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ICRA's CLIMATE SERIES COP27

Agreement on funding for
developing nations is a welcome
move; execution remains the key

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CLIMATE CHANGE

The biggest crisis of our time

Countries need to expedite climate goals amid geopolitical tensions; funding arrangement to help

Agreement to provide “loss and damage” funding for vulnerable countries is a step in the right direction. However, successful implementation needs close monitoring amid rising global coal consumption.



At COP15, developed nations made a pledge to channel USD 100 billion a year to developing nations by the year 2020. However, the actual funding has been ~20% lower till date. **Considering lower projected GDP growth for developed economies, it may take at least 3 years more for the funding to reach the desired levels**



Traditionally the **funding provided by the developed nations have 80% share from public finance** and the rest from private institutions. The **share of private climate finance**, which has degrown in 2019 and 2020, **needs to increase going forward to meet the massive climate goals.**



Grants are a more favourable form of public climate finance, however, they form only 30-35%, major portion of ~60% is in the form of loans. Further major part of loans (~70%) is in the form of non-concessional loans, which make it difficult for Small Island Developing States (SIDS), Least Developed Countries (LDCs) and fragile states to repay **due to limited absorptive and repayment capacity.**



On the other hand, **funding needed by developing countries for infrastructure development to achieve climate change stabilisation at 2°C is massive at USD 5.8-5.9 trillion.** Most of this funding (~65%) will be towards power and electric mobility due to higher carbon emission (~65%) from these two sectors.



COP27 has taken the steps in right direction considering the massive requirement of funding by developing nations. **The agreement to provide ‘loss and damage’ funding to vulnerable nations will help the developing nations progress faster on climate goals.**



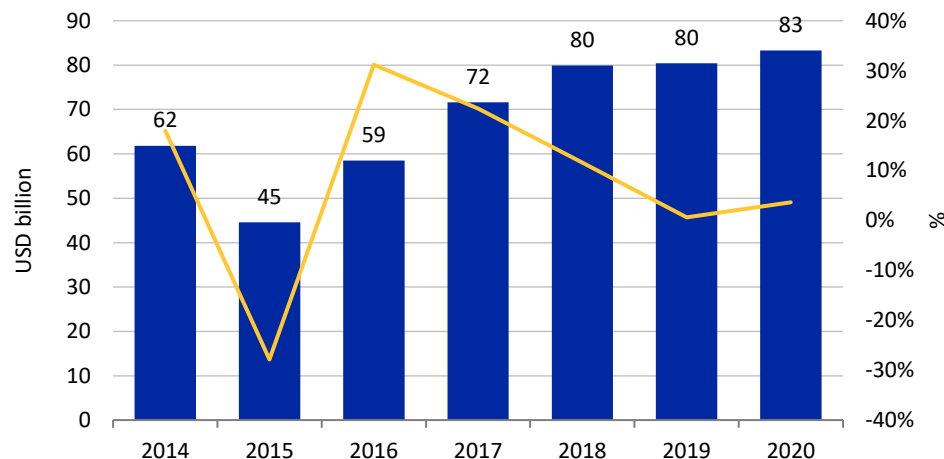
However, with current geopolitical tensions, the usage of coal has gone up significantly and is expected to further shoot up next year, mainly because of higher electricity demand. Countries need to focus on their climate goals by expediting the non-fossil usage plans to safeguard the economy from volatile market conditions.

Developed countries fail to fulfil funding promise; may take 3 to 5 years more



- At COP15 in 2009, developed nations made a pledge to channel USD 100 billion a year to developing nations by 2020, to help them adapt to climate change and mitigate further rises in temperature.
- At COP21 in Paris, it was reiterated and extended to 2025.

Exhibit: Climate finance provided and mobilised by developed countries



- USD 83 billion was provided and mobilised by developed countries for climate action in developing countries in 2020.
- While increasing by 4% from 2019, this was USD 16.7 billion short of the USD 100 billion per year by 2020 goal.

Considering lower GDP growth for developed economies, USD 100 billion per year may take at least 3 years more against the earlier commitment of 2020



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