

Climate Finance: The pressing need for fair, inclusive, and equitable policies

Climate financing today not only falls short of requirements but also puts developing countries at a disadvantage. Additionally, there is gap between commitments and disbursements of climate finance. The intended recipients are often unable to access or afford climate finance

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MAY 23, 2024 / 12:02 PM IST



green finance

Climate finance today faces several challenges that need to be addressed speedily and decisively. First and foremost, it cannot be limited to renewable energy, but should encompass partnerships, programmes, and technologies that address long-standing challenges and advance Sustainability Development Goals.

The existing climate finance mechanism, based on the “polluter pays” principle, says that developed countries should provide the larger share of climate finance. Rich countries that became ‘developed’ through decades-long industrialisation can afford to pay for the pollution they have caused. However, the poor and developing countries where climate finance is directed face the unenviable challenge of achieving socioeconomic development with limited resources and a wary eye on emissions. Some countries today impose a carbon tax or ‘ecotax’. However, instead of reducing fossil fuel consumption, it’s merely leading producers to pass the tax burden onto consumers. Furthermore, countries that can provide climate financing have apprehensions about how the money will be used. Accountability is essential for effective use of climate finance. The onus is on the lender to ensure that the project is economically viable, and the funds are used for the intended purpose. There have been instances of greenwashing in the past, and they underline the need for regulatory oversight.

Climate financing today not only falls short of requirements but also puts developing countries at a disadvantage. Despite repeated requests for affordable, grant-based financing, climate finance

continues to be largely in the form of loans. This is worrisome because most low-income countries are already facing debt distress and are only falling deeper into it. What we really need is viable, well-planned climate financing and a long-term multilateral debt workout process.

Meanwhile, there continues to be gaps between commitments and disbursements of climate finance. The intended recipients are often unable to access or afford climate finance. Sometimes, financing comes at a different time than what was promised. Such issues erode trust in climate finance. Almost all disbursements are directed towards augmenting renewable energy resources, whereas there are many other sectors and SDGs that need climate finance. India, for instance, needs to invest in building robust healthcare infrastructure and in technologies that can re-power the solar and wind installations that are nearing the end of their life.

The lopsided nature of climate finance points to a lack of sufficient data on where it's actually required. So far, climate funding has gone largely to mitigation-focused programmes, while adaptation measures have remained under-funded. There's also very little evaluation or review-based evidence on the impact of climate finance.

The public sector reportedly accounted for 43 percent of green finance in India in 2019-2020, whereas private players accounted for 57 percent. It's important to note that financing seldom comes at zero cost – especially from private players. Climate financiers should regularly evaluate the impact of their programmes and standardise their approaches. Financial institutions and emission-heavy businesses

could perhaps work with the government to develop standards for reporting and assessing climate action data. This data can guide future investments. Meanwhile, the global network of multilateral, **regional and national development banks** could finance the technical aspects of climate action and offer economic support to impacted communities. India's target of adding 500 GW of non-fossil fuel-based energy capacity and meeting 50% of its energy requirements through non-renewable sources, requires rapid mobilisation of green finance. India introduced the Carbon Credit Trading Scheme in 2023 and revamped it the next year, allowing companies and individuals to voluntarily participate in the tradable carbon credits market through an offset mechanism. It's a well-meaning scheme that aims to expand the voluntary carbon market and put a price on emissions.

India introduced the 'Green Credits Programme' at the COP28 summit with the aim of promoting a holistic and inclusive approach toward green finance. In line with that thought, I believe it's important to connect financial markets with decarbonisation initiatives. The ability to raise capital from the markets is crucial for sustaining climate finance. The first two IFRS Sustainability Disclosure Standards aim to mobilise climate finance for responsible businesses and require them to disclose information about their sustainability-and-climate-related risks and opportunities. More financing should be directed to companies that adopt these standards.

Collaboration with public institutions can also help in **identifying actionable steps** for sustainability and climate resilience. We need

partnerships that will build capacity locally and channelise capital from both domestic and international sources. The challenge is to ensure that climate finance is adequately provided and prudently used. Lastly, but most importantly, climate finance should be equitable. It should assist poor and vulnerable nations and ensure their socioeconomic development. The goal is to not only make our planet more livable but also elevate the life level of its inhabitants.

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