Green Financing

**For Prelims:** COP26 climate summit, net zero emissions by 2070, Global framework for Climate Financing, Kyoto Protocol, UNFCCC, Global Environment Fund (GEF)

**For Mains:** Status of Climate Financing, Climate Financing in India, Need of Green Finance and its significance.

**Why in News**

Recently, the Prime Minister of India COP26 climate summit announced that India will attain net zero emissions by 2070.

- In order to meet these climate targets, countries like India will need approximately USD 1 trillion in additional financing over the next ten years.
Key Points

- **About:**
  - Green financing is to **increase the level of financial flows** (from banking, micro-credit, insurance and investment) from the public, private and not-for-profit sectors to **sustainable development priorities**.
  - A key part of this is to **better manage environmental and social risks**, take up opportunities that bring both a decent rate of return and environmental benefit and deliver greater accountability.

- **Need for Climate (Green) 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.
  - **Common but Differentiated Responsibility and Respective Capability (CBDR–RC):**
    - It acknowledges the different capabilities and differing responsibilities of individual countries in addressing climate change.
  - **Underlying Principle: Developed Countries historically have been the major environmental polluters.**
    - Therefore, based on above mentioned principles, the developed countries are morally responsible to provide technology and finance to combat **climate change**.

- **Status of Climate Financing:**
  - **Expected Contributions from Developed Countries**: Required climate finance from developed countries is to transfer USD 1 trillion annually to developing countries to meet their climate targets.
  - **Actual Contributions by Developed countries**: Through the **Cancun Agreements** in 2010 developed countries committed to a goal of mobilising jointly USD 100 billion per year by 2020 to address the needs of developing countries.
    - However, the **Glasgow Climate Pact (COP26)** noted that the goal of developed country parties has not yet been met.
    - In this regard, the COP26 has requested the Standing Committee on Finance to the **United Nations Framework Convention on Climate Change (UNFCCC)** to prepare a report in 2022 on progress towards achieving the goal of mobilising **USD 100 billion per year** to address the needs of developing countries.

- **Global framework for Climate Financing:**
  - **To facilitate the provision of climate finance, the 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**

- **Financing From Domestic Resources**: India’s climate actions have so far been largely financed by domestic resources.
  - According to India’s Third Biennial Update Report 2021 to the UNFCCC between 2014 and 2019, while the **Global Environment Facility** and **Green Climate Fund** has provided grants to a total of only US USD 165.25 million, the corresponding domestic mobilisation amounts to USD1.374 billion.
**Funds for Green Financing:** Green financing related to climate change is majorly mobilised from **National Clean Energy Fund (NCEF)** and **National Adaptation Fund (NAF).**
- The Government of India also provides funding through eight missions established under the **National Action Plan for Climate Change.**
- It has established a **Climate Change Finance Unit (CCFU)** in the Ministry of Finance, which is the nodal agency for all climate change financing matters.

**Recent Indian Government Initiatives**

- **Perform Achieve and Trade (PAT) Scheme:** The government has undertaken the **PAT scheme**, targeting carbon emission reduction in 13 energy intensive sectors.
- **Encouraging Foreign Capital:** The Government has permitted **Foreign Direct Investment (FDI)** up to 100 percent under the automatic route in the renewable energy sector.
- **Encouraging Renewable energy:**
  - The Government has waived inter-state Transmission System (ISTS) charges for inter-State sale of solar and wind power for projects.
  - Making provisions for **Renewable Purchase Obligation (RPO)** and setting up Renewable Energy parks.
  - Announcement of the National Hydrogen Mission.
- **India’s Nationally Determined Contribution:** Under the Paris Agreement which was adopted by signatory countries in 2015, India had submitted **Nationally Determined Contribution (NDC) with quantified targets**
  - To reduce the emissions intensity of its **Gross Domestic Product (GDP)** by 33-35% till 2030 from the levels at 2005,
  - To achieve about 40% cumulative electric power installed capacity from non-fossil fuel-based energy resources by 2030,
  - To create an additional carbon sink of 2.5-3 billion tonnes of carbon dioxide equivalent through additional forest and tree cover by 2030.

**Way Forward**

- **Expanding Scope of Collaboration:** Multi-stakeholder partnerships should be promoted to include major actors in financial markets, banks, investors, **micro-credit** entities, insurance companies along with the public sector.
- **Holistic Framework:** Green financing could be promoted through:
  - Changes in countries’ regulatory frameworks.
  - Harmonising public financial incentives.
  - Increases in green financing from different sectors.
  - Alignment of public sector financing decision-making with the environmental dimension of the **Sustainable Development Goals**.
  - Increases in investment in clean and green technologies.
  - Financing for sustainable natural resource-based green economies and climate smart **blue economy**.
  - Increase use of **green bonds**.

**Source:** IE

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