Climate Funds by Developed Nations

What is the issue?

The world is seeing several hydro-meteorological and climatological disasters, largely attributed to climate change, especially in vulnerable countries but the promised funding remains difficult to achieve.

What is Climate finance?

- Climate finance refers to local, national or transnational financing drawn from public, private and alternative sources of financing that seeks to support mitigation and adaptation actions that will address climate change.
- Higher investment in mitigation projects lead to a reduction in carbon emission — a global public good that benefits everyone, including the donor country.
- Such investments also bring international recognition for being “climate conscious” as project outcomes are clearly visible and measurable.
- In 2009, at the **COP15 Summit in Copenhagen**, developed countries committed to jointly mobilise 100 billion dollar a year for climate finance so that developing nations can take effective actions.
- The **Paris Agreement** reaffirms the obligations of developed countries, while encouraging voluntary contributions by other Parties.
- But now, the developed countries are forcing developing nations to commit to an unreasonable target of reducing carbon emissions to net-zero by mid-century.

> *In accordance with the principle of “common but differentiated responsibility”, developed countries have to provide financial resources to assist developing country Parties in implementing the objectives of the UNFCCC.*

What is the financial mechanism?

- To facilitate the provision of climate finance, the Convention established a financial mechanism to provide financial resources to developing country Parties.
- The financial mechanism also serves the Kyoto Protocol and the Paris Agreement.
- The **Global Environment Facility (GEF)** has served as an operating entity of the financial mechanism since the Convention’s entry into force in 1994.
- At COP 16, in 2010, Parties established the **Green Climate Fund (GCF)** and later designated it as an operating entity of the financial mechanism.
- Two special fund are set up and are managed by the GEF
    - **The Special Climate Change Fund (SCCF)**
    - **The Least Developed Countries Fund (LDCF)**
- The **Adaptation Fund (AF)** was established under the Kyoto Protocol in 2001.

What is the status on funds disbursed?

- Proper methodology is not used in estimating the actual finance mobilised by developed countries towards the 100 billion dollar obligation.
- Based on recent estimates of the OECD, climate finance provided and mobilised by developed countries amounted to 79.6 billion dollars in 2019 but these estimates are disputed by most recipient countries.
- The Climate Finance Shadow Report 2020, published by Oxfam estimates climate finance flows at 22.5 billion dollars in 2017-18 which is contrary to the OECD reports for the same year.

Why is there an inconsistency in estimating international climate finance?

- **Clubbing development finance with climate finance-** Development assistance provided by multilateral banks and development finance institutions for infrastructure projects cannot be classified as climate finance.
- **Counting private finance as financial support**- Private non-grant capital has commercial orientation and cannot be termed as international climate finance.

What are the other issues?

- **Low allocation-** Article 9.4 of the Paris Agreement states that the provision of scaled-up financial resources should aim to balance adaptation and mitigation.
- But the cause of concern is the significantly low amount allocated for climate adaptation.
- In 2016, the United Nations Environment Programme (UNEP), in its Adaptation Gap Report, estimated the annual climate adaptation costs and financing needs at 140-300 billion dollars by 2030 and 280-500 billion dollars by 2050.
- **Difficulty in attracting funds**- Adaptation sectors find it difficult to attract funds, especially private capital, due to high project development costs and lack of commercial viability or good investment returns.
- The benefits are also largely confined to the recipient countries.

What is the action plan for developed countries?

- The developed countries must take immediate action to fulfil the internationally agreed climate objectives by 2030.
- **Clarity on international climate finance**- There is a need for clarity and consensus on the definition of international climate finance to end all controversies surrounding the classification of “climate relevant” projects.
- This includes creating taxonomy to make a clear distinction between development finance and climate finance.
- **Speeder process-** Climate adaptation finance must be ramped up.
- Denmark has committed to allocating 60% of its climate finance to adaptation projects.
- **Allocation-** International climate finance should be allocated to recipient countries on a need basis.
- Despite having a relatively smaller share in global greenhouse gas emissions historically, climate change vulnerable nations such Pacific Island Countries, Small Island Countries, and Least Developed Countries are disproportionally affected by climate change.
- **Revised target-** The 100 billion dollar target should be revised to reflect the true extent of

finance required to respond to existing and future adverse consequences of climate change.
- The post-2025 outlook should reflect a significant upward trend in the uptake of international climate finance by developed countries.

References

1. https://www.thehindubusinessline.com/opinion/climate-funds-developed-nations-must-step-up/article38135366.ece
2. https://unfccc.int/topics/climate-finance/the-big-picture/introduction-to-climate-finance