AGENDA 5: CLIMATE FINANCE

NO SHOW

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Paris Agreement says rich nations must transfer $100 billion annually through 2025 to poor countries

Only Germany, Norway and Sweden are paying their fair share of the $100 billion a year

IT IS CLEAR that the world cannot combat climate crisis without the transfer of funds from developed countries. These are countries whose stock of emissions in the atmosphere has already forced temperatures to rise also in developing countries. The UN Framework Convention on Climate Change (UNFCCC) when established in 1992 had recognised finance and technology transfer as two critical pillars for transformation—the idea is if funds are provided, developing and emerging economies whose emission footprint is still small can grow, but differently. Then, of course, there is the need for funds for adaptation and to pay for loss and damage in these countries. Finance is thus a key element of the climate change conundrum.

Over the years, much has been said about the need to secure this fund transfer. Several institutions and funds have also been created. But the flow of real money is still illusionary and inadequate.

In 1994, Washington-based Global Environment Facility (GEF) was given the charge to manage financial transfers under UNFCCC. In 2001, the Adaptation Fund was set up under the Kyoto Protocol to finance concrete adaptation projects and programmes in developing countries. At the 2010 UN climate change conference (COP16), the Green Climate Fund (GCF) was established. It was made a designated entity of the financial mechanism in 2011 with the setting up of two funds under it: Special Climate Change Fund (SCCF) and the Least Developed Countries Fund (LDCF). At COP16, parties to the convention decided to set up the Standing Committee on Finance (SCF) to help them make informed decisions on funding. So, there is no dearth of mechanisms to fund adaptation projects. Rather, availability of funds is the problem.

At COP15 in Copenhagen in 2009, developed countries committed to a goal of jointly mobilising US $100 billion per year by 2020 to address the needs of developing countries. Article 9 of the Paris Agreement also stipulates, "Developed country Parties shall provide financial resources to assist developing country Parties with respect to both mitigation and adaptation in continuation of their existing obligations under the Convention." The Paris Agreement reiterated the goal set by the Copenhagen Accord that $100 billion must be transferred annually through 2025 by developed nations, after which it would be revised upwards from a floor of $100 billion.

But several details were not clarified, such as the financial instruments that could be used, and the types of projects that could be counted as eligible for climate finance. As a result, a number of anomalies crept in. Funds that were loans were counted as climate finance; even commercial agreements were bundled into finance. So, there

> **The fact that two-thirds of climate finance comes in the form of loans also creates a 'climate debt trap' which is worsening the financial harm caused by COVID-19**

is no real accounting or verification of what has actually been transferred and no clarity on whether the fund is related to climate change or commercial activities.

DOWN THE DRAIN

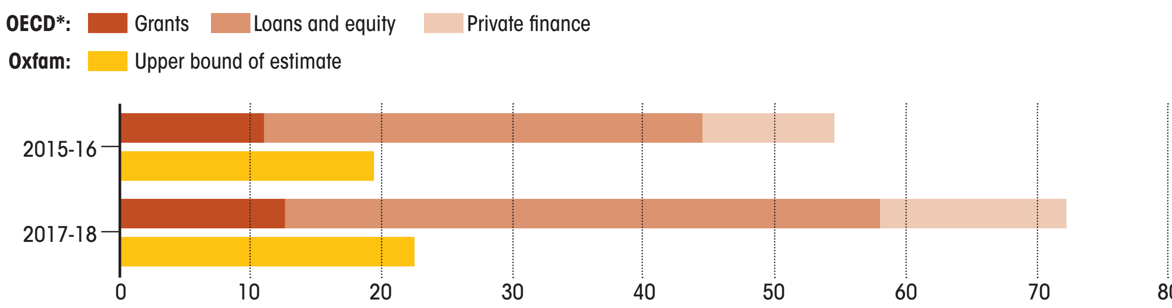
India's finance minister Nirmala Sitharaman called this out recently, when she told the media during her visit to Washington DC that there was a complete lack of clarity on what measures would be used to account for climate finance and if it is part of the $100 billion commitment.

It is for this reason that there are different estimates of the volume of climate finance that has been generated and transferred—all adding to the trust deficit between countries. If the estimate from the OECD countries (Organisation for Economic Co-operation and Development), which represents the club of rich countries, is considered, they have contributed $80 billion in climate finance to developing countries in 2019, up from $78 billion in 2018. This is close to the goal. But according to charity organisation Oxfam, public climate financing in 2017-18 was $19- $22.5 billion, which was around one-third of the OECD's estimate, as revealed in a detailed analysis published in science magazine, *Nature* (see 'Inflated figures').

Oxfam published these estimates in its Climate Finance Shadow Report 2020. It also found that around $47 billion of the total climate financing of $59.5 billion pledged in 2017-2018 was forwarded as loans. In total, developed countries gave only $12.5 billion in the form of grants, $22 billion in loans with better-than-market rates and around $24 billion in loans with standard market rates. Providing climate financing in the form of loans and other non-grant instruments "risked contributing to the unsustainable debt burdens of many low-income countries", the document said. The fact that two-thirds of climate finance comes in the form of loans also creates a "climate debt trap" which is worsening the financial harm caused by COVID-19, as an unnamed COP negotiator mentioned in an article for *The Guardian*.

INFLATED FIGURES

Charities claim that climate aid is worth much less than what it seems, in part because a lot of it comes as loans, not grants



* Organisation for Economic Co-operation and Development

Source: Nature

It is also important to note that the NDCs of many countries are conditional—that is they will be made operational based on the finances that are made available as promised

Citing Oxfam researchers, *Nature* reported in its investigation, that "Japan, for instance, treats the full value of some aid projects as 'climate relevant' even when they don't exclusively target climate action." It also found that OECD included some road construction projects as climate aid.

Oxfam also found that only a fifth (20.5 per cent) of climate financing went to Least Developed Countries (LDCS) and just three per cent to Small Island Developing States (SIDS).

The Paris Agreement also requires that funding for mitigation and adaptation be balanced. But this is not the case. A bulk of climate finance flows to mitigation, Oxfam found. Only a quarter of funding was spent in helping countries adapt to the impacts of climate crises, while about 66 per cent of it was spent helping countries cut emissions or climate mitigation. The report did note that the amount of funding for climate adaptation had increased. It had risen to $15 billion per year in 2017-2018 from $9 billion per year in 2015-2016.

UK-based think tank Overseas Development Institute (ODI) has found that of the developed nations, only Germany, Norway and Sweden are paying their fair share of the $100 billion a year using public climate finance. Most other developed countries have no adequate plan in the pipeline to ensure that they would be able to fulfil their commitments. A report titled, Hollow Promises, by CARE, a development organisation, analysed 24 countries, of which only three—Luxembourg, New Zealand and the UK—have put forward a plan to increase their climate finance across multiple years.

The biggest shortfall comes from the US, which has provided less funding than France, Germany, Japan or the UK, even though its economy is larger than all of them combined, says ODI. The US transferred $1 billion during Barack Obama's second stint as president, but no funds were contributed during Donald Trump's presidency. In September 2021, at the UN General Assembly, US President Joe Biden announced that his government would double its climate finance contribution to $11.4 billion a year by 2024—double of the April 2021 pledge he had made of $5.7 billion. According to "Fair Shares Nationally Determined Contribution", a document endorsed by several prominent development groups including ActionAid, the US Climate Action Network, Friends of the Earth US and 350.org, the US should contribute $800 billion between 2021-2030.

ELEPHANT IN THE ROOM

Clearly, the question of finance, remains the biggest issue and hurdle in climate change talks. And this, when the need is massive—both to pay for the energy transformation in the still-not-polluting world and also to pay for adaptation costs as extreme events continue to rise and cripple the poor economies.

The climate convention's Standing Committee on Finance in October 2021 has said that developing countries need an upwards of $5.8 trillion by 2030, to finance less than half of the climate actions listed in their Nationally Determined Contributions (NDCS). It is also important to note that the NDCS of many countries are conditional—that is they will be made operational based on the finances that are made available as promised. UNEP estimates that annual adaptation costs in developing countries will reach $140 to 300 billion per year by 2030, which is perhaps an underestimate given the frequency and intensity of extreme weather-related disasters that are hitting these countries.

This then is the biggest issue on the table at COP26, fair and square.