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+91 70421 48991
editor@ijlar.com
www.ijlar.com

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Introduction

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Preface

The Indian Journal of Legal Affairs and Research is a testament to our unwavering commitment to excellence in legal scholarship. This volume presents a curated selection of articles that reflect the diverse and dynamic nature of legal studies today. Our contributors, ranging from esteemed legal scholars to emerging academics, bring forward a rich tapestry of insights that address critical legal issues and offer novel contributions to the field. We are grateful to our editorial board, reviewers, and authors for their dedication and hard work, which have made this publication possible. It is our hope that this journal will serve as a valuable resource for researchers, practitioners, and policymakers, and will inspire further inquiry and debate within the legal community.

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CLIMATE FINANCE AND INTERNATIONAL FINANCIAL INSTITUTIONS: A CRITICAL LEGAL ANALYSIS OF GLOBAL CLIMATE GOVERNANCE

AUTHORED BY - PAVITHRA V

Abstract

Climate change demands substantial finance for mitigation, adaptation and sustainable development, particularly in developing and climate-vulnerable countries. International Financial Institutions (IFIs), including the World Bank, International Monetary Fund (IMF) and regional development banks, increasingly mobilise this finance, yet the framework raises concerns about accountability, equity, accessibility, conditionality and transparency. This article examines the legal framework governing climate finance and the role of IFIs in global climate governance, in light of the United Nations Framework Convention on Climate Change (UNFCCC) and the Paris Agreement, using a doctrinal and analytical methodology. It assesses whether existing mechanisms reflect common but differentiated responsibilities and respective capabilities (CBDR-RC), climate justice and sustainable development, and concludes that stronger accountability, transparency, wider access and better coordination are needed.

Keywords: Climate Finance; International Financial Institutions; Global Climate Governance; Paris Agreement; Climate Justice; Sustainable Development; International Law.

1. Introduction

Climate change is not merely an environmental concern; it is also a financial, developmental and legal challenge. Extreme weather and sea-level rise impose significant costs, and countries need resources to reduce emissions and adapt, yet developing countries often have limited fiscal capacity despite substantial risks.

Climate finance refers to public, private and alternative financial resources that support mitigation and adaptation, provided through grants, concessional and market-based loans, guarantees, equity investment, green bonds, debt-for-climate swaps and carbon-finance mechanisms. The form matters: a grant adds no public debt, whereas a loan creates repayment

obligations even where the recipient bears limited historical responsibility.[1]

International Financial Institutions (IFIs) are now central actors. The World Bank Group and regional development banks finance infrastructure and development projects and use guarantees to mobilise private investment, while the IMF addresses climate challenges through their macroeconomic and balance-of-payments implications, including its Resilience and Sustainability Trust. IFIs can scale up climate investment, but their lending practices, conditions and accountability raise legal and distributive questions.[2]

The central issue is whether climate finance is sufficient, predictable, accessible, fairly distributed and consistent with international climate commitments. This article evaluates whether the current architecture meets those standards.

2. Research Questions and Objectives

2.1 Research Questions

- Does international law clearly require countries to provide climate finance?
- To what extent do IFIs consider climate justice, shared responsibilities and the needs of vulnerable countries?
- Do loans, conditions and complex procedures hinder developing countries' access to climate finance?
- What legal and institutional changes can improve transparency, accountability and coordination?

2.2 Objectives

1. To examine the legal instruments governing climate finance, particularly the UNFCCC and Paris Agreement.
2. To analyse the roles of the World Bank Group, IMF and regional development banks in financing mitigation and adaptation.
3. To identify legal and governance concerns involving debt, access, conditionality, transparency and accountability.
4. To assess the relationship between climate finance, CBDR-RC, climate justice and sustainable development.
5. To propose reforms for a more equitable, accessible and accountable framework.

[1] United Nations Framework Convention on Climate Change (UNFCCC), United Nations Framework Convention on Climate Change arts. 4(3)–(5), May 9, 1992, 1771 U.N.T.S. 107.
[2] International Monetary Fund, Resilience and Sustainability Trust, https://www.imf.org/en/topics/resilience-and-sustainability-trust (last visited Oct. 24, 2026).

3. Research Methodology and Scope

This article adopts a doctrinal and analytical methodology, examining primary sources (the UNFCCC, Kyoto Protocol, Paris Agreement and climate finance decisions), official World Bank, IMF and UNFCCC materials, and secondary literature. The method is qualitative: it analyses legal rules and governance concerns without measuring project-level outcomes or auditing financial flows.

The scope is international, with particular attention to developing countries and a focused discussion of India. The article distinguishes binding treaty provisions from political decisions, policy commitments and institutional practices, since a finance target does not automatically make every element legally enforceable.

4. Concept and Forms of Climate Finance

Climate finance supports two broad categories of action. Mitigation reduces greenhouse-gas emissions, for example through renewable energy and forest conservation. Adaptation reduces vulnerability to climate impacts, for example through flood protection and early-warning systems. Loss-and-damage finance addresses harms that cannot be avoided through either.

The principal instruments have different consequences. Grants need no repayment and suit projects with public benefits but no direct revenue. Concessional loans offer better terms than market borrowing but still create debt, while market-based loans suit revenue-generating projects but burden highly indebted countries. Guarantees and equity help mobilise private capital, green bonds fund environmentally beneficial projects, and debt-for-climate swaps link debt relief to environmental commitments.

No single instrument suits every project: renewable energy may attract private investment, but early-warning systems and coastal protection yield social benefits that are hard to monetise. Heavy reliance on loans and private capital may therefore underfund adaptation and burden vulnerable countries with repayment risks.

5. Evolution and Legal Framework of International Climate Finance

5.1 United Nations Framework Convention on Climate Change, 1992

The UNFCCC established the foundational framework for climate cooperation, built on equity and common but differentiated responsibilities and respective capabilities. Article 4 addresses financial resources and technology transfer, including support from developed-country Parties

to developing-country Parties.[3]

5.2 Kyoto Protocol, 1997

The Kyoto Protocol set quantified emissions commitments for specified developed countries and created mitigation mechanisms, including the Clean Development Mechanism for emission-reduction projects in developing countries. The Adaptation Fund was established to support adaptation, linking climate action to project finance and the needs of vulnerable communities.[4]

5.3 Copenhagen Accord, 2009, and the USD 100 Billion Goal

The Copenhagen Accord recorded developed countries' commitment to mobilise USD 100 billion annually by 2020 for developing countries, in the context of meaningful mitigation action and transparency. The target became a prominent benchmark, but disputes over accounting, the loan-grant mix and the counting of private finance exposed disagreement about adequate and fair climate finance.[5]

5.4 Paris Agreement, 2015

The Paris Agreement integrates finance into the goal of holding the temperature increase well below 2°C above pre-industrial levels and pursuing efforts towards 1.5°C. Article 2(1)(c) calls for finance flows consistent with low-emission, climate-resilient development. Article 9(1) provides that developed-country Parties shall provide financial resources to assist developing-country Parties with mitigation and adaptation, and Article 9(3) that they should continue to lead in mobilising climate finance from a wide variety of sources.[6]

Article 9 also addresses the balance between mitigation and adaptation, the needs of particularly vulnerable countries, and transparency of finance provided and mobilised, while Articles 10 and 11 concern technology transfer and capacity-building. Finance is thus not an optional accessory to climate action but is tied to states' ability to implement their climate plans.

6. CBDR-RC, Equity and Climate Justice

CBDR-RC recognises that all states share responsibility for climate change while their responsibilities and capacities differ; historical emissions, capabilities and development needs are relevant to allocating burdens. It does not remove developing countries' responsibility to

[3] UNFCCC, supra note 1, arts. 3–4.
[4] Kyoto Protocol to the United Nations Framework Convention on Climate Change arts. 6, 12, Dec. 11, 1997, 2303 U.N.T.S. 162; Adaptation Fund, UNFCCC, https://unfccc.int/Adaptation-Fund (last visited Oct. 24, 2026).
[5] Copenhagen Accord, Decision 2/CP.15, P 8, U.N. Doc. FCCC/CP/2009/11/Add.1
[6] Paris Agreement arts. 2(1)(c), 9(1), 9(3), Dec. 12, 2015, T.I.A.S. No. 16-1104.

act, but supports fair distribution of effort and the importance of finance, technology and capacity-building.[7]

Climate justice gives this principle a distributive dimension. Communities that contributed little to emissions may face severe impacts with fewer resources for recovery. A fair system should consider vulnerability, historical responsibility, capacity to pay, development needs and intergenerational equity, and should not force vulnerable states to choose between public services and climate resilience.

The legal difficulty lies in translating broad principles into operational rules. Instruments do not always specify a formula for each country's contribution, the grant-loan ratio or the remedy for inadequate support, leaving substantial discretion to states and institutions and making transparent criteria important.

7. Role of International Financial Institutions

7.1 World Bank Group

The World Bank Group provides loans, concessional finance, grants and guarantees for climate-related development such as renewable energy, sustainable transport, water, agriculture and resilient infrastructure. The International Bank for Reconstruction and Development (IBRD) lends mainly to middle-income and creditworthy developing countries, the International Development Association (IDA) offers concessional finance and grants to poorer countries, the International Finance Corporation (IFC) supports private investment, and the Multilateral Investment Guarantee Agency (MIGA) provides guarantees and political-risk insurance.[8]

The Environmental and Social Framework sets requirements for managing environmental and social risks in relevant investment financing. Safeguards matter because climate projects may affect land, livelihoods, Indigenous Peoples and vulnerable communities, and need accessible information, consultation, grievance mechanisms and monitoring.

7.2 International Monetary Fund

The IMF's mandate concerns international monetary cooperation and financial and balance-of-payments stability. Climate change can affect fiscal sustainability, external accounts and financial systems. The Resilience and Sustainability Trust provides longer-term affordable

[7] UNFCCC, supra note 1, art. 3(1); Paris Agreement, supra note 6, art. 2(2).
[8] World Bank, Environmental and Social Framework (2016), https://www.worldbank.org/en/projects-operations/environmental-and-social-framework (last visited Oct. 24, 2026).

financing for structural challenges, including climate-related risks; being loan-based, it must be assessed alongside its repayment obligations and macroeconomic conditions. The IMF focuses on macro-critical reforms and resilience, not general grants for climate projects.[9]

7.3 Regional Development Banks

The Asian Development Bank finances renewable energy, sustainable transport and resilient infrastructure in Asia and the Pacific; the African Development Bank supports adaptation, agriculture, water security and renewable energy in Africa; and the Inter-American Development Bank and IDB Invest support sustainable development in Latin America and the Caribbean. Their effectiveness depends on adequate capital, fair access, transparent decision-making and safeguards.

7.4 Main Functions of IFIs

IFIs perform overlapping functions: providing direct finance; blending public and private capital; reducing investment risk through guarantees; preparing projects and supplying technical expertise; strengthening institutional capacity; and acting as implementing or intermediary agencies for climate funds. This should not obscure the distinction between a climate fund's mandate, an IFI's policies and states' obligations under international climate law.

8. Relationship Between UN Climate Funds and IFIs

Climate-specific funds and IFIs perform complementary but distinct roles. The Green Climate Fund (GCF) supports low-emission, climate-resilient development; the Global Environment Facility (GEF) finances climate and other environmental objectives; the Adaptation Fund supports adaptation projects; and the Fund for responding to Loss and Damage assists countries particularly vulnerable to climate-related losses.[10]

IFIs and multilateral development banks may serve as implementing entities, provide co-financing, prepare projects or contribute technical expertise, while climate funds set priorities and provide resources. This improves delivery capacity but may add approval layers, so coordination requires clear responsibilities, common standards, avoidance of duplication and accessible routes for raising concerns.

[9] International Monetary Fund, Resilience and Sustainability Trust FAQs, https://www.imf.org/en/about/faq/resilience-and-sustainability-trust (last visited Oct. 24, 2026).
[10] UNFCCC, Adaptation Fund, https://unfccc.int/Adaptation-Fund (last visited Oct. 24, 2026)

9. Critical Legal Analysis

9.1 Enforceability and Accountability

Climate finance commitments raise the question whether they are legally enforceable or merely political. Although the Paris Agreement establishes binding obligations on communication and transparency, not every financial target creates an enforceable duty to pay a specified amount.

Treaty duties, institutional rules and project agreements provide legal standards, but fragmented responsibilities and limited remedies create challenges; stronger reporting, independent evaluation and effective grievance mechanisms are necessary.[11]

9.2 Grant Versus Loan

The form of finance is a question of justice as well as economics. Loans may suit revenue-generating projects, but heavy reliance on them increases public debt and reduces fiscal space, while adaptation and loss-and-damage measures generate public benefits rather than income. For a highly indebted country, loan-based support may pass part of the cost of climate impacts to the affected population. A fairer framework should expand grants and highly concessional finance, particularly for adaptation and loss and damage in vulnerable countries.[12]

9.3 Access and Administrative Barriers

Developing countries may face complex accreditation requirements, project-preparation costs, technical documentation and lengthy approvals, which especially burden least developed countries and small island developing states. The Paris Agreement recognises the importance of efficient access, simplified approval and readiness support; requirements should be proportionate to project risk, with direct technical assistance for applicants.[13]

9.4 Transparency and Measurement

Transparency requires more than a headline figure. Information should distinguish grants from loans, commitments from disbursements, public from mobilised private finance, and new resources from relabelled development assistance. Clear methodologies, project-level data and independent verification are needed to assess additionality and adequacy.[14]

9.5 Representation and Greenwashing

Decision-making power within IFIs is not equally distributed; if the countries most exposed to climate impacts have limited influence over priorities, allocation decisions may not reflect their

[11] Paris Agreement, supra note 6, arts. 9, 13.
[12] UNFCCC, supra note 1, art. 4(3)–(4); Paris Agreement, supra note 6, art. 9.
[13] Paris Agreement, supra note 6, art. 9(9).
[14] Paris Agreement, supra note 6, arts. 9(7), 13; Copenhagen Accord, supra note 5, P 8.

needs. Greenwashing occurs where a project is described as climate-beneficial without sufficient evidence; common definitions, screening, disclosure, monitoring and independent evaluation are needed to protect integrity.[15]

10. India's Perspective

India requires climate finance for renewable energy, electric mobility, green hydrogen, climate-resilient agriculture, disaster management and sustainable infrastructure, and stresses equity, climate justice and CBDR-RC in negotiations. As a developing country with significant climate exposure, it must pursue decarbonisation and adaptation while addressing poverty, energy access and infrastructure needs.[16]

For India and similarly situated countries, climate finance should be predictable, affordable and aligned with national priorities, preserving policy space for locally appropriate transitions. Safeguards should ensure projects do not disproportionately burden workers, low-income households or communities dependent on land and natural resources.

11. Comparative Analysis of Climate Finance Frameworks

Climate finance frameworks differ in legal approaches, funding mechanisms and accountability standards. Comparing the European Union, the United Kingdom, China and India highlights practices that may strengthen global governance.

European Union: The EU combines legally binding climate targets with sustainable finance regulation: the European Climate Law sets climate neutrality by 2050, and the sustainable finance taxonomy classifies environmentally sustainable activities. This promotes transparency and consistent standards, though not necessarily adequate or accessible finance.[17]

United Kingdom: The UK finances international climate action through public funding, adaptation programmes and private investment, highlighting support for vulnerable countries and assessment of actual results.[18]

China: China promotes green finance through green credit, bonds and eligibility guidelines,

[15] World Bank, supra note 8; International Monetary Fund, supra note 10.
[16] Government of India, India's Updated First Nationally Determined Contribution Under the Paris Agreement (Aug. 2022), https://unfccc.int/NDCREG.
[17] Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the Establishment of a Framework to Facilitate Sustainable Investment, 2020 O.J. (L 198) 13; European Commission, European Climate Law.
[18] Foreign, Commonwealth & Development Office et al., International Climate Finance Strategy 2026 (June 22, 2026).

showing how banking regulation can mobilise investment, though differing standards may undermine consistency and transparency.[19]

India: India balances climate action with economic development and energy access. Its Sovereign Green Bonds Framework, RBI Green Deposits Framework and proposed climate finance taxonomy support domestic green investment, but international grants, concessional finance and technology transfer remain important.[20]

12. Findings and Recommendations

12.1 Findings

- Climate agreements recognise climate finance, but enforcement of specific financial commitments remains limited.
- IFIs provide funding and expertise, but stronger accountability is needed.
- Debt-based finance can burden vulnerable countries that contributed least to climate change.
- Adaptation and loss-and-damage needs may be underfunded due to the focus on commercially viable projects.
- Complex procedures and unequal representation hinder developing countries' access to finance.
- India's perspective highlights balancing climate action with development priorities, equity and national interests.

12.2 Recommendations

- Establish clear, consistent reporting rules to improve transparency.
- Increase grant-based and concessional funding for adaptation and loss and damage in vulnerable countries.
- Strengthen accountability through independent evaluation, accessible information and grievance mechanisms.
- Simplify funding procedures for vulnerable developing countries.
- Ensure fair representation of developing countries in decision-making and resource allocation.

[19] OECD, Developing Sustainable Finance Definitions and Taxonomies (2020).
[20] Ministry of Finance, Government of India, Framework for Sovereign Green Bonds; Reserve Bank of India, Framework for Acceptance of Green Deposits, RBI/2023-24/14 (Apr. 11, 2023); Press Information Bureau, Government of India, Draft Framework of India’s Climate Finance Taxonomy (May 7, 2025).

- Improve coordination among IFIs, climate funds and regional development banks to reduce delays and duplication.
- Conduct regular monitoring and climate-impact assessments to ensure measurable environmental and social outcomes.

13. Conclusion

Climate finance is indispensable to implementing international climate commitments and protecting communities facing climate impacts. The UNFCCC and Paris Agreement link climate action with financial support, technology transfer and capacity-building, and IFIs, including the World Bank Group, IMF and regional development banks, turn commitments into projects and institutional capacity.[21]

Nevertheless, scale alone cannot make the system fair or effective. Loan-heavy funding, inadequate adaptation finance, administrative barriers, uncertain accountability, inconsistent reporting and unequal representation can undermine CBDR-RC and climate justice, and gaps remain between broad commitments and accessible remedies.

A more coherent framework should combine predictable public support with carefully regulated private investment; prioritise grants and concessional resources where debt would be inappropriate; simplify access; strengthen transparency and independent accountability; and ensure meaningful participation by developing countries and affected communities. IFIs should be judged not only by capital mobilised but by whether their financing advances climate resilience, human rights, sustainable development and equitable outcomes. Ultimately, climate finance is a question not merely of money but of responsibility, fairness and legitimacy.

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[21] UNFCCC, supra note 1, art. 4; Paris Agreement, supra note 6, arts. 9–11.

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