Climate Finance

Why in News

Recently, the Finance Minister of India and her US counterpart met for the eighth ministerial meeting of the U.S.-India Economic and Financial partnership.

> The major highlight of the ministerial meeting is that it discussed **climate finance** for the first time under the aegis of **Climate Action and Finance Mobilization Dialogue** (CAFMD).

Key Points

- **About:**
  - Climate finance refers to **local, national or transnational financing**—drawn from public, private and alternative sources of financing—that seeks to **support mitigation and adaptation actions** that will address **climate change.**
    - Climate finance **is needed for mitigation, because large-scale investments are required** to significantly reduce emissions.
    - It is equally **important for adaptation, as significant financial resources are needed to adapt to the adverse effects** and reduce the impacts of a changing climate.

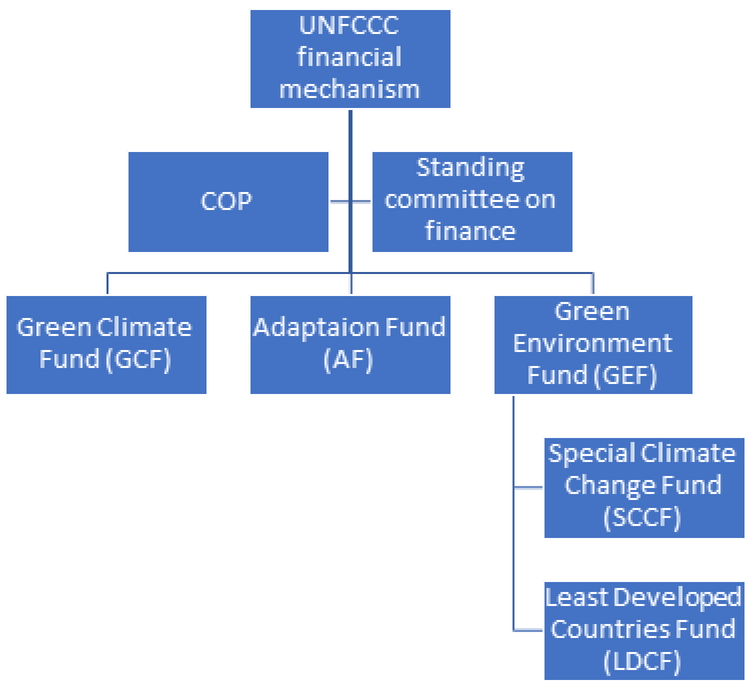
- **Climate Finance & UNFCCC:**

  To facilitate the provision of climate finance, the **United Nations Framework Convention on Climate Change (UNFCCC)** has established the financial mechanism to provide financial resources to developing country Parties.

  - **The Adaptation Fund under Kyoto Protocol:** It aims to finance concrete projects and programmes that help vulnerable communities in developing countries that are Parties to the **Kyoto Protocol** to adapt to climate change.
  - **Green Climate Fund:** It is the financial mechanism of the UNFCCC, established in 2010.

    India has been pushing for rich countries to meet their **Paris Accord** climate finance commitment of **USD 100 billion per year.**
  - **Global Environment Fund (GEF):** GEF has served as an operating entity of the financial mechanism since the Convention came into force in 1994.

    It is a private equity fund focused on seeking long term financial returns by investments in clean energy under climate change.
  - GEF also maintains two additional funds, the **Special Climate Change Fund** (SCCF) and the **Least Developed Countries Fund (LDCF).**



Climate Financing in India:

- **National Adaptation Fund for Climate Change (NAFCC):**

  It was established in 2015 to **meet the cost of adaptation to climate change for the State and Union Territories** of India that are particularly vulnerable to the adverse effects of climate change.
- **National Clean Energy Fund:**
  - The Fund was created to **promote clean energy,** funded through an initial carbon tax on use of coal by industries.
  - Governed by an Inter-Ministerial Group with the Finance Secretary as the Chairman.
  - Its mandate is to fund research and development of innovative clean energy technology in the fossil and non fossil fuel based sectors.
- **National Adaptation Fund:**
  - The fund was established in 2014 with a corpus of Rs. 100 crore with the aim of bridging the gap between the need and the available funds.
  - The fund is operated under the **Ministry of Environment, Forests and Climate Change (MoEF&CC).**

Principles of Climate Finance

- **Polluter Pays:**
  - The **'polluters pays' principle** is the commonly accepted practice according to which those **who produce pollution should bear the costs** of managing it to prevent damage to human health or the environment.
  - This principle underpins most of the regulation of pollution affecting land, water and air formally known as the **1992 Rio Declaration.**
  - It has also been applied more specifically to emissions of greenhouse gases which cause climate change.
- **Common but Differentiated Responsibility and Respective Capability (CBDR–RC):**

  CBDR–RC is a principle within the **UNFCCC.** It acknowledges the different capabilities and differing responsibilities of individual countries in addressing climate change.
- **Additionality:**
  - Climate finance should be **additional to existing commitments** to avoid the diversion of funding for development needs to climate change actions.
  - This includes use of public climate finance and **investments by the private sector.**

- **Adequacy & Precaution:**
  - In order to take **precautionary measures** to prevent or minimise the causes of climate change as a stated goal under UNFCCC, the **level of funding needs to be sufficient to keep a global temperature within limits** as possible.
  - A better level of adequacy might be increased in the national estimates of the needed climate funds, this will help build planned investments with respect to INDC.
- **Predictability:**
  - Climate finance must be predictable to **ensure sustained flow of climate finance.**
  - It can be done through multi-year, medium-term funding cycles (3 – 5 years).
  - This allows for an adequate investment program to scale up the country's national adaptation and mitigation priorities.

Source: TH