DECEMBER 2024 EDITION

ANALYSIS REPORT

CLIMATE FINANCE

OVERVIEW

Climate financing, as defined by **the United Nations Framework Convention on Climate Change (UNFCCC) refers to the financial resources allocated to address climate change through mitigation and adaptation strategies.**

United Nations
Framework Convention on Climate Change

Source: https://www.unwater.org/about-un-water/members-and-partners/united-nations-framework-convention-climate-change-unfccc

As the urgency of combatting climate change grows, climate finance has become increasingly important. It is necessary for developing countries to receive significant financial support for transition to sustainable energy systems and cope with climate-related challenges along with their socio-economic development.

KEY STATISTICS OF GLOBAL CLIMATE FINANCING

$300 billion	• The target for climate finance by 2035 to assist developing nations.
$500 billion	• The amount experts say is needed annually for climate action in developing countries
$100 billion	• The original climate finance goal set in 2009, which remains unset.
$70 billion	• Blended finance investments in 2023 for climate projects.
15%	• Share of global climate finance directed to adaptation projects.

The UNFCCC stresses that financial assistance from wealthier nations is crucial for supporting those with fewer resources and greater vulnerability, especially in regions most affected by climate disasters. **India, as a leading developing country, advocates for urgent action by developed countries to fulfill their financial commitments, particularly under Article 9 of the Paris Agreement, 2015**. It has highlighted that financial support is essential for achieving sustainable development while addressing the climate crisis.

KEY TAKEAWAYS

Climate finance supports mitigation and adaptation through various funding sources.

Developing countries need significant funds for sustainable energy and climate adaptation.

The gap between funding needs and contributions highlight the need for balance in climate finance.

Recent discussions, **held at COP29 in Baku, Azerbaijan reveal a gap between the financial needs of developing countries and the US$300 billion annual financial commitment hailed by developed nations to save humanity.** This highlights the need for a balanced, effective approach to climate finance that addresses moral, environmental, and economic concerns.

WHAT IS CLIMATE FINANCE?

UN Climate Finance refers to mobilizing financial resources for mitigation (reducing emissions) and adaptation (adjusting to climate impacts) in developing nations, which are often disproportionately affected by climate change. It can be described as the funds allocated to support economies to reduce the effects of climate change.

Source: https://www.un.org/en/climatechange/raising-ambition/climate-finance

The UNFCCC defines climate finance as financing from these sources to support actions that address climate change and promote sustainable development for present and future generations. It is vital for achieving the goals set in international climate agreements, such as the historically important Paris Agreement under which the developed nations have pledged $100 billion in annual financial support.

Source: https://www.weforum.org/stories/2023/11/paris-agreement-article-21c-climate-finance/

Through this, the Paris Agreement has fostered equity in addressing global climate challenges. Developing nations require this financial assistance to implement climate solutions. Climate Finance, aligned with CBDR (Common But Differentiated Responsibilities), ensures that developed countries provide financial resources to assist developing nations in mitigation and adaptation. The UNFCCC emphasizes the importance of financial aid to nations that are most vulnerable to climate-related disasters and cannot address these challenges independently.

OBJECTIVES OF CLIMATE FINANCE

- Capacity Building
- Adaptation
- Mitigation
- Technology Transfer

The need for substantial climate finance is underscored by the significant costs associated with transitioning to a low-carbon economy and adapting to climate change. It is thus delivered through various mechanisms, including grants, concessional loans, equity investments, and guarantees. Estimates suggest that developing countries require approximately $2.4 trillion annually by 2030 for climate-related investments. The UN has devised multiple financial mechanisms and initiatives such as the Adaptation Fund (AF), the Green Climate Fund (GCF), etc to cater to the sustainable developmental needs of developing economies.

KEY MECHANISM AND INITIATIVES UNDER UN CLIMATE FINANCE

- Green Climate Fund (GCF)
- Adaptation Fund (AF)
- Green Environment Facility (GEF)
- Loss and Damage Funds

Multilateral development banks, such as the World Bank, also play a pivotal role in channelling these funds to projects worldwide. Additionally, climate finance can be mobilized through carbon markets, where financial resources are generated by trading carbon credits. Thus, climate finance is a critical enabler of global climate action, providing the necessary resources to implement strategies that mitigate climate change and adapt to its effects.

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HISTORICAL CONTEXT

The concept of climate finance emerged alongside recognizing climate change as a global issue. In 1992, the establishment of the UNFCCC marked the first international treaty addressing the issue, emphasizing the need for financial assistance to help developing countries mitigate and adapt to climate change scenarios. India, with its vulnerability to climate change, has been a key advocate for financial mechanisms supporting climate resilience in developing countries since then.

HISTORICAL SYNOPSIS

The UNFCCC (1992) and Kyoto Protocol (1997) introduced early climate finance frameworks like Clean Development Mechanism (CDM).

Developed nations pledged $100 billion annually under Copenhagen Accord (2009) and formalized it under Paris Agreement (2015).

Recent discussions at COP28 and COP29 stress urgent reforms to support vulnerable nations facing climate challenges.

In 1997, the Kyoto Protocol introduced the Clean Development Mechanism (CDM), allowing developed countries to invest in emission-reducing projects in developing nations to meet their emission reduction targets. India benefited greatly from the CDM, hosting numerous projects that both reduced emissions and advanced sustainable development. This mechanism laid the groundwork for early climate finance efforts by transferring financial resources and technology.

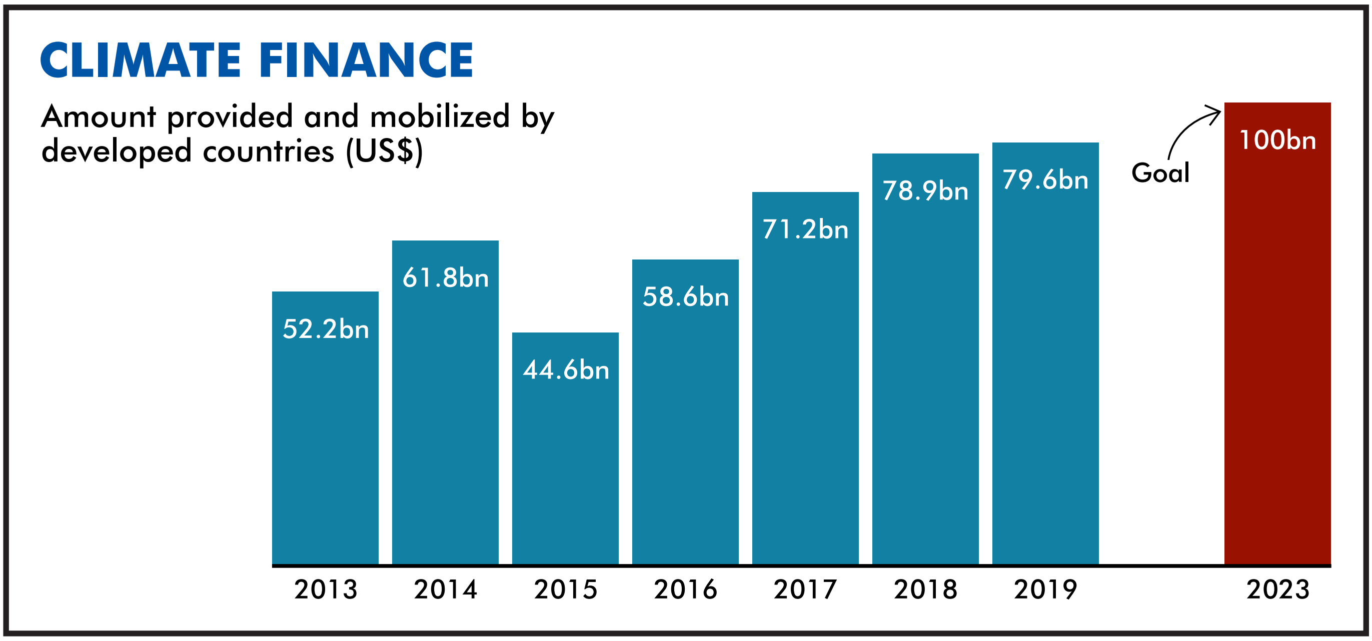
A pivotal moment came in 2009 with the Copenhagen Accord, where developed countries pledged to mobilize $100 billion annually by 2020 for climate action in developing nations. This commitment was formalized in the 2015 Paris Agreement, which established the Green Climate Fund (GCF) to direct these resources. India further played a crucial role in the COP21 negotiations, emphasizing the need for equitable climate finance, particularly in terms of adaptation and technology transfer.

The UN Climate Agreements

Kyoto Protocol & Paris Agreement

Kyoto Protocol	Paris Agreement
Was created in 1997 and ratified in 2005.Had two periods from 1997-2020.	Signed in November of 2016. New commitments are due every 5 years.
Legally binding agreement to decrease GHG	Not legally binding commitment to reduce emissions, increase accountability
Original commitment to decrease overall emissions by 5% from 1990 levels	Overall goal to limit global temperatures to 1.5 degrees celsius above pre-industrial levels
Only required developed nations to reduce emissions.	Asked all nations to reduce emissions
Targets are set but no determined time frame	New set of targets declared after 5 years (these are now due in 2020)

Source: https://www.careaboutclimate.org/blog/paris-agreement-vs-kyoto-protocol-comparison-chart

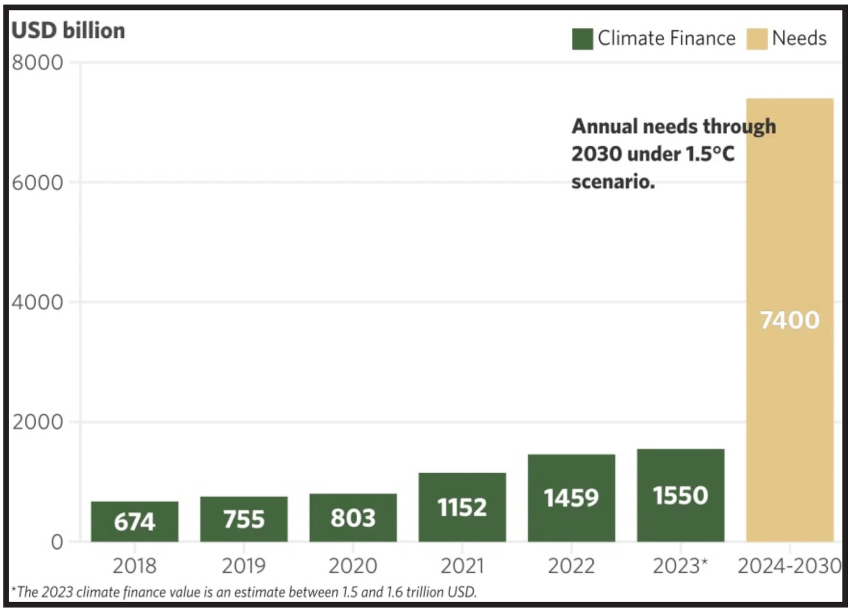


Source: https://www.bbc.com/news/science-environment-59040538

However, delivering on these financial commitments has been challenging. A 2024 report by the Climate Policy Initiative noted that while climate finance has grown, it remains inadequate to meet the needs of developing countries. Growth has been uneven, with some regions facing setbacks due to the COVID-19 pandemic and economic downturns over time.

Recently forums like COP29 have underscored the urgency of reforming the global financial system to address climate change more effectively. Climate-induced disasters, such as droughts and floods, disproportionately impact countries that contribute the least to the crisis, highlighting the need for increased and accountable funding. In conclusion, the evolution of climate finance reflects a growing global commitment, yet, significant challenges persist in mobilizing adequate resources to support the climate needs of developing nations.

YEARWISE GLOBAL CLIMATE FINANCE SCENARIO

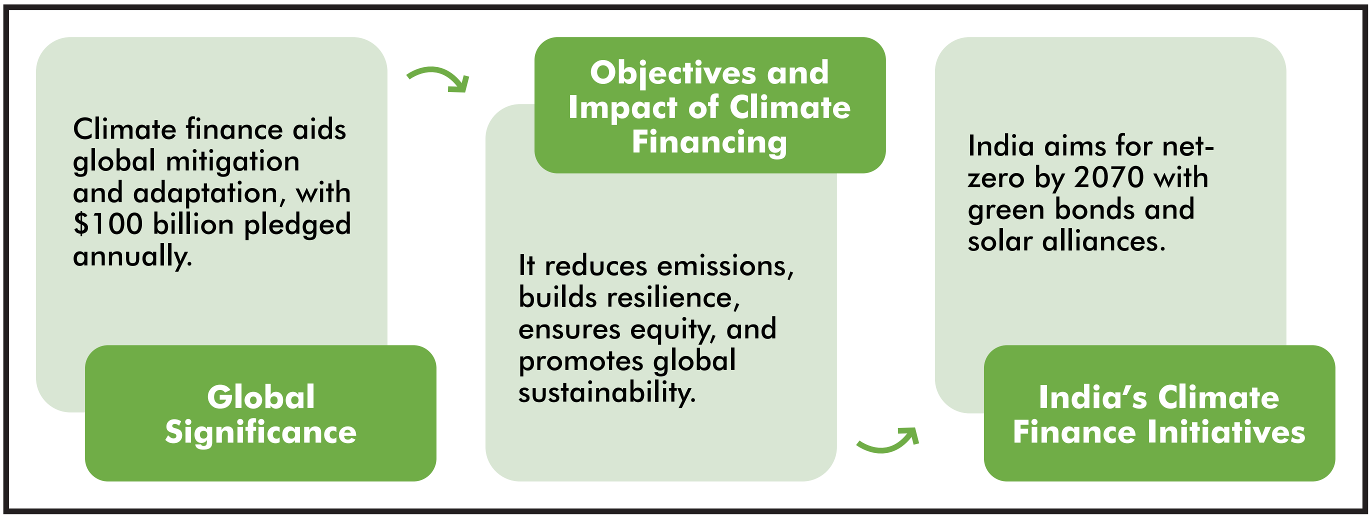


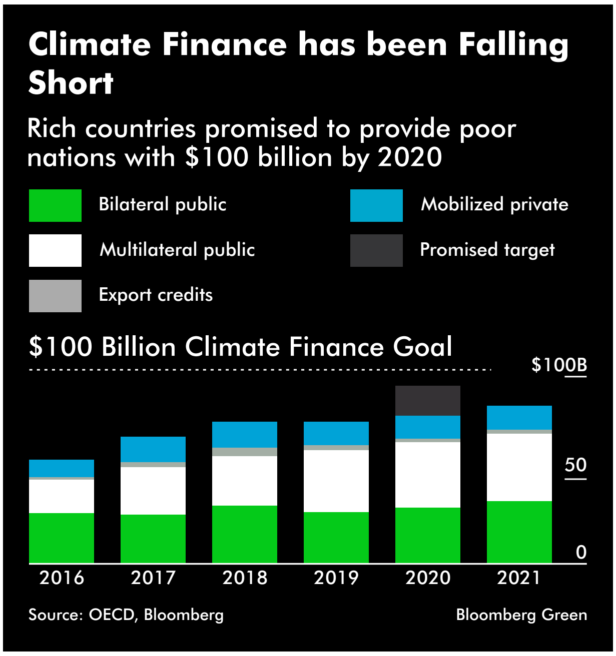
Source: https://www.climatepolicyinitiative.org/publication/global-landscape-of-climate-finance-2024/

SIGNIFICANCE & OBJECTIVES

Climate financing plays a pivotal role in addressing the global challenge of climate change by mobilizing resources for mitigation, adaptation, and sustainable development. The Paris Agreement highlights the responsibility of wealthy nations to contribute $100 billion each year to assist less developed countries in adapting to climate change and transitioning to cleaner energy sources.

QUICK SNAPSHOT





Source: https://www.business-standard.com/world-news/rich-nations-likely-met-100-billion-climate-finance-goal-in-2022-123111701254_1.html

Ensuring transparency and accountability in fund utilization builds trust among nations and maximizes the impact of financial commitments. By addressing global and national priorities, climate finance is instrumental in fostering a sustainable and equitable future while strengthening international collaboration against climate change.

This commitment is vital for bridging the economic gap between the Global North and South, enabling equitable participation in global climate action. Institutions like the International Monetary Fund (IMF) and the World Bank have highlighted the need to align financial systems with sustainability objectives, channelling resources into renewable energy, resilient infrastructure, and clean technologies.

The objectives of climate financing align with fostering global equity and sustainability aiming to lower GHG emissions, finance renewable energy projects, and increase energy efficiency. For India, climate finance is crucial in achieving its ambitious climate targets while maintaining economic growth. India has committed to achieving net-zero emissions by 2070 and increasing non-fossil fuel capacity to 500 GW by 2030.

CURRENT DEVELOPMENTS
& CHALLENGES

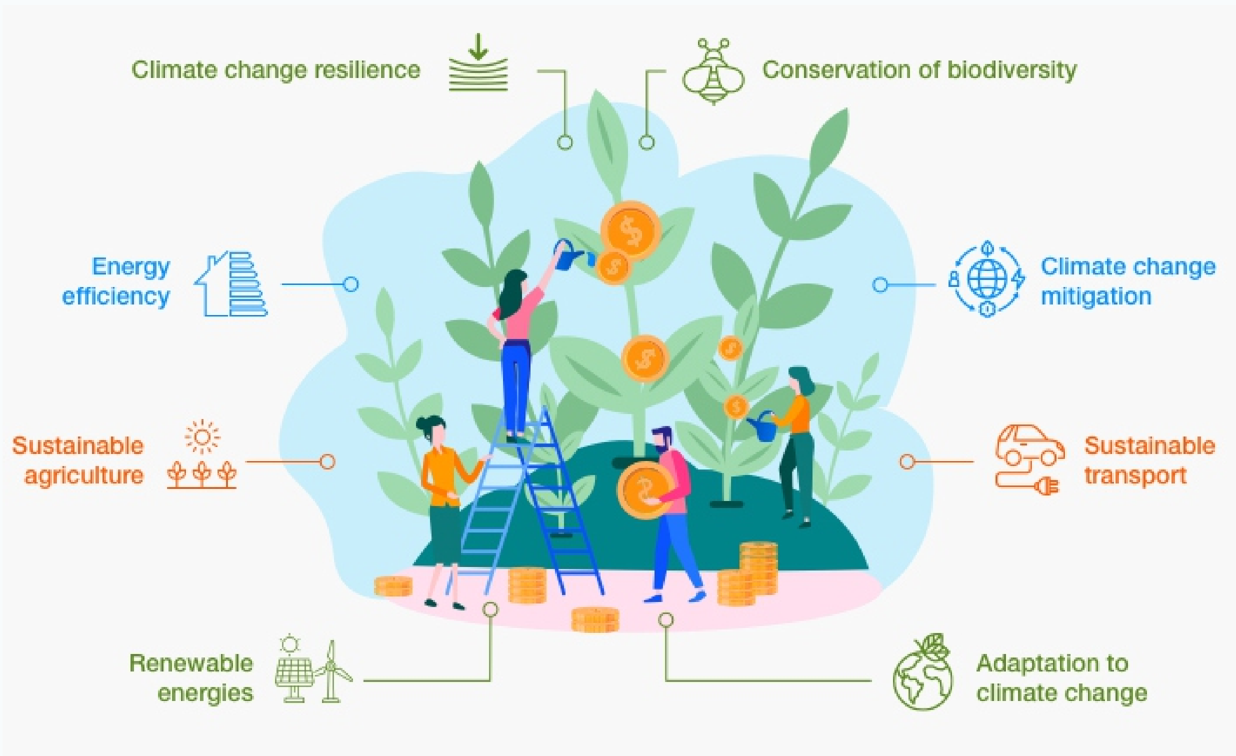
Climate finance has seen significant developments in recent years, marked by both progress and persistent challenges. At COP 29 in Baku, a new global climate finance target was established, pledging US$300 billion annually by 2035 to assist developing nations in their climate mitigation and adaptation efforts. However, this commitment falls short of the $1.3 trillion per year that experts deem necessary to effectively address climate challenges.

Source: https://news.un.org/en/story/2024/11/1157416

IBERDROLA

What activities does climate finance fund?

According to the latest biennial report from the United Nations framework Convention on Climate Change (UNFCCC), global climate finance reached **$681 billion** and the categories that received the most investment include:



Source: https://ilearncana.com/details/Climate-Finance/3485

A significant portion of climate finance is directed towards mitigation projects, such as renewable energy development, with comparatively less funding allocated for adaptation measures. This imbalance leaves many regions inadequately prepared for the immediate effects of climate change.

HOW TO ACCESS CIF FUNDING

CALL

Once **CIF Secretariat** issues a call for **Expressions of Interest** for a **CIF program**, interested **countries** and their **MDB** partners must check the eligibility criteria.

EVALUATION AND SELECTION

An **Independent Expert Group** evaluates all submissions against pre-defined criteria and make a recommendation on country selection. The **CIF governing body** makes the final selection.

ENDORSEMENT

The **CIF governing body** reviews the **investment plan** against the criteria of the **CIF investment program** and endorses it where appropriate.

CLOSE-OUT AND LEARNING

Once the **projects** have run their course, the **program** is closed. The lessons learned and evaluation of results inform future CIF decisions.

EXPRESSIONS OF INTEREST

Eligible **countries** partner with **MDBs** to prepare and submit their **Expressions of Interest** to participate in a specific **CIF program.**

INVESTMENT PLAN

Selected **countries** with their **MDB** partners prepare an **investment plan** providing initial examples of **projects.**

IMPLEMENTATION, MONITORING AND EVALUATION

The **country** and the **MDB** partners implement the **projects. CIF** and the MDB partners monitor and assess progress in accordance with pre-defined criteria and report to the **CIF governing body** on an annual basis until completion.

Source: https://www.cif.org/cif-funding

Enhancing the efficiency and transparency of funding mechanisms is essential to ensure timely support for climate action worldwide. Private sector involvement coupled with innovative financial instruments are being explored to mobilize additional resources.

Thus, while there have been notable advancements in climate finance, significant challenges remain in meeting funding targets and ensuring equitable distribution between mitigation and adaptation. This demands simplifying access procedures and engaging relevant stakeholders.

KEY CHALLENGES HIGHLIGHTED

- Growing Financial Commitments
- Slow Disbursement Process of Green Climate Fund (GCF)
- Private Sector Involvement
- Barriers in Developing Countries
- Accountability and Transparency

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KEY HIGHLIGHTS OF COP29 AND CLIMATE FINANCE DEAL

The COP29 held in Baku, Azerbaijan has marked an important milestone in the global climate treaty. **A key outcome was the announcement of a new climate finance framework, with developed nations pledging US$300 billion annually by 2035** to assist developing countries in addressing climate change challenges.

HIGHLIGHTS FROM COP29

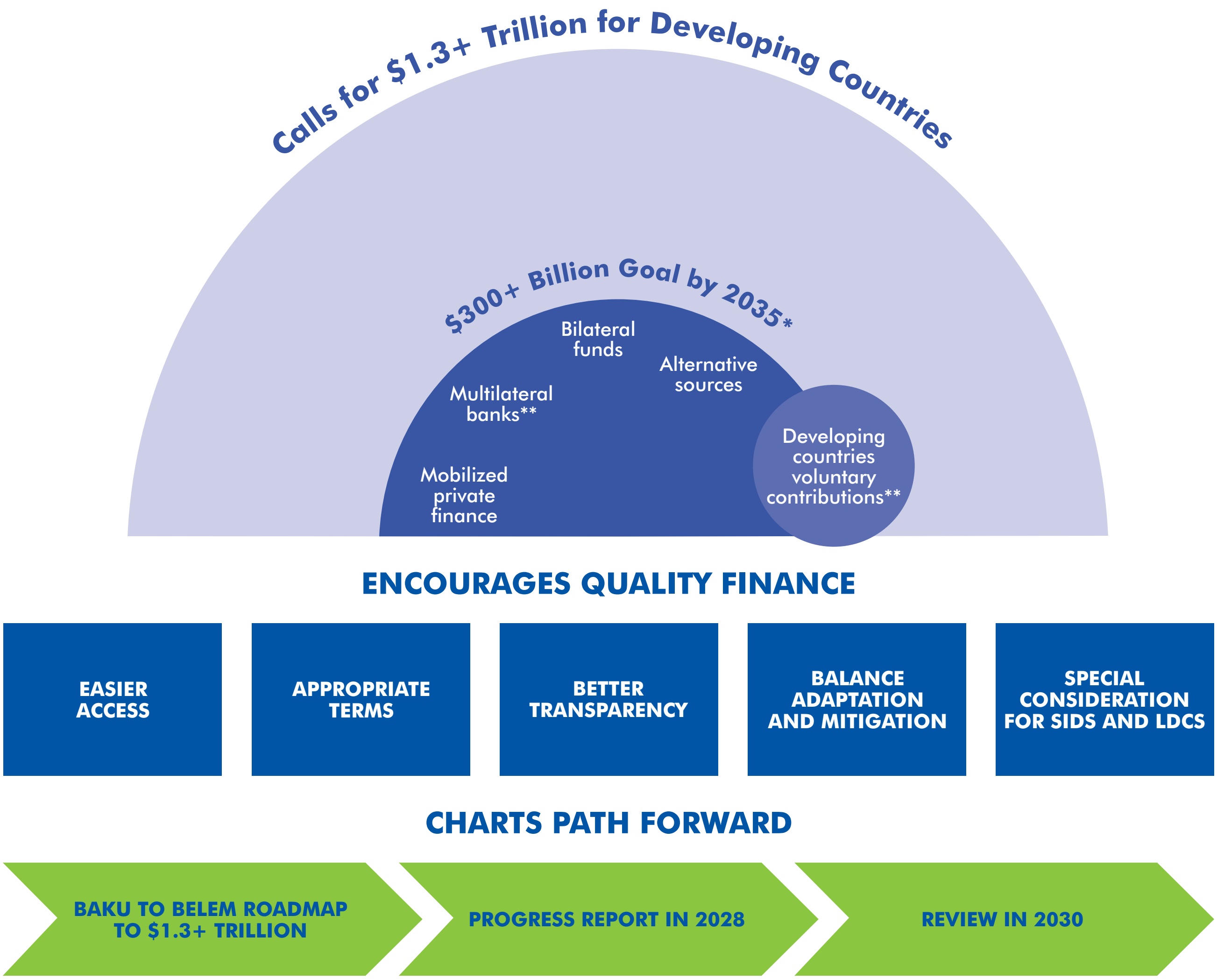
Community Engagement

Divisions on financial responsibilities highlighted equity concerns.

COP29 pledged $300 billion annually for climate finance, below the $1.3 trillion demand.

This fund aims to bolster efforts in climate adaptation and mitigation, especially for vulnerable economies grappling with the adverse impacts of global warming. Despite its significance, the deal faced criticism for falling short of the $1.3 trillion annually demanded by developing nations.

KEY ELEMENTS OF THE NEW CLIMATE FINANCE GOAL



*With developed countries taking the lead.
**The agreement recognizes the voluntary intention of Parties to count all outflows from and finance mobilized by multilateral development banks towards achievement of the goal.
***The agreement encourages developing country Parties to make contributions, including through South-Soth cooperation, on a voluntary basis.

Source: https://www.wri.org/insights/cop29-outcomes-next-steps

The Global South including India expressed dissatisfaction, terming the pledge insufficient to address the scale of climate-induced disasters and adaptation needs. The reliance on private sector contributions within the $300 billion commitment was also a contentious point, as it deviates from the principle of equitable financial responsibility.

Progress was made in other areas, including the formalization of carbon market mechanisms under Article 6 of the Paris Agreement to facilitate international carbon credit trading, potentially unlocking new sources of climate finance. The framework seeks to standardize carbon offsets, ensuring their integrity and encouraging investments in emission-reduction projects.

Source: https://cop29.az/en/media-hub/news/cop29-achieves-full-operationalisation-of-article-6-of-paris-agreement-unlocks-international-carbon-markets

However, in this conference, developing countries called for larger, grant-based contributions. Whereas, developed nations advocated for a broader donor base and enhanced private-sector participation.

Thus, COP29 delivered notable achievements along with the highlighted persistent disparities in expectations and underscored the need for deeper global cooperation to meet the ambitious targets of the Paris Agreement.

Source: https://www.nationalheraldindia.com/international/cop29-two-blocs-of-vulnerable-nations-boycott-meeting-mid-way

INDIA'S STANCE ON CLIMATE FINANCE DEAL AT COP29

At COP29, India strongly reiterated its call for a fair and equitable climate finance architecture. It emphasized that developed countries, being the largest historical contributors to greenhouse gas emissions, must deliver on their pledge to mobilize $100 billion annually, a promise that has remained unmet since 2009.

Source:https://timesofindia.indiatimes.com/home/environment/india-to-focus-on-climate-financeaccountabilityprotectionforvulnerablecommunitiesatcop29/articleshow/115149670.cms

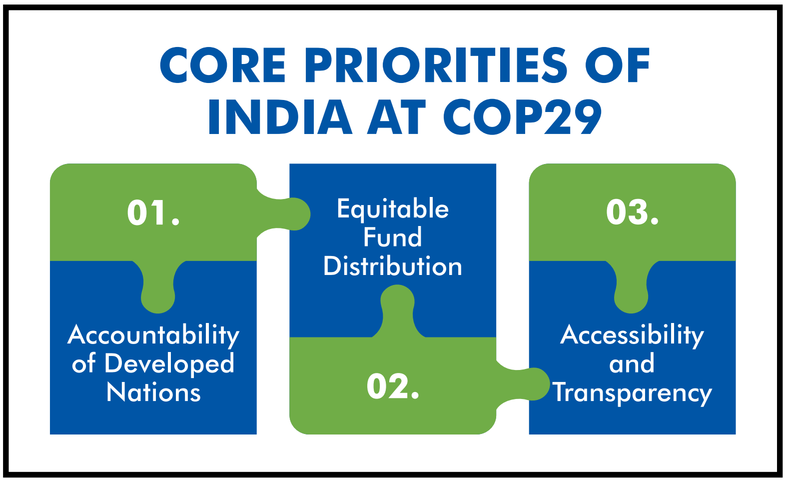
This funding is critical for helping developing nations address both mitigation and adaptation challenges in the face of escalating climate impacts. **India underscored the need for equitable distribution of climate finance, ensuring that vulnerable nations, including Small Island Developing States (SIDS) and Least-Developed Countries (LDCs), receive adequate support.**

Source: https://pib.gov.in/PressReleaseIframePage.aspx?PRID=2075707

Stressing a balanced allocation, India highlighted that developing countries often face disproportionate risks despite their minimal contribution to global emissions.

Additionally, it raised concerns over the complexity and inaccessibility of climate finance mechanisms, advocating for simplified and transparent procedures to deliver tangible results on the ground.

India's position at COP29 reflected the broader concerns of the Global South and it called the climate finance deal an "optical illusion". It also demanded more accountability, fairness, and solidarity. It emphasized that an inclusive and transparent global financial system is essential to empower developing nations in their pursuit of sustainable development and climate resilience.



Source: https://www.hindustantimes.com/india-news/india-calls-for-a-boost-in-adaptation-finance-at-cop29-101732128937050.html

GLOBAL SCENARIO AND INDIA'S CLIMATE FINANCING POLICY LANDSCAPE

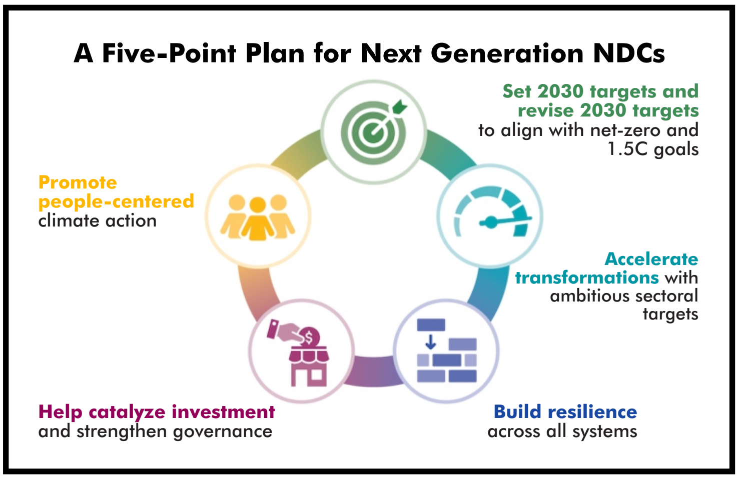
The global climate finance landscape has evolved significantly, with a heightened focus on supporting developing countries in addressing climate challenges. **At COP29, nations committed to tripling climate finance, setting a target of $300 billion annually by 2035.** This move recognizes the critical need for financial resources to mitigate climate impacts and adapt to changing environments.

KEY UPDATES FROM GLOBAL CLIMATE SCENARIO

- At COP29, nations committed to tripling climate finance to $300 billion annually by 2035.
- The World Bank Group reported a record $42.6 billion in climate finance for 2024
- In July 2024, India's Expert Committee on Climate Finance outlined a roadmap for developing climate finance at GIFT IFSC
- India emphasized the need for grant-based concessional climate finance to implement new Nationally Determined Contributions (NDCs).
- The Ministry of Environment released a toolkit to guide stakeholders in engaging with the Green Climate Fund (GCF).

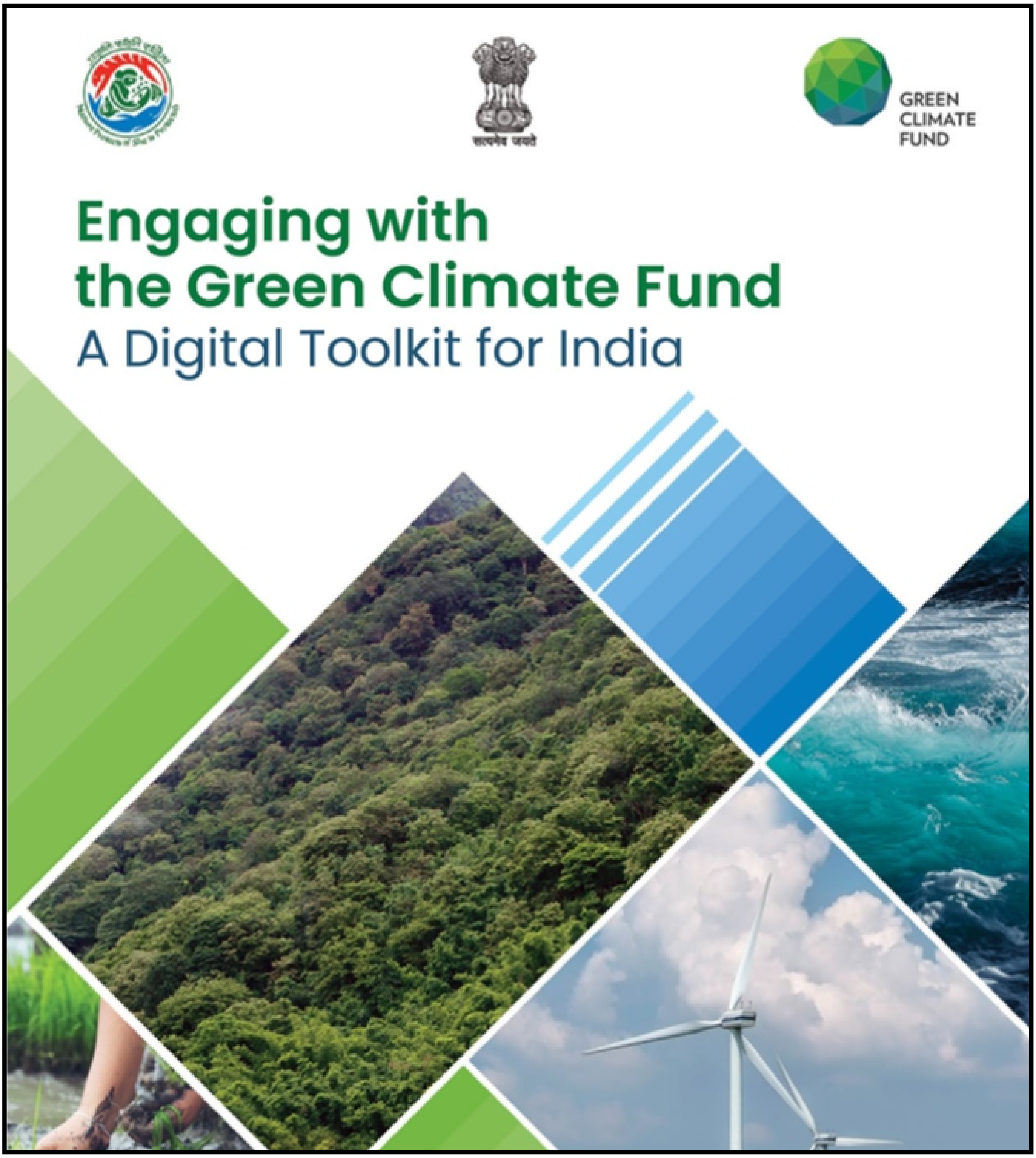
The World Bank Group report states that climate finance hit a record $42.6 billion in the year 2024, with a 10% increase from the preceding year. It demonstrates its aim of promoting clean energy solutions, building resilient communities, and fostering sustainable economies.

India, an active participant in the global climate finance dialogue, has made strides in shaping its climate finance policies. **In July 2024, the Expert Committee on Climate Finance delivered its first report on Transition Finance to the International Financial Services Centres Authority (IFSCA)**, proposing a roadmap for creating a robust climate finance ecosystem at the Gujarat International Finance Tec-City (GIFT IFSC). **At COP29, India emphasized the importance of grant-based concessional finance to support the implementation of its NDCs**.



Source: https://www.weforum.org/stories/2024/11/cop29-ndcs-and-why-they-matter/

Furthermore, **India's Ministry of Environment, Forest and Climate Change released a toolkit to guide stakeholders in engaging with the GCF**.



Source: https://moef.gov.in/uploads/pdf/GCF-Toolkit-Final-A.pdf

India's active involvement in climate finance with clear guidance on national climate change policies and investment priorities demonstrates its commitment to sustainable development and leadership in global climate action.

WAY FORWARD

Climate financing is essential for addressing climate change, particularly in developing countries. The renewed **annual commitment to climate finance has promised larger climate action**. However, many argue that $500 billion is needed to adequately support low-carbon development and climate resilience. To address this gap, blended finance has emerged as a promising solution. Additionally, efforts are being made to strengthen carbon markets, with the UN-backed body proposing to regulate international carbon credit trading, unlocking billions for developing nations.

To meet the needs of vulnerable regions, the global community must accelerate financial mobilization and ensure efficient resource allocation. Advanced tools, such as block chain and AI must be included to improve transparency, monitoring, and distribution of funds while addressing disparities. The more effective utilization of the Loss & Damage Fund should be made a priority to address irreversible climate impacts in vulnerable regions. Governments, financial institutions, and the private sector must collaborate to implement policies that facilitate the flow of climate finance. A more coordinated approach is necessary to tackle the growing climate crisis and meet the unseen challenges of the future to sustain life on the planet Earth.

EMINENT INSIGHT

"We are at a crucial juncture in our fight against Climate Change. What we decide here will enable all of us, particularly those in the Global South, to not only take ambitious mitigation action but also adapt to Climate Change."

Mr Naresh Pal Gangwar
Additional Secretary
Ministry of Environment, Forest and Climate Change (MoEFCC), GoI

RESOURCES

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