The false narrative of climate finance

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(Mains GS 3 : Conservation, environmental pollution and degradation, environmental impact assessment.)

Context:

- The 26th Conference of the Parties of the UN Framework Convention on Climate Change (UNFCCC) will take place in Glasgow, United Kingdom this year.
- Media reports based on the observation of the Organisation for Economic Co-operation and Development (OECD) suggested that developed countries are inching closer to the target of providing $100 billion annually in climate finance to developing countries by 2025 (the original target was 2020).

Climate finance:

- Climate change presents the single biggest threat to sustainable development and disproportionately burdens the poorest and most vulnerable communities.
- **According to UNFCCC,** 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."

Evolution of climate finance:

- The UNFCCC (**United Nations Framework Convention on Climate Change)** took effect in 1994.
- It was established to urge developed countries to lead the way “to stabilize greenhouse gas concentrations at a level that would prevent dangerous human induced interference with the climate system.”

- The UNFCCC also called for new funds for climate change activities in developing countries.
- Under the UNFCCC and Montreal protocol along with the more promising Paris agreement, “industrialized nations agree to support climate change activities in developing countries by providing financial support for action on climate change.

Reality of the claims:

- The claims of the media based on OECD seem to be untrustworthy as the OECD figure includes private finance and export credits.
- Developing countries have insisted that developed country climate finance should be from public sources and should be provided as grants or as concessional loans.
- However, the OECD report makes it clear that the public finance component amounted to only $62.2 billion in 2018, with bilateral funding of about $32.7 billion and $29.2 billion through multilateral institutions.
- Significantly, the final figure comes by adding loans and grants. Of the public finance component, loans comprise 74%, while grants make up only 20%.
- Between 2013 and 2018, the share of loans has continued to rise, while the share of grants decreased.
- The overwhelming provisioning of climate finance through loans exacerbates the debt crisis of many low-income countries.

Inflating climate finance figures:

- The OECD reports on climate finance have long been criticised for inflating climate finance figures by including funds for development projects such as health and education that only notionally target climate action.
- The Oxfam report on climate finance discounts for the climate relevance of reported funds to estimate how much climate finance is actually targeting climate action and also discounts for grant equivalence.
- In contrast to the OECD report, Oxfam estimates that in 2017-18, out of an average of $59.5 billion of public climate finance reported by developed countries, the climate-specific net assistance ranged only between $19 and $22.5 billion per year.

Misleading financial claims:

- Recently U.S. President Joe Biden recently said that the U.S. will double its climate finance by $11.4 billion annually by 2024.
- But the U.S. has a history of broken commitments, having promised $3 billion to the Green Climate Fund (GCF) under President Barack Obama, but delivering only $1 billion before President Donald Trump withdrew U.S. support from the GCF.
- Mr. Biden initially promised only $1.2 billion to the GCF, which fell well short of what was already owed.

Private sector mobilisation:

- The future focus of climate finance is the mobilisation of private sector investment.
- The US clears its position that climate finance will take place through private investment mobilisation and the public finance would only contribute to “de-risking” of investment.
- Thus the problem in the bulk of private funds is that they might be directed to those projects judged “bankable” and not selected based on developing countries’ priorities and needs.
- Regrettably, behind the rhetoric of mobilising climate finance lies the grim reality of burdening the G77 and its peoples with a fresh load of “green” debt.

Skewed towards mitigation:

- Climate finance has also remained skewed towards mitigation, despite the repeated calls for maintaining a balance between adaptation and mitigation.
- The 2016 Adaptation Gap Report of the UN Environment Programme had noted that the annual costs of adaptation in developing countries could range from $140 to $300 billion annually by 2030 and rise to $500 billion by 2050.
- Currently available adaptation finance is significantly lower than the needs expressed in the Nationally Determined Contributions submitted by developing countries.

Conclusion:

Developing countries must develop the mechanism for climate finance which is trustworthy and provide mitigation and adaptation strategies beneficially for developing or least developed countries.