust. Nevertheless, there is a mutual interest in rebalancing the relationship.

Trump and the backlash against ESG

The resurgence of fossil fuel-friendly policies under Donald Trump's presidency — "Drill, baby, drill" — and opposition to DE&I shifts focus away from sustainability, undermining private sector interest. Major US financial institutions have withdrawn from ESG initiatives — e.g. JP Morgan and BlackRock exiting the NZBA. Furthermore, the growing influence of MAGA-style ideologies, especially among young voters, is reshaping climate priorities, leading to greater political polarisation in the US, Canada, and Europe. Participants noted that ESG, as a term, risks becoming a distraction due to its broad scope and the legal challenges it presents.

The Just Transition and green skills

Ensuring a just transition requires prioritising green skills development across generations. Participants emphasised that education systems must be reformed to address climate literacy gaps, with "52% of the world's national curricula not referencing climate change". Reskilling the existing workforce is equally critical, as "we are at risk of stranding two-thirds of our employees". A successful transition must be inclusive, preparing both younger generations and current workers for roles in renewable energy, sustainable engineering, and green finance.

The UK's role — Singapore example

Singapore has emerged as a leader in progressive financial innovations, introducing mechanisms such as transition credits to attract investment for decommissioning coal-fired power plants across Asia. Through collaboration with international partners, such as the UK High Commission in Singapore, Britain has played a key role in establishing credible carbon markets that emphasise standardisation, transparency, and quality. The Singapore Green Finance Institute, a joint initiative by Singapore Management University and Imperial College London, further underscores Singapore's commitment to sustainable finance. Supported by the Monetary Authority of Singapore and backed by nine global financial institutions, the institute serves as a hub for advancing green finance initiatives in Southeast Asia.

Links

- APPG on ESG roundtable on Voluntary Carbon Markets – September 2023
- World Economic Forum: 'How maximising green finance flows to developing countries could tackle global warming'
- Clyde & Co: 'ESG challenges in emerging markets'
- Imperial College Business School: 'What is a just transition and how does it affect the financial sector?'
- Imperial College Business School: 'Mapping socioeconomic risks in the transition to net zero – the role of financial institutions in a just transition'

We would like to thank the members of our Advisory Board for their contributions and continuing support.

To get involved, please contact
secretariat@plgesg.org