
Climate Finance under Conflicts and Renegotiations: A Dynamic Contract Approach

- *Very Preliminary* -

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Abstract

This paper examines a long-term climate funding relationship between two agents—the rich country and the poor country. In the relationship, the rich country contributes funding to the poor country, and the poor country uses this funding to invest in her climate adaptation and mitigation projects. In this financial mechanism for addressing climate change problems in the poor country, the rich country cannot be forced to commit contractual contributions to the poor country, and the climate funding relationship can be repeatedly renegotiated. Consequences of the possibility of renegotiation, discounting on climate damage, conflicts between the two countries, and riskiness of climate damage are discussed in terms of an amount of the greenhouse gas stock and climate damage in the poor country.

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