CLIMATE FINANCE

Indigenous Environmental Network
Climate Justice Program Series

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The Indigenous Environmental Network Climate Justice Program Briefing Series is a result of IEN's Internship Program. This year, IEN is pleased to work with three masters students from the Environmental Policy and Sustainable Management (EPSM) program of The New School: Elisa Soto-Danseco, Nam Pham and Joshua Witchger.

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Climate change will not be solved by financial mechanisms – they are a cause of it. Real solutions foreground Indigenous Peoples and Mother Earth, not financial institutions. Financial instruments are an inadequate tool to address climate change. By tying climate change responsibilities to financial institution-based development logic, the expansion of capitalism is ensured. Financial instruments entrench the chase for endless economic growth, which is one of the root causes of climate change. Although Indigenous Peoples and frontline communities should receive non-financialized grants, if, when, and how desired, financial institutions wield power by basing finance within investments and loans, which demand a return – putting profit before Mother Earth. Importantly, there is a difference between funding and finance – climate finance administered by international financial institutions (IFIs) is not the same as direct funding to the frontlines.

The legacy of colonial power continues through financial and development institutions. By gaining hard and soft power through an increasingly complex and unaccountable web of international finance, the United Nations Framework Convention on Climate Change (UNFCCC) tasks intermediaries to manage climate finance including: International Financial Institutions (IFIs), conservation and environmental non-governmental organizations (NGOs) and other international and national agencies. This is history repeating itself with the continuation of: stolen lands, removal of Indigenous Peoples, nation-state resistance to demarcation of ancestral Indigenous lands and territories, Nature being commodified, and fossil fuels continue to be financed.

Climate financing invests in false solutions: REDD+, carbon markets, carbon offsets, climate-smart agriculture, nature-based solutions and more. New finance and funding mechanisms do not offer solutions. Instead, money is funneled through intermediaries into more of the same false solutions that have blocked action on climate change for years. Programs and projects like REDD+, carbon markets, nature-based solutions and climate-smart agriculture do not keep fossil fuels in the ground or reduce emissions. False solutions distract from the root causes of climate change and allow polluters to keep on polluting.

The financial sector sees climate change as simply another frontier, the next area to build wealth. Large development banks and international financial institutions are positioning themselves as necessary players in fighting climate change. In an attempt to avoid accountability for their role in creating climate change, the institutions rebrand themselves as taking meaningful climate action. As the finance sector props up the private sector, they work together to take on parallel roles in the climate change arenas, while climate action continues to lose transparency and regulation.

Climate finance cannot possibly result in securing Indigenous Peoples’ sovereignty and jurisprudence, territorial rights, demarcation of ancestral lands, or true reparations for Indigenous Peoples and local communities because the violence of climate change far outweighs what can be measured in dollars. Climate finance is not designed to deliver resources directly to impacted communities in the Global South and North. Instead, climate finance aims to silence communities and redirect crucial funding into an extractive economic system.

<table>
<thead>
<tr>
<th>CLIMATE FINANCE</th>
<th>KEY TAKEAWAYS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Climate change will not be solved by financial mechanisms – they are a cause of it. Real solutions foreground Indigenous Peoples and Mother Earth, not financial institutions.</td>
</tr>
<tr>
<td>2</td>
<td>The exploitative power dynamics of colonialism and economic development are entrenched in climate finance.</td>
</tr>
<tr>
<td>3</td>
<td>Climate financing invests in false solutions: REDD+, carbon markets, carbon offsets, climate-smart agriculture, nature-based solutions and more.</td>
</tr>
<tr>
<td>4</td>
<td>The hidden agenda behind new climate finance and funding mechanisms are to facilitate the absorption of climate change policy further into the private sector.</td>
</tr>
<tr>
<td>5</td>
<td>There is no exchange for the violence of Colonialism. Yes to Indigenous Sovereignty, Land Back, Indigenous Jurisprudence and Climate Reparations, Not Climate Finance!</td>
</tr>
</tbody>
</table>
WHAT IS CLIMATE FINANCE AND WHAT IS MEANT BY THE ‘FINANCIALIZATION OF CLIMATE’?

There is no internationally agreed upon definition of climate finance. Broadly, it refers to the process through which efforts to address climate change are financed. It is often used in the context of projects in the Global South being funded by governments and institutions in the Global North, typically multilateral development banks (MDBs) and other international financial institutions. The World Bank is the MDB responsible for administering a significant portion of the money dedicated to climate change mitigation and adaptation projects. There are many other agencies involved at the global and governmental levels, such as USAID and conservation non-governmental organizations (C-NGOs). Financing is typically organized in the form of an investment such as a loan or bond.

Financialization refers to the process by which climate change mitigation mechanisms become absorbed into the logic of financial markets and financial instruments. A good example is carbon markets. This goes one step beyond the commodification of climate change, which seeks to treat climate solutions as buyable and sellable units in a market, and proceeds to adopt a logic of risk coupled with the goal of capital accumulation. The process of commodifying and financializing Mother Earth and Nature has shifted the way water, land, and food are understood and respected. While Mother Earth is sacred to Indigenous Peoples and selling and commodifying lands and waters as ‘goods’ in a ‘productive’ economy goes against ‘Indigenous Original Instructions’, the financialization process takes this a step further by making these ‘goods’ financial assets, abstract and imaginary units in fickle international financial markets.

Importantly, the world of climate finance is hidden, opaque, and extremely complex. It is nearly impossible to track the flow of money through financial facilities moving climate funds or the changing value of financial instruments and products. This is

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3 https://unfccc.int/topics/climate-finance/the-big-picture/introduction-to-climate-finance
an intentional effort from the financial industry to obfuscate and hide their operations to avoid accountability, regulation, or public scrutiny.⁷

NEW FUNDS: ALL HYPE, NO SUBSTANCE

In line with furthering the financialization of climate change, since the early 2000s there has been an accompanying creation of special funds dedicated to climate mitigation and adaptation projects in the Global South. These funds are often managed by MDBs and are funded through contributions from governments and corporations in the Global North. Key funds include the Green Climate Fund (GCF), Strategic Climate Fund (SCF), Clean Technology Fund (CTF), and the Adaptation Fund. These funds do not give grants but rather they invest in a wide array of climate-related projects in the form of loans, bonds, or technology assets. A key implication of this funding model is that instead of foregrounding the needs of frontline communities, projects are chosen based on their ability to generate profits – profits that flow to the Global North. Moreover, loans and bonds come with the burden of debt for countries in the Global South, compounding already deeply unjust international debt.

Crucially, the investment model among MDB funds is shifting. Where once the primary financial goal was to generate profit by making a return on an investment in each individual project, the focus has shifted to the larger overarching goal of using public climate funds to mobilize private sector capital for climate action. In other words, the hidden agenda behind these new funds is to facilitate the absorption of climate change policy into the private sector.

Certainly, when Indigenous Peoples and frontline communities desire to receive funding in their efforts to protect and defend Mother Earth, funding should be without the goal of the institution to make more money. However, current climate finance and funds prioritize profit, prop up false solutions and further entrench the involvement of the private sector in climate solutions. Climate finance does not actually provide frontline communities with direct access to no-string-attached funds.⁸

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Ultimately, climate finance lines the pockets of those in the Global North at the expense of impacted frontline communities, Indigenous Peoples, and Mother Earth. The way that money is acquired into funds, distributed, and grown is rigged, designed to expand big industry instead of supporting Indigenous and frontline communities to address climate change.

Further, many Indigenous Peoples do not want funding at all and may choose to live in voluntary isolation outside of a capitalist system. Many Indigenous Peoples would much rather have strong treaties and regulations that keep the fossil fuel industries, infrastructure, big agriculture and carbon traders out of their territories, and instead have the rights to their territories upheld, the trees in their forests intact and undammed and healthy waters.

ROOTED IN INEQUALITY

The role and impact of climate funds are a result of a history and dynamics rooted in colonialism. The stories of environmental degradation, Indigenous genocide and wealth accumulation are inseparable. It was the expansion of colonial capitalism by countries in the Global North, which was only possible through the dispossession and exploitation of Indigenous Peoples, that brought environmental degradation to the point of our current planetary crisis. This trajectory of environmental destruction has of course been parallel to the ability of the Global North to generate and accumulate wealth.

Given this history, climate change finance has always been contentious. The Kyoto Protocol of 1997 upheld the principle of common but differentiated responsibilities and respective capabilities (CBDR-RC), which asserted that while all parties (governments) have a responsibility to address climate change, not all parties are equally responsible for creating it. Therefore, each party has a different responsibility and capability in responding to it. At the COP in 2011, countries in the Global North pushed to remove CBDR-RC from future treaties. Notably, the Paris Agreement does not uphold CBDR-RC in its mitigation plans. However, countries in the Global South continue to push for public climate financing, especially through the Adaptation Fund and loss and damage.

9 UNFCCC Rio Earth Summit https://unfccc.int/resource/docs/convkp/conveng.pdf

Placing climate finance in the hands of the private sector prioritizes the chase for perpetual growth over Mother Earth and threatens the lands, livelihoods, and cultures of Indigenous Peoples and impacted communities.
The current push to increase private sector development in climate finance is antithetical to those efforts and to the CBDR-RC principle. Placing climate finance in the hands of the private sector prioritizes the chase for perpetual growth over Mother Earth and threatens the lands, livelihoods, and cultures of Indigenous Peoples and impacted communities.

We must not forget that the central goal of development and financial institutions is to support private sector development and financial return from countries in the Global South. As history shows us, the expansion of capital (i.e. private sector development) has gone hand in hand with the dispossession and exploitation of Indigenous Peoples and local communities for centuries. There is no reason to believe the latest developments in climate finance would suddenly lead to positive environmental changes or alleviate the impacts of climate change. More often than not, the financial mechanisms and programs used for climate finance have been weaponized by the World Bank, IFIs and the private sector to justify their actions.

LOS AND DAMAGE

While current financing focuses mainly on adaptation and mitigation, financing for loss and damage (L&D) will be a focus in the lead up to 2024. Established under Article 8 of the 2015 Paris Agreement, L&D refers to finance allocated to address the loss and damages incurred as a result of climate change that could not be avoided through mitigation and adaptation. Like adaptation and mitigation finance, L&D finance would originate in the Global North. Currently, there is a push by countries in the Global South to establish a Loss and Damage Finance Facility (LDFF), which was first proposed at COP26 as a means to systematize L&D funds, but was ultimately not established. Discussions on the LDFF at the coming COP are crucial, given that proponents of the LDFF claim that it would provide funding for Indigenous and vulnerable local communities in developing countries that would support rebuilding and repairing communities in the face of extreme weather events, as well as the violence of...
climate change. Proponents of the LDFF argue that having direct access to L&D funds means that there may be the possibility to include principles of Traditional Indigenous Knowledge (TIK), and for free prior and informed consent (FPIC) regarding how funds are used. Further, some see LDFF as a move towards self-determination and sovereignty that comes with the power to decide how, when, and by whom the funds are used.

However, given that the name of the LDFF includes “finance facility” the likelihood of any funding distributed directly to Indigenous Peoples and impacted communities is very low. The establishment of the LDFF may very well replicate past climate change-related finance facilities that have generated financial returns through infrastructure projects and public-private partnerships that benefit the fossil fuel industry.

Further, the risk of deepening the current North/South power imbalance within the LDFF is immense. It is imperative that any and all future L&D funding does not follow the shady and rigged financing and financialization models used in climate adaptation and mitigation. This means that funding must not be ‘given’ as financialized loans and bonds, but demanded as grants that are not financialized – not tied to any form of investment or financial markets. This money is owed to the Global South. A successful way to move money would enable the Global South to access funds without governments and institutions in the Global North positioning themselves as the sole decision-makers and administrators.

It is highly likely that history will repeat itself by setting the foundation to create yet another climate financing mechanism that will exploit those most impacted by climate change. In a civil society briefing from the US State Department in October 2022, Trigg Talley, Head of Delegation made it clear that the US would stall negotiations and lean heavily on existing financial institutions by stating the US “needs time to discuss other options in an overall approach, not just financial mechanisms, but with institutions that have financial wherewithal.”

As the United Nations Framework Convention on Climate Change (UNFCCC) process continues to become more and more illegitimate, we suspect COP27 will see yet another financial facility created to move the flow of finance.
to institutions in the Global North. Importantly, the LDFF would be under the domain of the UNFCCC, which has been increasingly co-opted by corporate interests and the interests of the Global North. From ending Common but Differentiated Responsibilities (CBDR), to creating carbon markets, to REDD+, and the false solutions embedded in the Green Climate Fund (GCF), the work of the UNFCCC has time and time again resulted in the dispossession of Indigenous Peoples and frontline communities, all while emissions have been steadily increasing. More broadly, the overarching mission of the UN is rooted in the colonial notion of ‘development’, which has gone hand in hand with the exploitation and genocide of Indigenous Peoples and those in the Global South. This begs the question: how can the UN process and the work of the UNFCCC still have legitimacy? At what point must trust in the UN process be abandoned?

WHO ARE THE KEY PLAYERS IN CLIMATE FINANCE?

Primarily, international financial institutions (IFIs), including the International Monetary Fund (IMF), the World Bank, and regional and specialized multilateral development banks (MDBs) administer climate funds and finance, rather than governments, UNFCCC bodies, or local organizations. Key among these primary actors is the World Bank. In terms of who contributes to these financial facilities and funding mechanisms are the governments of the Global North and large private multinational corporations mostly based in the Global North. Beyond multilateral climate funds, the financial sector and financial elites are the key instigators behind the overall push to financialize climate.

When the largest carbon offset facility, the Clean Development Mechanism (CDM), began building its pilot projects, it was the World Bank’s president at the time who declared the World Bank would jumpstart the carbon market. Later the language of the World Bank’s involvement to jump start finance was used to describe the World Bank’s involvement in ramping up Reducing Emissions from Deforestation and forest Degradation (REDD+). To be clear: IFIs, MDBs, governments in the Global North, and private sector investors from the Global North benefit financially from the current climate finance system.

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19 For example, the Clean Technology Fund, Strategic Climate Fund, and Adaptation Fund are all managed by the World Bank.
the sheer drive for profit, climate finance is also about power and control. It is no coincidence that the very same institutions who are pushing for the financialization of climate are those who stand to gain the most.

Perhaps more important than the question of who is involved in the allocation and administration of climate finance is the question of who is excluded. In this case, it is those on the front lines, who are already experiencing the greatest impacts of climate change. This includes Indigenous Peoples, peasants and small farmers, women, people of color, and local communities in the Global South. In fact, between 2011 and 2020, a maximum of only 17% of the US$2.7 billion marked for land tenure and forest management of Indigenous Peoples and local communities actually reached them. At best, climate-related funds might include local communities as one of many so-called 'stakeholders' to be consulted but are not given decision-making power or meaningful participation.

While enduring colonialism into the 21st century and surviving climate change’s worst impacts, Indigenous Peoples contribute the least to climate change and continue to defend the world’s biodiversity. Therefore, Indigenous Peoples must be central in the process of allocating and managing funding and operations to address climate mitigation and adaptation efforts.

**CLIMATE JUSTICE IS NOT JUST ABOUT MONEY**

Real solutions to climate change do not revolve around money, but instead center Indigenous sovereignty, Indigenous rights, climate reparations, and demarcation of ancestral Indigenous lands and territories. Reparations are absolutely vital in addressing the historical exploitation of Indigenous People (and other groups) upon which Global North wealth is built. Reparations are not just about money and wealth but about creating new relationships of power guided by reciprocity instead of extraction. Of course, there are no climate reparations without land reparations. Indigenous control of land is not only integral in terms of addressing climate change – after all, 80% of the world’s remaining biodiversity is in Indigenous Lands and territories – but is crucial to Indigenous culture, livelihood, survival and sovereignty. Real solutions and meaningful climate action must

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start with Indigenous sovereignty, full recognition of Indigenous inherent relationship and jurisprudence, reparations and land back.

**CLIMATE SOLUTIONS ARE BEING CO-OPTED BY FINANCIAL MECHANISMS AND FINANCIAL LOGIC**

The drive to use markets in climate solutions (through things like carbon markets, for example) fundamentally changes the relationship to Mother Earth and Nature by disrupting the social, cultural, and spiritual bonds that Indigenous Peoples have known for millennia. The financialization of climate builds on this and further distorts the relationship to Mother Earth. It absorbs the sacredness of Mother Earth into financial markets (not just commodities markets), turning proposed tools and solutions into speculative and volatile units of value that can be distorted, traded, hedged, etc.

Why shouldn’t finance be used as a tool in fighting the climate crisis? Mother Earth is not for sale. Financial markets operate on mentalities of risk, of betting on whether certain initiatives or technologies can help address climate change. But we cannot risk our future.

Moreover, as Mother Earth becomes financialized, the process moves from a commodity tied to a ‘productive’ colonial economy into a financial asset that is tied to the world of banking and development. While extremely risky, with wild and unpredictable fluctuations in the value of environmental financial assets, this process has an impact not only in the environmental sphere, but in the financial one as well – entrenching the idea that climate solutions must be profitable to be effective, when in reality it is the endless search for profit that has driven us to the current state of climate catastrophe. For this reason alone, using financial logic to find climate solutions is inappropriate. It is an inadequate tool because it fails to address the root causes of climate change. The move towards financialized climate governance is a manifestation of colonial capitalism as well as the growing power of global finance, which benefits the top 1% of the global rich. This is part of a larger trend of corporations hijacking community-based climate change efforts, buying off environmental justice movements, and the accompanying widening of the global wealth gap.

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CONCLUSION

It is no secret that MBDs and the UN are colonial organizations whose work reproduces colonial legacies of inequality. The overarching logic and origins of these institutions, as well as the specific logic within projects under each climate fund, position the Global South, Indigenous Peoples, and frontline communities as unknowledgeable and/or helpless instead of recognizing Indigenous Peoples as critically important experts of lands, waters, needs and communities. At best, projects consult or ‘include’ local communities as one voice amidst a choir of competing and powerful ‘stakeholders’ but do not ultimately share any decision-making power or direct funds, undermining efforts for sovereignty or self-determination.

Moreover, Traditional Indigenous Knowledge is either completely ignored and dismissed or picked over for bits that can be co-opted and incorporated into greenwashing efforts. The relationship here is still one of extraction – climate institutions and banks choose projects based on their ability to generate profit and maximize private sector involvement. Climate change is simply treated as the newest area for financial expansion and development, once again entrenching the dynamic of Global North exploitation under the guise of helping the Global South. This is history repeating itself – it is the same development paradigm that contributed to the climate crisis in the first place, this time with even less accountability but a greener image.

Crucially, these funds and the larger push to financialize climate change do nothing to address the root cause of climate change. They do not reduce emissions or keep fossil fuels in the ground. Further, these projects are not regulated or standardized under the UNFCCC and there is no accountability mechanism led by Indigenous Peoples and local communities to ensure that projects in fact address climate change. New financing facilities and climate finance do not offer new solutions or new ways of thinking, they just funnel money into more of the same false solutions that have been pedaled for years.

The ‘solutions’ pushed under the UNFCCC are false solutions that actively perpetuate the climate crisis. This includes REDD+, nature-based solutions, ‘sustainable forest management’, carbon trading, and climate-smart agriculture. The push to financialize climate and to create large climate funds within development...
and financial institutions skirts around real solutions. They distract from the root causes of climate change and allow polluters to keep on polluting, while Indigenous Peoples continue to face the violent dispossession and cultural genocide of climate change.

Moreover, governments, MDBs, financial institutions and the private sector use climate finance initiatives and funds as an opportunity to greenwash and receive financial compensation for existing programs. In fact, many banks, governments, and corporations simply rename or rebrand existing projects to qualify for new ‘green’ funding opportunities. This lack of substantive change is especially dangerous given its political ramifications. Not only does it allow polluters and exploitative financial institutions to continue with business as usual, but it creates a false sense of safety which saps the energy and attention needed to push for real solutions led by Indigenous Peoples and frontline communities.

Therefore, to address global climate inequality, strategies for system change should foreground and center Indigenous Peoples’ sovereignty and jurisprudence, territorial rights, demarcation of ancestral lands, Traditional Indigenous Knowledge, debt cancellation, keeping it in the ground, and true reparations for Indigenous Peoples and local communities.