

On climate finance to developing nations | Explained

Why are developing countries more vulnerable to climate change? How does the United Nations Framework Convention on Climate Change define climate finance? Why have the figures mentioned in the OECD report been called into question? Does India need climate financing?

Published – October 21, 2024 08:30 am IST

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Sun rises over the polluted waters of river Yamuna laden with foam, in New Delhi on October 17. | Photo Credit: AFP

The story so far: The 29th Conference of the Parties (COP29) of the UNFCCC to be held in Baku, Azerbaijan, from November 11 to 22 is expected to be a “finance COP” as key climate finance issues feature at the top of its agenda.

Are developing countries more at risk?

Economically developing countries are among the most vulnerable to climate change’s effects. This is because of geographical factors and, because their economies rely more on sectors like agriculture, which are particularly sensitive to climate change. With limited financial and specialised human resources, these countries also have more limited capacities to adapt to a changing climate and/or recover from the resulting damage.

Despite being among the most vulnerable, developing countries have contributed relatively little to the cumulative emissions that cause climate change. According to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change, developed

countries account for 57% of cumulative global emissions since 1850 despite hosting smaller populations than the developing world. Developing countries also face competing developmental needs, vexing their ability to take climate action by themselves. The 2009 Copenhagen Accord had developed countries commit to providing \$100 billion a year in climate finance to developing countries by 2020, later also made applicable through 2025. A new mobilisation target for the post-2025 period is on the agenda at COP29.

What is climate finance?

The United Nations Framework Convention on Climate Change (UNFCCC) defines climate finance as “local, national, or transnational financing — drawn from public, private, and alternative sources — that seeks to support mitigation and adaptation actions addressing climate change.” This specifies two aspects of climate finance: sources (public or private, and flowing either domestically or across borders) and end-uses (climate mitigation or adaptation). The Organisation for Economic Co-operation and Development (OECD) publishes reports on climate finance flows from developed to developing countries. They cover flows from four sources, including international public finance and the private finance mobilised by it. International public climate finance is composed of commercial and concessional loans, grants, equity and other instruments. Loans typically constitute the largest share (69.4% in 2022), followed by grants (28%). However, developing countries and observers such as Oxfam have noted several shortcomings with the OECD’s reports. They have argued they should represent actual disbursements and not simply commitments to provide climate finance; that a flow should be new and additional and not simply a reclassification of existing aid; and that only grants, or grant-equivalents of concessional finance, should be counted, not finance provided on a commercial basis.

Who needs climate finance?

Developing countries require external financing for climate action. According to the International Energy Agency (IEA), 675 million people in the developing world didn’t have access to electric power in 2021. Developing countries need to universalise access and increase electricity consumption.

Developing countries also have smaller domestic financial systems relative to their GDPs and face higher costs of capital. For instance, the cost of capital for solar photovoltaic and storage technologies is about twice as high in developing economies than in developed ones, according to the IEA. Therefore, if developing countries are to balance development and climate action, external finance should be made available.

How much does India need?

India has both short-term and long-term climate targets. By 2030, India aims to install 500 GW of generating capacity from non-fossil-fuel sources; five million metric tonnes per annum of green hydrogen (GH₂) production capacity; and differentiated levels of penetration for various Electric Vehicle (EV) categories. The authors have estimated (as part of a co-authored report) that achieving 450 GW of renewable energy by 2030 will require an additional ₹16.8 lakh crore investment. Per the National Green Hydrogen Mission, India’s GH₂ target will need ₹8 lakh crore. Consumers will also need to spend around ₹16 lakh crore to purchase EVs to achieve the aforementioned vision. A long-term perspective reveals a greater requirement: ₹850 lakh crore in investments between 2020 and 2070 to achieve net-zero emissions.

What should the NCQG quantum be?

Determining a new annual climate finance mobilisation target — called the New Collective Quantified Goal (NCQG) — is a top priority. The NCQG should include flows that are (i) actual disbursements, not just commitments; (ii) new and additional (iii) public capital in the form of direct grants; and (iv) private capital that is mobilised by public capital. However, organically flowing private finance to developing countries should not be counted. An independent high-level expert group constituted by the presidencies of COP26 and COP27 has already determined that developing countries (excluding China) will require around \$1 trillion in external finance by 2030.

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