

DWINDLING CLIMATE FINANCE: A CONCERN TO ACHIEVE CLIMATE ACTION TARGETS

Abstract

We are living in a world that is already facing severe geo-political issues like wars in Ukraine, Israel & Palestine, Red Seas & Houthis; terrible climate issues like wildfires in America and Australia, volcanoes in Iceland, tsunamis in Japan, Earthquakes in Japan, Turkey and Himalayan regions from Afghanistan to Nepal; and significant economic strife in Asian and African economies including Bhutan and Pakistan; and also, recession looming large on grand economies like UK and Japan. We need to become aware that relentless ambition is creating more strife than happiness and impacting the world and all its inhabitants adversely. Urgent collective actions are required to save the globe from the damage we are causing to it through our own ambition and pursuit of material wealth. Climate action, channeled through adequate climate finance, is the only recourse to ensure that we would be able to hand over a better world than what we inherited to the future generations.

Article

Less than over two centuries ago, the world was a much beautiful place. Simple, smaller economies, mainly kingdoms & fiefdoms with localized market systems and self-sustaining economies made human existence rich and happy. Rich, not in material terms alone, but in terms of quality of life, with cleaner air to breathe, pure water to drink and healthy, wholesome food on each plate. The quest for more power, extended geographical boundaries, rapid industrialization in the west and searching for large markets in the east, led to seepage of modern agricultural techniques for increasing the raw material production, rampant industrialisation with production of too much surplus and of course, the outcome of all the 'growth' in the past 100 years, or more, is the almost irreversible



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'degeneration' of our planet, the rapid climate change we are all feeling today.

Our planet Earth is a precious place. After investing billions and trillions into most advanced scientific research we are capable of to look for more life sustaining galaxies, stars, planets and moons, we have not yet found one alternative to our home now, our beautiful mother Earth, where life can survive so beautifully, it almost feels like magic! Therefore, coming together of most nations, year after year, COP (Conference of Parties) after COP, exhibit the urgency in saving this precious planet for our own life's sake. It is definitely not any benevolent act of humans coming together for a cause superior or charitable, but in fact it is a delayed and up until now, it has been much muted attempt to ensure survival of our own species.

Einstein said, "the mouse would never construct a mouse trap", but the fun part of the human race is we have done everything in our capacity to prove ourselves humbler than the mice. In billions of years that the planet survived and with it the many life forms that existed before and now, no species has made and is continuing to make their own life so impossible, like us and exposed our own future generations to a terrible and tragically uncertain life.

The beginning of meaningful action

The most revolutionary of the commitments on climate action came through the 2015 Paris Agreement where world governments committed to limiting global temperature rise to well-below 2°C above

pre-industrial levels and pursuing efforts to limit warming to 1.5°C. In 2018, the Intergovernmental Panel on Climate Change (IPCC) warned that global warming must not exceed 1.5°C above pre-industrial temperatures to avoid the catastrophic impacts of climate change. To achieve this, greenhouse gas (“GHG”) emissions must halve by 2030 – and drop to net zero by 2050.¹ Thus, the Paris accord gave the world a new ambition called ‘Science Based Targets’ (“SBT”). Funny, however, that while we have engaged in targetless and mindless degeneration, we have scientific targets for regeneration.

The SBT initiative (“SBTi”)

- ⦿ Defines and promotes best practice in emissions reductions and net-zero targets in line with climate science.
- ⦿ Provides technical assistance and expert resources to companies who set science-based targets in line with the latest climate science.
- ⦿ Brings together a team of experts to provide companies with independent assessment and validation of targets.

The SBTi was the lead partner of the Business Ambition for 1.5°C campaign - an urgent call to action from a global coalition of UN agencies, business and industry leaders, which mobilized companies to set net-zero science-based targets in line with a 1.5°C future. In 2021, the SBTi entered a period of exponential growth and increasing corporate ambition - doubling the number of new companies setting and committing to set targets, and tripling the rate at which new targets were validated. At the end of 2022, more than 4,000 companies covering over a third of the global economy’s market capitalization, were setting targets or committing to do so via the SBTi.

Implementing ‘SBT’ through Climate Finance

Since the pre-industrialisation era to now, a lot of money has been spent to achieve high and fast growth global economy. In turn, the aftereffects of excessive industrialization, excessive land use, mining, agriculture, transport and all such activities have been becoming more and more evident in climate change, human and animal health and natural disasters. It is obvious that much investment would also be required to stall or reverse the deterioration. To facilitate the provision of climate finance, the Convention established a financial mechanism to provide financial resources to developing countries.

Climate finance refers to local, national, or

transnational financing—drawn from public, private and alternative sources of financing—that seeks to support mitigation and adaptation actions that will address climate change. The Convention, the Kyoto Protocol and the Paris Agreement call for financial assistance from Parties with more financial resources to those that are less endowed and more vulnerable. This recognizes that the contribution of countries to climate change and their capacity to prevent it and cope with its consequences vary enormously. Climate finance is needed for mitigation because large-scale investments are required to significantly reduce emissions (“Mitigation Finance”). Climate finance is equally important for adaptation (“Adaptation Finance”), as significant financial resources are needed to adapt to the adverse effects and reduce the impacts of a changing climate. In accordance with the principle of “common but differentiated responsibility and respective capabilities” set out in the Convention, developed country Parties are to provide financial resources to assist developing country Parties in implementing the objectives of the United Nations Framework Convention on Climate Change (“UNFCCC”). The Paris Agreement reaffirms the obligations of developed countries, while for the first time also encouraging voluntary contributions by other Parties. Developed country Parties should also continue to take the lead in mobilizing climate finance from a wide variety of sources, instruments and channels, noting the significant role of public funds, through a variety of actions, including supporting country-driven strategies, and taking into account the needs and priorities of developing country Parties. Such mobilization of climate finance should represent a progression beyond previous efforts.²

At the 15th Conference of Parties (COP15) of the UNFCCC in Copenhagen in 2009, developed countries committed to a collective goal of mobilising USD 100 billion per year by 2020 for climate action in developing countries, in the context of meaningful mitigation actions and transparency on implementation. The goal was formalised at COP16 in Cancun, and at COP21 in Paris, it was reiterated and extended to 2025. To state the obvious, USD 100 billion per year goal is a very small target of what will actually be required to achieve climate goals. As per UNFCC’s recent analysis of financing needs, developing countries shall require at least USD 6 trillion by 2030 to meet less than half of their existing Nationally Determined Contributions. Now, to put the whole point in perspective, as per OECD’s report published in 2022 titled “Aggregate Trends of Climate Finance Provided and Mobilised by Developed Countries in 2013-2020”, only USD 83.3

billion was provided and mobilised jointly by developed countries for climate action in developing countries in 2020. Furthermore, climate finance continues to be predominantly delivered as loans and a significant amount of such loans are non-concessional, which has led to increased debt pressures across such developing regions, especially small island nations which are already at alarming levels of risk of submergence.

Mitigation finance vis-à-vis adaptation finance

Adaptation finance is finance for actions that help communities reduce the risks they face and harm they might suffer from climate hazards like storms or droughts. It pays for things like stronger housing, more drought-tolerant crops, social safety nets, or improved decision-making around climate-related risks. In low-income countries, adaptation finance is sorely needed to help make people — and the infrastructure and ecosystems they rely on — more resilient to the impacts of climate change. Unlike mitigation finance, which always focuses on reducing GHG emissions, adaptation requires a broad array of activities tailored to particular climate risks facing a specific location. There are several studies that together give a general sense of how much adaptation finance developing countries will need. For example, the UNEP Adaptation Finance GAP Report estimates that adaptation finance needs in developing countries will reach USD 140 billion – USD 300 billion per year by 2030, and USD 280 billion to USD 500 billion per year by 2050. The International Monetary Fund (IMF) estimates that financial needs for adaptation exceed 1% of GDP per year in about 50 low-income and developing economies, rising up to 20% of GDP for small island nations exposed to tropical cyclones and rising seas. Climate Policy Initiative (CPI) estimates that less than USD 50 billion is spent around the world today on adaptation every year, many times less than what’s needed. Adaptation finance has increased in recent years relative to finance for mitigation, but still represents less than 10% of climate investments according to CPI. 4 In terms of funding to reach the USD 100 billion goal, developed countries provided USD 28.6 billion in adaptation finance annually during 2016-2020, according to OECDs report referred above, 34% of the total funding provided to date. There are several reasons why mitigation receives more finance than adaptation. Mitigation’s focus on GHG emissions not only makes it easier to define, it also makes it easier to invest in. Mitigation activities, like installation of solar panels or manufacturing of electric vehicles, bring a more immediate and certain financial return than many adaptation initiatives, which focus on building long-term resilience. Meanwhile, carbon markets, which currently

provide investment incentives for mitigation, do not exist for adaptation.

Are climate commitments enough to propel the financial commitments needed to achieve the targets?

India’s Nationally Determined Contributions (“NDC”) that are at the heart of the Paris Climate Agreement, has three main elements:

- ⦿ An emissions-intensity target of 45% below 2005 levels by 2030;
- ⦿ A target of achieving 50% cumulative electric power installed capacity from non-fossil fuel-based energy resources by 2030; and
- ⦿ Creation of a carbon sink of 2.5 to 3 GtCO_{2e} through additional forest and tree cover by 2030.

The NDCs embody efforts by each country to reduce national emissions and adapt to the impacts of climate change. While India indicated in its updated NDC that achieving the 50% non-fossil capacity target would require international support, it is already on track to achieve 60% or more non-fossil capacity by 2030 under current policies. However, as of 4 December 2023, India’s overall rating³ on achieving the NDC remained ‘Highly Insufficient’ with rating on ‘Policies & Actions’, ‘Conditional NDC target’ and ‘Unconditional NDC target’, all being Insufficient, and the Net Zero Target year of 2070 being termed ‘Poor’. This when India is a developing, high-growth country, which would need more and more investments in all its sectors, in terms of all critical infrastructure sectors, like power, roads, transport, et al. However, 90% of those assessed on the NDC targets are Insufficient or Critically Insufficient as at date in achieving the targets they set for themselves. So much for the climate commitments and the COP after COP that brings the world together for the solutions to the planet’s existential crisis, literally.

The countries that stand out on the overall rating being ‘Almost Sufficient’ are traditionally the economically weaker countries that have conserved their original habitat, ecosystem and have not fallen prey to extreme consumerism and commercialization including Bhutan, Kenya, Nigeria, Morocco, Costa Rica, Nepal, Norway and The Gambia. Of course, these countries are now witnessing economic downturns. For instance, Bhutan’s current economic and social crisis is a case in point. In Bhutan’s elections in January 2024, Bhutan’s severe economic crisis played a major role in campaigning. According to the World Bank, Bhutan grew at a rate of 1.7% over the past five years. With unemployment a chronic problem, an exodus of young people in search of higher education and jobs abroad is undermining

the country's economic potential. The education and healthcare systems are weak and there is high incidence of gender discrimination and violence against women. Obviously, not a case that proves any point for a country that prides itself on Gross National Happiness and not Gross Domestic Product.

Key reasons for dwindling climate finance

To stay on a path to the 1.5°C goal, global GHG emissions must be limited to 33 Gt CO₂e by 2030 and to 8 Gt CO₂e by 2050 – yet global emissions are projected to reach 58 Gt CO₂e by 2030 based on implemented policies assessed in 2022. Given this estimate, all the investments, in absolute terms, in the mitigation financing zone especially, is not going to serve any purpose at all, since we anyway would end up increasing emissions in a far greater proportion than we would be mitigating it.

The most important factor that is impeding achievement of climate targets and meaningful climate action is the development needs of the developing countries. Take the case of India, which has now become the 3rd largest economy in the world. Propelled by economic growth, India's electricity demand is growing by leaps and bounds. In October 2023, power demand recorded an increase of 21% over the corresponding period of the previous year, while in September 2023 and August 2023, it grew by 10% and 16%, respectively. Peak demand recorded a new high of 239 GW in September 2023. Industry experts and policymakers see this trend continuing in the future and are gearing up to meet the increasing power demand. As per the Central Electricity Authority's (CEA) forecast, the all-India peak power demand is expected to reach 256.53 GW (in September 2024) during 2024-25. At the power ministry's review meeting with stakeholders to facilitate thermal capacity addition in November 2023, it was noted that the country needs to add 80 GW of thermal power capacity by 2031-32 to meet its baseload power needs. Currently, 27 GW of capacity is under construction. As such, 55 GW-60 GW of thermal capacity needs to be added, against the planned addition of 25 GW, in order to meet the growing power demand in the country. "Power demand has increased at an unprecedented rate due to rapid growth of the economy. India needs 24×7 availability of power for its economic growth, and we are not going to compromise on this. This cannot be achieved by renewable energy sources alone. Since nuclear capacity cannot be added at a rapid pace, we have to add coal-based thermal capacity for meeting our energy needs. As demand keeps accelerating, we will keep adding this capacity," stated the power minister.⁵

Obviously, one thing is clear, that the need for development is rated far higher than the need for sustainability. 'Profit', 'Growth' and 'Income' are still the buzzwords that drive boardroom decisions and impact all economic activity. Yes, sustainability is at the table, albeit a single, lonesome director in a boardroom of 20. Can it be allowed to call the shots, and the answer is a resounding 'No'.

One more major factor impacting sustainability investments adversely is the new evil of 'Greenwashing'. Brands are actively engaging in creating their customer base with the sensitive new-gen customers who see sustainability tags before consuming products. Greenwashing is a marketing tactic used by companies to make their products or services appear greener and environmentally friendly than they actually are. Companies use greenwashing to create the false impression that their brand is eco-friendly, when in reality they may be taking very few steps towards sustainability. An example of greenwashing is when companies claim that their products are made with recycled materials, even though they only use a tiny fraction of them. Finally, greenwashing often includes companies claiming that their products are carbon-neutral or climate-friendly when they are not actually doing anything of substance to mitigate their emissions.⁶

Takeaways for professionals

The UN Secretary-General António Guterres said in response to the North American wildfires, "we're running out of time to make peace with nature, but we cannot give up."⁷ As professionals, we must do our bit in addressing sustainability concerns, right from our offices where we can ban single-use plastics, to our policies, where we tie up our supply chain partners which have minimal climate footprint, and finally, in our Boardrooms, where we influence each decision based on impact it would have on foreseeable future, not just from profitability lens but from the perspective of its lasting effect on the planet and all its inhabitants. **MA**

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