# OECD REPORT ON CLIMATE FINANCE - GS III MAINS

**Q.** Discuss the recent issues webbing around the debate of climate finance. Also, throw a light on national and international mechanisms to contribute to climate finance. (15 marks, 250 words)

**News:** *What the OECD report says of climate finance ahead of COP 28*

## What's in the news?

- A new report, published by the Organization for Economic Cooperation and Development (OECD), showed that economically developed countries fell short of their promise to jointly mobilize $100 billion a year, towards the climate mitigation and adaptation needs of developing countries, in 2021 – one year past the 2020 deadline.

## Key details from the report:

- **Total Climate Finance:**
    - In 2021, total climate finance provided and mobilized by developed countries for developing countries amounted to USD 89.6 billion, showing a significant 7.6% increase over the previous year.
    - Public Climate Finance (bilateral and multilateral) almost doubled over the 2013-21 period, from USD 38 billion to USD 73.1 billion, accounting for the vast majority of the total USD 89.6 billion in 2021.
    - Mobilized private climate finance, for which comparable data are only available from 2016, amounted to USD 14.4 billion in 2021, or 16% of the total.
- **Drop in Adaptation Finance:**
    - Adaptation finance dropped by USD 4 billion (-14%) in 2021, resulting in a decrease in its share of total climate finance from 34% to 27%.
    - The decrease in finance for adaptation is raising concerns about the capacity of developing nations to address both mitigation and adaptation needs.
- **Loan Dominance in Climate Financing:**
    - USD 73.1 billion of Finance was mobilized in 2021 by the public sector via bilateral and multilateral channels and USD 49.6 billion was provided as loans.
    - This reliance on loans, rather than grants, can exacerbate debt stress in poorer countries, impacting their ability to effectively address climate challenges.

## What is Climate Finance?

- Climate finance refers to large-scale investments required for actions aiming to mitigate or adapt to the consequences of climate change.

## Climate finance mechanisms:

- **Special Climate Change Fund (SCCF):** It was established under the Convention in 2001 to finance projects relating to: adaptation; technology transfer and capacity building; energy, transport, industry, agriculture, forestry and waste management and economic diversification.
- **Least Developed Countries Fund (LDCF):** LDCF was established to support a work programme to assist Least Developed Country Parties carry out the preparation and implementation of national adaptation programmes of action (NAPAs).
- **Adaptation Fund:** The Adaptation Fund was established in 2001 to provide funding for practical adaptation initiatives in developing nations that are signatories to the Kyoto Protocol and are particularly susceptible to the negative effects of climate change.
- **Green Climate Fund:** At COP 16, in 2010, Parties established the GCF and in 2011 also designated it as an operating entity of the financial mechanism. The financial mechanism is accountable to the COP, which decides on its policies, programme priorities and eligibility criteria for funding.

## Climate finance mechanisms in India:

- **NAFCC**: The National Adaptation Fund for Climate Change (NAFCC) is a Central Sector Scheme which was set up in the year 2015-16. The overall aim of NAFCC is to support concrete adaptation activities which mitigate the adverse effects of climate change.
- **NCEF**: The National Clean Energy Fund (NCEF) was created to invest in entrepreneurial ventures and research in the field of clean energy technologies.
- **Compensatory Afforestation Fund:** The CAMPA funds are utilized for compensating the loss of forest land and ecosystem services by raising of compensatory afforestation, improving quality of forests through assisted natural regeneration, enrichment of biodiversity, improvement of wildlife habitat, control of forest fire, forest protection and soil and water conservation measures.

## Issues in Climate Finance:

- **Non fulfillment of Commitments by developed nations:** Rich countries did not meet the annual $100 billion commitment they made at the 2009 Copenhagen Summit to support developing countries in addressing the impact of climate change
- **Non-concessional loans**: A large share of climate finance continues to be predominantly delivered as loans, a large share of which has been non-concessional. This has added to debt pressures across regions and income groups.
- **Skewed money allocation**: As per a report from the Centre from science and environment, the money that is flowing towards climate projects is heavily concentrated in North America, Western EU and East Asia (predominantly China).
- **Gap between funding and requirements:** Over the past 30 years, numerous funds have been established with numerous commitments. For example, the Special Climate

Change Fund, Adaptation Fund, and Green Climate Fund. But there is still and growing distance between expectations and commitment.

## WAY FORWARD:

- **Fulfilling the promise:** The goal under GCF to raise US$100 billion annually by 2020 to fund climate action in low- and middle-income countries is long overdue. It is imperative to act on the long standing promise.
- **Utilization of G20 platform:** With Brazil and South Africa to assume the G20 presidency after India, the global south is rising at the world stage, and G20 will be a critical platform to mobilize finances, technical expertise and human resource for the loss and damage fund.
- **Framework for assessing loss and damage**: India must prioritize creating a framework for assessing loss and damage as a part of its national and sub-national action plans on climate change and disaster risk reduction.
- **Aligning schemes with climate change:** Social protection schemes like MGNREGA that are creating climate-resilient infrastructure at the grassroots, and weather index-based crop insurance to protect farmers demonstrate how minimizing loss and damage can become a part of public welfare programmes.
- **Scaling up grant based financing**: There is equally an urgent need for more grant-based financing for climate action, and less momentum toward loaning the money they have all promised to give.
- **Climate Responsive development Banks:** It is time to make climate change a key parameter of multilateral development banks and enhance their investment in low carbon projects.
- **Startup funding:** Governments may consider catalytic or start-up funding and capacity building. Catalytic funding should be utilized for 'repurposing' key economic activities into green activities.