Climate Finance

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Why in News?

- Ahead of the United Nations Conference of Parties (COP24), the BASIC (Brazil, South Africa, China and India) countries said that they would push developed countries on their commitment to providing $100 billion annually from 2020.
- However, countries till now haven't even agreed on what constitutes climate finance.

What is Climate Finance?

- Climate finance refers to local, national or transnational financing—drawn from public, private and alternative sources of financing.
- It seeks to support mitigation and adaptation actions that will address climate change.
- The UNFCCC, the Kyoto Protocol and the Paris Agreement call for financial assistance from countries with more financial resources to those that are less endowed and more vulnerable.
- It is in accordance with the principle of "common but differentiated responsibility and respective capabilities".

Background

- Through the Cancun Agreements in 2010 developed countries committed to a goal of mobilizing jointly USD 100 billion per year by 2020 to address the needs of developing countries.
- The Green Climate Fund (GCF) was established in Cancun Agreement and designated it as an operating entity of the financial mechanism.
- Under the Paris Agreement in 2015, developed countries confirmed this goal and agreed that prior to 2025 a new collective quantified goal from a floor of USD 100 billion per year shall be set.

Need for Climate Finance

- **Globally the scale of needed investment:**

- The World Economic Forum projects that by 2020, about $5.7 trillion will need to be invested annually in green infrastructure.
    - The current commitment of $100 billion annually is only a small piece of the $5.7 trillion puzzle.
    - Therefore funding is needed to meet the investment needs in 2020 and beyond.
    - Mitigation – Large-scale investments are required to significantly reduce emissions.
    - Adaptation – Significant financial resources are needed to adapt to the adverse effects and reduce the impacts of a changing climate.
    - It is also critical to support developing countries to build resilience to worsening climate impacts and to catalyzing private sector climate investment.
    - Climate Finance is needed to transition the world's economy to a low-carbon path, as direct government funding is scarce in these countries.
- **The scale of needed investment in India:**
    - Under Paris Accord, India has planned to reduce its carbon emission intensity – emission per unit of GDP – by 33-35%. To achieve these targets and build its renewable capacity India needs climate finance.
    - India's Green Bond market is in growth stage, first green bonds were issued in 2015 - indicating the need to explore more options for climate financing.
    - In India, banks and non-banking financial companies have a limited appetite for long-term debt due to asset-liability mismatch.
    - Along with problems arising out of climate change, India also face traditional problems like poverty, pollution, education and skill gaps etc.Hence there is a greater need for climate finance.

Global Climate Financing

- **Green Climate Fund (GCF)** was established to limit or reduce greenhouse gas (GHG) emissions in developing countries and to help vulnerable societies adapt to the unavoidable impacts of climate change.
- **Adaptation Fund (AF)** was established under the Kyoto Protocol in 2001 and has committed US$ 532 million to climate adaptation and resilience activities.
- **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.
- In addition to providing guidance to the GEF and the GCF, parties have established two special funds:
    - The Special Climate Change Fund (SCCF) and the Least Developed Countries Fund (LDCF).
    - Both funds are managed by the GEF.

Climate Finance

Climate Financing in India

- **Intended Nationally Determined Contributions (INDCs)** are nationally binding targets adopted under UNFCCC. India has to reduce GHG emissions under this, which requires climate financing.
- **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 Ministry of Environment, Forests and Climate Change (MoEF&CC).
- **Clean Development Mechanism (CDM):**
  - It allows emission-reduction projects in developing countries to earn certified emission reduction (CER) credits, each equivalent to one tonne of CO_2.
  - The CDM is the main source of income for the UNFCCC Adaptation Fund.
  - The Adaptation Fund is financed by a 2% levy on CERs issued by the CDM.
- **Internal Programmes:**

    - **Compensatory Afforestation Fund Management and Planning Authority (CAMPA),** Disaster Management Fund etc.
    - A Climate Change Finance Unit was set up by Department of Economics in the Ministry of Finance to advise and guide the MoEF&CC as well as to lead on global climate finance issues.

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 United Nations Framework Convention on Climate Change (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 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 with in 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 adequate investment program to scale up country's national adaptation and mitigation priorities.

Challenges

- **At global levels:**
    - There is a gap between national needs and climate finance under Nationally Determined Contribution there is need for additional international financial

support.
    - Least Developed Countries receive much less approved funding in per-capita terms from the multilateral climate funds.
    - The rate of approvals is time taking, due to which the drawee nation has insufficient funds to complete its target and leads to stalling of projects.
    - The uncertainties such as, the recent refusal of US to pay $2 billion of its pledge this has created shortage of funds at available GCF.
- **At National levels:**
    - In India the local market to climate finance are insufficiently involved in financial products that support climate change adaptation.
    - Their is imminent failure in securing viability-gap funding either from governments, or multilateral development banks.
    - Projects in climate change has longer gestation period which deter financial institutions from investing in them.
    - Shortage of funds due to insufficient budget allocation are often interfered due to any excess or additional grants which leads to stalling of green projects.

Way Forward

- An analytical framework is necessary to combine potential climate risks with a systematic cost-benefit analysis.
- Favourable policy and institutional actions are important for successful introduction or scaling up of financial instruments.
- Such actions, through public-private partnership (PPP) and PPP People (PPPP) can help improving climate finance.
- Climate finance should be equipped with non institutional financial services such as market funds, private etc.