Becoming Atmanirbhar in Climate Finance

This editorial is based on **"Being atmanirbhar in climate finance"** which was published in the Hindu BusinessLine on 27/02/2023. It discusses the Issue of Climate Financing and ways to address it.

For Prelims: Climate Finance, NAFCC, National Clean Energy Fund, Carbon tax, National Adaptation Fund, Development Financial Institutions

For Mains: Issue of Climate Financing, Environmental Pollution & Degradation

Climate finance refers to the **financial resources that are allocated to address climate change and its impacts.** It encompasses a wide range of financial instruments and mechanisms that support climate mitigation and adaptation measures. Climate finance is critical in enabling countries to transition towards low-carbon and climate-resilient economies and achieving the goals set out in the **Paris Agreement.**

The funding is **essential to support developing countries in reducing** greenhouse gas emissions, adapting to the impacts of climate change, and pursuing **sustainable development.**

According to the Climate Finance Working Group, 118 trillion rupees are required to address climate change, 64 trillion rupees are available, while 54 trillion rupees are unrestricted. This gap has to be **met by way of domestic and foreign debt**. Indian Development Financial Institutions (DFIs) **and commercial banks have to contribute by raising domestic funds** and channelling resources from abroad.

To address the challenges of Climate finance, India needs to develop its own framework and a variety of funding systems, rather than work on terms laid down by the Western countries.

What are the Challenges in Climate Financing?

- **Lack of Funds from the West:**
    - The developed countries are **historically responsible for the majority of** greenhouse gas **emissions** that have caused **climate change.**
    - However, many developed countries have failed to provide adequate financial support to developing countries for climate action.
    - This has led to a significant funding gap, making it difficult for developing countries to implement climate change mitigation and adaptation measures.
- **Lack of Access to Finance:**
    - Many developing countries and small island states have **limited access to financing** due to various factors such as weak financial systems, inadequate regulatory frameworks, and limited access to international markets.
- **High Cost of Financing:**
    - Climate-related projects often **require significant upfront costs and long-term**

financing, which can be difficult to obtain at affordable rates. This can deter investors from financing such projects, particularly in developing countries.

- **Uncertainty and Risk:**
    - Climate-related investments can be **risky due to uncertainty around regulatory and policy frameworks**, changing technology, and natural disasters. This can **make it difficult for investors to accurately assess the potential returns** on their investments.
- **Lack of Capacity and Technical Expertise**:
    - Many developing countries lack the technical expertise and capacity to design and implement effective climate projects, which can lead to delays and inefficiencies in project implementation.
- **Political and Policy Barriers:**
    - Political and policy barriers such as political instability, corruption, and lack of political can hinder climate financing efforts.
- **Inadequate Private Sector Engagement:**
    - Private sector investment is crucial for scaling up climate financing, however, there is **still inadequate private sector engagement** due to various factors such as limited market incentives, lack of regulatory frameworks, and limited awareness of climate risks.

What are the Related Initiatives?

- **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, and funded through an initial **carbon tax** on the use of coal by industries.
    - It is 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 crores 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).

What should be the Way Forward for Climate Financing?

- **Raising resources from DFIs:**
    - The banking system is **unlikely to finance climate mitigation and adaptation investments** due to lower commercial appeal, so it is important to sharply define the priority sector to include climate finance.
    - However, **long-term resources will need to be raised from Development Financial Institutions (DFIs)** as there is a large financing gap.
        - DFIs have previously avoided foreign currency loans due to competition from domestic funds and high hedging costs.
    - The **government may need to step in to manage hedging costs** in order to encourage DFIs to provide the necessary funding for climate investments.
- **Investments from the Private Sector:**
    - Private sector investments are **crucial for financing climate mitigation and adaptation projects.**
    - Some investments can be financed through access to bank credit, **but many others cannot meet the interest costs due to below-par returns,** long gestation periods, and higher financial risks.
- **Promoting Blended Financing:**

- Blended finance can be used in **various ways to support climate financing.**
    - Blended finance is an innovative financing approach that combines public and private capital to achieve development objectives.
  - For example, it can be used to finance renewable energy projects, green infrastructure, and climate-smart agriculture. It can also be used to provide financing for climate adaptation projects, such as building sea walls or improving water management systems.
- **Catalytic or Start-up Funding:**
  - Catalytic funding should be **utilised for 're-purposing' key economic activities** into green activities — something that western finance and its frameworks may not recognise as per their taxonomy.
  - Re-purposing, supported by a simple and inviolable classification framework, oversight and capacity building mechanisms can transform existing economic activities to green activities, crucially with smaller amounts of investments.
- **Need for Innovative Financing Mechanisms:**
  - There is a need for **innovative financing mechanisms that can provide funding for climate-related projects**, particularly in developing countries.
  - Some of these mechanisms include green bonds**, climate funds, and** carbon markets.

Drishti Mains Question

What are the major challenges faced in mobilizing and effectively deploying climate finance to address the global climate crisis?

UPSC Civil Services Examination Previous Year Question (PYQ)

Prelims

Q. With reference to the Agreement at the UNFCCC Meeting in Paris in 2015, which of the following statements is/are correct? (2016)

1. The Agreement was signed by all the member countries of the UN, and it will go into effect in 2017.
2. The Agreement aims to limit the greenhouse gas emissions so that the rise in average global temperature by the end of this century does not exceed 2ºC or even 1.5ºC above pre-industrial levels.
3. Developed countries acknowledged their historical responsibility in global warming and committed to donate $ 1000 billion a year from 2020 to help developing countries to cope with climate change.

Select the correct answer using the code given below:

(a) 1 and 3 only
(b) 2 only
(c) 2 and 3 only
(d) 1, 2 and 3

Ans: (b)

EXP:

- The Paris Agreement was adopted in December 2015 at COP21 in Paris, France by the Conference of the Parties (COP) to the United Nations Framework Convention on Climate Change (UNFCCC).
- The Agreement aims to limit the greenhouse gas emissions so that the rise in average global temperature by the end of this century does not exceed 2°C or even 1.5°C above pre-industrial levels. Hence, statement 2 is correct.
- The Paris Agreement entered into force on 4 November 2016, thirty days after the date on which

at least 55 Parties to the Convention accounting in total for at least an estimated 55 % of the total global greenhouse gas emissions had deposited their instruments of ratification, acceptance, approval or accession with the depositary. Hence, statement 1 is not correct.

- Additionally, the agreement aims to strengthen the ability of countries to deal with the impacts of climate change, in line with their own national objectives.
- The Paris Agreement requires all Parties to put forward their best efforts through Nationally Determined Contributions (NDCs) and to strengthen these efforts in the years ahead. This includes requirement that all Parties report regularly on their emissions and on their implementation efforts.
- There will also be a global stocktake every 5 years to assess the collective progress towards achieving the purpose of the Agreement and to inform further individual actions by the Parties.
- Through the Cancun Agreements in 2010 developed country Parties committed to a goal of mobilizing jointly USD 100 billion per year by 2020 to address the needs of developing countries.
- Further, they also agreed that prior to 2025 the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement shall set a new collective quantified goal from a floor of USD 100 billion per year. Hence, statement 3 is not correct. Therefore, option (b) is the correct answer.

Mains

Q. Describe the major outcomes of the 26th session of the Conference of the Parties (COP) to the United Nations Framework Convention on Climate Change (UNFCCC). What are the commitments made by India in this conference? **(2021)**