Climate Finance

Why in news?

Climate finance will be a central theme in recently held Leaders Summit on Climate.

How is the existing performance on climate finance?

- In 2009, developed countries promised developing countries $100 billion by 2020 in climate finance.
- OECD estimated that $78.9 billion of climate finance was provided in 2018.
- But India called this as **green washing of finance** as the committed aid had been diverted from other purposes to climate activities.
- The new and additional finance was only $2.2 billion which is far lower than the committed one.
- Oxfam reports that in 2017-18, only $19-22.5 billion were paid, after discounting for loan repayments, interest and administration costs.
- This stand in sharp contrast to other estimates that pegged global climate finance at more than $530 billion in 2017.
- Thus, developing countries claim they are not receiving what was promised to them and the claims of developed countries are a fraction of total global climate investment.

What can be done to address this issue?

- In dealing with climate finance four shifts are necessary- Scale, balance, risk and regulation.
- First, capital commitment should be in far greater scale than what has been negotiated.
- Developing countries need $3.5 trillion to implement climate pledges up to 2030 and according to RBI India alone needs $2.5 trillion.
- The capital requirement could be two-three times this value for deep decarbonisation of the energy sector.
- Secondly, there must be balance between public and private sources and public funds cannot sufficiently pay for a low-carbon transition.

- OECD estimates showed public climate finance at $64.3 billion against only $14.6 billion of private capital mobilised.
- The world's largest sovereign wealth funds, pension funds shy away from developing countries considering them risky destinations and there is still very limited insurance against climate shocks.
- According reinsurance giant Swiss Re, of $146 billion in damages from natural disasters in 2019, only $60 billion was insured.
- So a rebalancing of climate finance is required- more blended capital, more insurance for climate-resilient infrastructure.
- Thirdly, without de-risking instruments, capital requirements for transitions in clean energy, sustainable mobility would be impossible to meet.
- Developing countries need three categories of blended finance:

1. De-risking utility-scale renewables in emerging markets by targeting non-project risks (exchange rate fluctuations, policy);
2. Reduce the finance cost for distributed energy solutions for small businesses to clean their energy mix ;
3. Risk capital for R&D investment in disruptive technologies is required;

- Fourthly, regulation in developing countries must create an ecosystem for green finance.
- RBI has only taken tentative steps, giving priority sector lending status to small renewables in 2015 and a call for deep green bond markets.
- SEBI has issued green bond guidelines in 2017 and ministry of finance's Climate Change Finance Unit has mostly focused on representations in international forums.

What more can be done?

- First, regulation must report on climate risk exposures and planned infrastructure must prioritise resilient projects and write down stranded assets.
- Secondly, a green taxonomy would help in identifying genuine investments from green washed investments.
- Green tagging increases visibility of assets and their climate impacts for potential investors.
- Thirdly, tax incentives could encourage green bond issuances.
- Fourthly, reducing information asymmetries (investment opportunities, risks, market developments) can create larger portfolios of investment for emerging markets.
- Fifthly, public funds should create pipelines of securitised, low-risk green projects so that developed countries could reduce cost of capital in developing and emerging markets.

- Finally, there must be greater coordination in regulatory forums-the Basel Committee on Banking Supervision, Network for Greening the Financial System-to set standards & for capacity building.
- Also developing countries must hold rich countries accountable for not honouring climate finance commitments.

Source: Financial Express