Climate Finance and the USD 100 Billion Goal: OECD

For Prelims: Climate Finance and the USD 100 Billion Goal: OECD, **COP (Conference of Parties) 28, Organisation for Economic Cooperation and Development (OECD),** Climate Finance, **UNFCCC (United Nations Framework Convention on Climate Change).**

For Mains: Climate Finance and the USD 100 Billion Goal: OECD, Environmental pollution and degradation.

Source: TH

Why in News?

Ahead of the **COP (Conference of Parties) 28 in Dubai,** the **Organisation for Economic Cooperation and Development (OECD)** has released a Report titled- **Climate Finance and the USD 100 Billion Goal,** showing that Developed countries fell short of their promise to mobilize USD 100 billion a year, towards **Climate Mitigation.**

- The report presents **aggregate trends of annual climate finance** provided and mobilized by developed countries for developing countries for the **period 2013-21.**

What is the Organization for Economic Co-operation and Development (OECD)?

- **About:**
    - The OECD is an intergovernmental economic organization, founded to stimulate economic progress and world trade.
    - Most OECD members are high-income economies with a very high Human **Development Index (HDI)** and are regarded as developed countries.
- **Foundation:**
    - It was **founded in 1961 with its Headquarters at Paris, France** and total membership is 38 countries.
    - The most recent countries to join the OECD were Colombia, in April 2020, and Costa Rica, in May 2021.
    - India is **not a member,** but a key economic partner.
- **Reports and Indices by OECD:**
    - Government at a Glance.
    - OECD Better Life Index.

What is the Background?

- At the **15th Conference of Parties (COP15)** of the **UNFCCC (United Nations Framework Convention on Climate Change)** in Copenhagen in 2009, developed countries **committed to a**

collective goal of mobilising USD 100 billion per year by 2020 for [Climate Action] in developing countries, in the context of meaningful mitigation actions and transparency on implementation.
- The goal was formalised at **COP16 in Cancun,** and at **COP21 in Paris,** it was reiterated and **extended to 2025.**
- At the request of donor countries, the **OECD has been tracking progress towards this goal since 2015.** It produces regular analyses of progress made, based on a robust accounting framework that is consistent with the COP24 outcome agreed by all **Parties to the Paris Agreement** on funding sources and financial instruments.

What are the Key Findings of the Report?

- **Total Climate Finance:**
  - In 2021, total climate finance provided and mobilised by developed countries for developing countries **amounted to USD 89.6 billion,** showing a significant 7.6% increase over the previous year.
  - **Public Climate Finance (bilateral and multilateral)** almost doubled over the 2013-21 period, from USD 38 billion to USD 73.1 billion, accounting for the **vast majority of the total USD 89.6 billion in 2021.**
  - Mobilized private climate finance, for which comparable data are only available from 2016, amounted to USD 14.4 billion in 2021, or 16% of the total.
- **Drop in Adaptation FInance:**
  - Adaptation finance dropped by USD 4 billion (-14%) in 2021, resulting in a decrease in its share of total climate **finance from 34% to 27%.**
  - The decrease in finance for adaptation is raising concerns about the **capacity of developing nations to address both mitigation** and adaptation needs.
- **Loan Dominance in Climate Financing:**
  - USD 73.1 billion of Finance was mobilized in 2021 by the public sector via bilateral and multilateral channels and USD 49.6 billion was provided as loans.
  - This reliance on loans, rather than grants, **can exacerbate debt stress in poorer countries**, impacting their ability to effectively address climate challenges.
- **Recommendations:**
  - **Need to Scale up Adaptation Finance:** There is a pressing need for **international providers to significantly scale up their efforts** in two essential areas: adaptation finance and the mobilisation of private finance.
  - **Capacity Building:** There is a need to support building capacity in terms of project development, financial literacy, and operational efficiency, which can strengthen developing countries' abilities to access, absorb, and effectively utilise climate finance.
  - **Adapt and Evolve the Financial Products:** There is a need for international providers to adapt and evolve the financial products and mechanisms they offer to enhance the reach and effectiveness of climate finance.

What are the Issues with the OECD Report?

- **Ambiguity and Lack of Clarity in Definitions:**
  - There is a **lack of a universally agreed-upon definition** of 'climate finance', allowing developed countries to **classify various types of funding,** including **Overseas Development Assistance (ODA)** and high-cost loans, as climate finance.
  - This ambiguity can enable double-counting and evade scrutiny.
- **Challenges with Additionality:**
  - The principle of "new and additional finance" stipulated by the UNFCCC, meant to prevent **diverting existing aid for climate purposes,** has been questioned.
  - Some countries have **admitted to double-counting aid,** undermining the "new and additional" criterion.
- **Loan at Face Value not Grant equivalent:**
  - Loans are considered at face value, not the grant equivalent when arriving at total climate finance figures.
    - So while poorer countries shell out money towards repayment and interest, the loan is still counted as climate finance provided by the developed world.

Way Forward

- Establishing transparent and standardized reporting mechanisms for climate finance contributions is crucial. This includes **defining clear criteria and methodologies** for tracking and reporting funding, ensuring accuracy, and preventing double-counting or misclassification of funds.
- Developing **universally agreed-upon definitions and criteria** for what constitutes climate finance is essential. This would prevent ambiguity, enable accurate measurement, and ensure that funds are genuinely additional and directed toward climate mitigation and adaptation.
- **Encouraging the provision of grants or concessional loans over commercial loans** can alleviate the debt burden on developing countries. Prioritizing funding mechanisms that do not add to debt stress while supporting climate actions is vital.