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.

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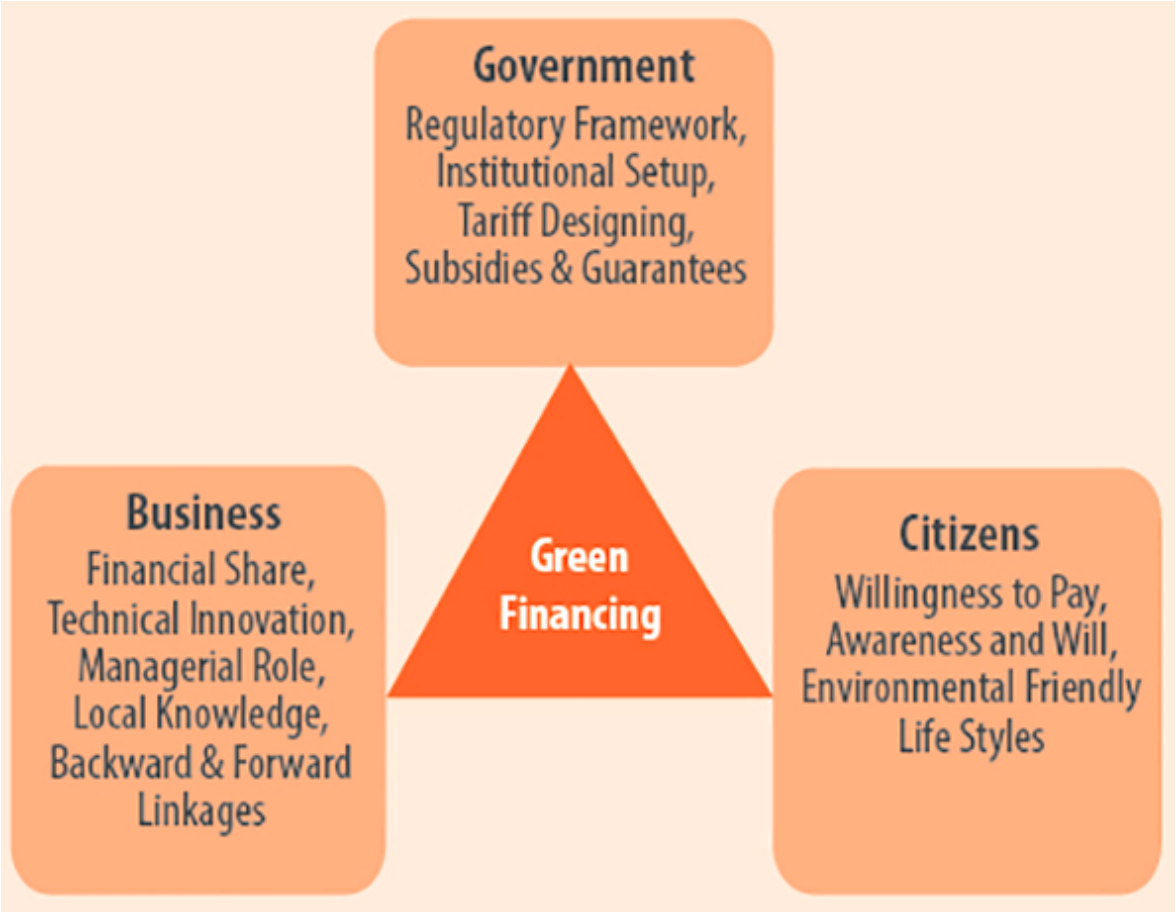

Key Points

- **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