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Climate finance: Myth vs reality

Understanding the realities of climate finance is key to agreement on strategies to combat global warming

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Last month's special report, Global Warming of 1.5°C, by the Intergovernmental Panel on Climate Change (IPCC) has warned of a warmer planet and demanded unprecedented efforts to reduce greenhouse gas emissions. This, the report states, can be achieved through an increase in adaptation and mitigation investments, policy instruments, and accelerated technological innovation and behaviour changes. In short, it calls for collective efforts.

In light of this report, there have been demands that a decision be taken at the upcoming Conference of Parties (COP24) to the UN Framework Convention on Climate Change (UNFCCC) at Katowice, to enhance the level of ambition committed under the Nationally Determined Contributions (NDCs) by countries.

Without sufficient climate finance, even the proposed NDCs would not fructify, leave alone any enhanced level of ambition. Preliminary estimates made by simply aggregating the finance needs in existing NDCs, with a conditional component under the Paris Agreement, amount to around $4.4 trillion.

One must remember that the UNFCCC mandates Annex-II (industrialised) countries to take mitigation actions as well as provide financial resources, including for the transfer of technology, needed by the developing countries to take climate actions.

Following this, at Copenhagen in 2009, developed countries committed towards a goal of $100 billion annually by 2020. In 2015, the Paris Agreement of UNFCCC emphasised the role of climate finance in strengthening the global response to climate change. Since then, developed countries have made various claims about climate finance flows. Some of the myths surrounding climate finance need to be demolished.

Myth 1: Climate finance is just another kind of finance meant for renewables, and its main focus should be on mitigation and weaning countries away from fossil fuels

Unlike other kinds of finance, climate finance is not based on a lender-borrower or donor-donee relationship. It is an obligation of the developed countries as part of their historical responsibilities as major contributors even today to the stock of greenhouse gases in the atmosphere accumulated over the last 150-200 years, which is the cause of climate change. Climate finance should support both the adaptation and mitigation activities of developing countries in accordance with a country's needs and priorities.

Myth 2: A substantial quantum of climate finance is already flowing to developing countries

It is not. Climate finance discussions at the UNFCCC on "scaled-up, new and additional, predictable and adequate funding" remain imprecise and incomplete.
A Government of India discussion paper in 2015 suggested that if a parsimonious definition of climate finance were to be used, restricted to counting actual disbursements on a concessional basis through UNFCCC, new and additional flows amounted to only $2.2 billion in 2014, and not $62 billion as claimed in an OECD Report.

Oxfam's Climate Finance Shadow Report 2018 suggested that: (a) aggregate public climate finance of about $48 billion reported by developed countries for 2015-16 was "grossly exaggerated", with the value of loans being over-reported; (b) purely grant-based assistance was even lower, at some $11-13 billion; (c) the climate relevance of bilateral funding was over-reported, and climate-related funds were taking an increasing share of total official aid flows (indicating possible diversion); and (d) "mobilised" private climate finance was being over-reported and double-counted.
According to some recent estimates, about $1.4 billion and $2.4 billion were channelled through UNFCCC and multilateral climate funds in 2015 and 2016 respectively.

Myth 3: The private sector should be the major source of climate finance; the limited flow of public climate funds can be addressed through lowering barriers and incorporating climate risk in financial decision-making

The private sector is likely to invest in areas where returns are high and risks low, mainly limited to areas such as renewables, where co-benefits are clearly high.
Therefore, Article 9.3 of the Paris Agreement clearly indicates the significant role of public funds. The agreement does not put private finance on a higher pedestal. Developing countries are highly vulnerable to climate change impacts. Incorporation of climate risk in financial decision-making can have an adverse effect on financial flows to developing countries or increase their risk premium, raising the cost of these financial flows.

Myth 4: Large developing economies have adequate resources to finance their climate actions, and climate finance should go mainly to LDCs/SIDS

The common argument from various developed countries is that the "world has changed", implying that many large developing countries must be differentiated according to some notion of income. In reality, nearly 80 per cent of the world's poor live in "middle-income" countries.
Despite considerable progress in reducing poverty, India remains home to a large number of the world's poor. Further, India's NDC states that at least $2.5 trillion (at 2014-15 prices) will be required between 2015 and 2030 to address climate change. In comparison, India's GDP at current prices in 2017 was $2,602.31 billion at current prices, as per the IMF's World Economic Outlook Database. Considering India's enormous developmental obligations, domestic resources are clearly insufficient to meet the finance needs of climate action.

Myth 5: UNFCCC funds and green bonds/green finance will suffice to meet the financing needs of Nationally Determined Contributions

The Green Climate Fund (GCF) is the largest multilateral climate fund in terms of pledges, and is expected to be the major channel for climate finance. Total pledges to the GCF are a meagre $10.3 billion, as against a commitment of $100 billion a year by 2020 offered at Copenhagen in 2009 and reiterated at Paris in 2015. If even the total pledge to the largest climate fund is only one-tenth the climate finance goal per year committed by developed countries by 2020, it is unlikely that the GCF or other funding could achieve much.

Given that the estimated costs of developing-country climate actions would be much over $4 trillion, these funds would, if the current trend prevails, fall drastically short of developing countries' requirements. Further, the GCF is now facing withdrawal of some earlier promised sums and replenishment discussions in the GCF have not reached any meaningful stage.

Myth 6: All countries which are able to, should contribute climate finance to poorer countries according to the Paris Agreement

Article 9.1 of the Paris Agreement clearly states: "Developed country Parties shall provide financial resources to assist developing country Parties".

Some developed-country parties have attempted to shrug off their responsibility. Denying the developing countries their fair share of atmospheric resources goes against all tenets of equity and the well-established principle of common but differentiated responsibilities.

Negotiations held in Bangkok in September 2018 to draft the Paris Agreement Work Programme were deadlocked mainly owing to serious disagreements on climate finance. The wake-up call by the IPCC's special report must be heard clearly by the negotiators and their political masters at Katowice CoP in December 2018. For this, an appreciation of the above realities about climate finance is essential.

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