



Climate Finance

Why in News

The Finance Minister of **India urged the advanced economies to scale up their commitments to climate finance and transfer of technologies** - which are important for achieving climate-related commitments and goals.

- The Minister was addressing the **International Conference on Disaster Resilient Infrastructure (ICDRI)**.

Key Points

▪ Climate Finance (Meaning):

- **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**”.
- Climate finance is critical to tackle the issues posed by climate change and achieve the goal of limiting the rise in earth’s average temperature to below 2 degree Celsius over pre-industrial levels, something the **2018 IPCC report** has predicted.

▪ Commitment of Advanced Economies:

- 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 the Cancun Agreement and in 2011, it was designated 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.
 - The Paris Agreement reaffirms the obligations of developed countries, while for the **first time also encourages voluntary contributions by other Parties**.

▪ Challenges:

- **Almost 75% of the funds raised by the developed countries for climate finance are used domestically, despite developing countries bearing a significant burden of the emissions** and loss of natural ecosystems as a result of the industrialisation-drive in the developed world.
- The **total pledges to GCF was only USD 10.3 billion** till July 2019, which is highly

inadequate considering the estimated cost for developing countries to implement their Nationally Determined Contributions (NDCs) is USD 4 trillion.

- **Most climate funds have flown into mitigation, rather than adaptation** (mitigation refers to devising new solutions and way of doing things, while adaptation refers to managing the current issues).
- Climate finance has **mostly concentrated on renewable energy**, green buildings and urban transport, because it is **easier to estimate their cash-flow cycles. Other sectors** which hold implications of equal magnitude to our natural and social ecosystems, **like agriculture, degradation of land, water, etc. have seen a muted interest.**

▪ **Climate Financing in India:**

- The largest source of climate financing in India is **public funding**, which is routed through budgetary allocation and several funds and schemes related to climate change established by the Government of India such as **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.
 - However, public funding in India is **inadequate and misused.** For example, NCEF funds have been used to meet budgetary shortfalls in the Ministry of New and Renewable Energy (MoNRE).
 - Additionally, there is **no assessment of climate relevance of publicly funded projects in India**, making it difficult to evaluate financial allocation towards climate action.

Way Forward

- Policy and industry action must converge to take climate finance ahead in India. There is a need to mainstream the mind-set of the business community ongoing sustainability in their business models. That would push the demand for alternate solutions on climate issues, thus giving further momentum to climate finance efforts.
- Climate financing needs to be reported in a way that better reflects its real value to developing countries and the real effort made by developed countries.

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