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COP21 · CMP11
PARIS 2015
UN CLIMATE CHANGE CONFERENCE

COP 21 Dialogue

How can long-term and sustained financing be structured for mitigation and adaptation?


29TH JUNE 2015, NEW DELHI

IRADe Integrated Research and Action for Development

COP 21 DIALOGUE – How can long term sustained financing be structured for mitigation and adaptation

The seminar on "**How can long-term and sustained financing be structured for mitigation and adaptation**" was organized by the French Embassy in India in collaboration with Integrated Research and Action for Development (IRADe).

The seminar was inaugurated by H.E. Mr. François Richier, Ambassador of France to India. **Dr. Jyoti K. Parikh, Executive Director, IRADe** moderated the seminar. The distinguished panelists include the following:

From L-R, Ms. Rajasree Ray, Mr. Dipak Dasgupta, Dr. Jyoti Parikh, Ms. Namita Vikas and Mr. K.S. Popli

- **Mr. Dipak Dasgupta**, Alternate Member of the Board, Green Climate Fund (GCF),
- **Ms. Namita Vikas**, Senior President and Chief Sustainability Officer, Yes Bank,
- **Mr. K.S. Popli**, Chairman & Managing Director, IREDA
- **Ms. Rajasree Ray**, Additional Economic Adviser, Department of Economic Affairs, Government of India.

Opening the session

H.E. Mr. François Richier
Ambassador of France to India

H.E. Mr. François Richier commenced the session by giving insights on how these dialogues series are crucial in addressing a range of themes and issues that are relevant to the upcoming negotiations in Paris. **They range across sustainable energy access; adaptation to climate impacts; technology development and transfer; financing mitigation and adaptation; climate change, health, and sustainable architecture**.

Participants at the seminar

He informed that a series of dialogues are being held which will be compiled in a report and released before COP 21 so as to provide greater visibility to the perspective of Indian stakeholders on issues pertinent to the global climate negotiations. He reminded the audience that COP 21 is very important as it focuses on the issue of financing for adaptation and mitigation, which has remained one of the most crucial issues in the climate change negotiations.

Setting the Context

Dr. Jyoti K Parikh

Executive Director, IRADe

Dr. Jyoti Parikh opened the discussion by thanking the French embassy for organizing the event prior to COP 21 at Paris. She reasoned that the climate finance is needed because often their advantages accrue to other persons and even to the next generation (across time and space). Thus, the investing party may not find it always economically viable.

She said that Green Climate Fund (GCF) is a global initiative. It needs to send critical signals. Since GCF is much smaller compared to the actual needs of the countries around the world, it must leverage national development funds. She also suggested that **climate finance should be used so that the developing countries could use it for leap-frog technologies** (e.g. LED lighting or solar energy) and also **ensure that the licenses for efficient technologies are in the public domain for wider promotion**. It could also fund innovations in the business models. She introduced the speakers and requested them to share their views about these themes associated with climate change and what role does finance takes place? How can financing be more effective? And how does it take place at national and international level?

Discussions

Mr. Deepak Das Gupta

Alternate Member of the Board, GCF

Mr. Deepak introduced the audience to the state of GCF, an international source for mobilizing funds for developing countries to counter climate change. Set up by the UNFCCC in 2010, GCF is being looked at as one of the biggest source of consistent fund flow for developing countries like India and in absence of which, could hinder developing countries' capacity to meet its environmental goals.

The Fund is committed to raise USD 100 billion per year by 2020 to support climate change mitigation and adaptation measures by developing countries. So far 33 industrialized countries have made voluntary pledges of USD 10 billion to GCF. Mr. Deepak pointed out that mobilizing and allocation of funds are big challenges to GCF as most of the pledges are yet to be received by the board. He reminded the audience that while the world GDP is close to USD 88 trillion as of 2013, only a fraction i.e. USD 100 billion is committed to fight climate change.

Countries spent trillions of dollars on waging wars, but are reluctant to commit enough to mitigate climate change which is an imminent threat.

The structure of GCF is well balanced with equal representatives from developing and developed countries on the GCF board. The board aims to ensure allocation by the principle of Fiscal Responsibility and Budget Management, with prioritized allocation of its limited funds. The GCF is expected to ensure a 50:50 balance between mitigation and adaptation for fund distribution. The Fund also aims for a floor of fifty per cent of the adaptation allocation particularly for vulnerable countries, including least developed countries (LDCs), Small Island developing States (SIDS) and African States.

Accrediting agencies are being identified for selecting beneficiaries of the fund such that projects and programmes will be allocated through accredited sub-national, national, regional and international entities which could be Public, Private and Non-Governmental. For maximizing the engagement, GCF has set up a Private Sector Facility to address barriers to private sector investment in adaptation and mitigation activities.

He said more and more public resources are necessary to meet the requirements. In near future, adaptation is going to absorb most of the funds due to increased climate change impacts. Aggressive adaptation and mitigation measures will have to be pursued in crucial sectors like energy, water, forestry etc. **Given the critical importance of adaptation over mitigation, for developing countries like India, adaptation ultimately boils down to assisting the vulnerable population during exigencies, and empowering them to build their lives and cope with uncertainties in the long run. Several of India's social sector schemes, with their emphasis on livelihood security and welfare of the weaker sections, aim to do just that.**

Though GCF will be a critical source for financing climate change mitigation and adaptation projects, considering the scale of money required countries need to identify additional and innovative mechanisms for mobilizing climate finance. For India, he shared that the GCF financing would be made available to organizations such as National Bank for Agriculture and Rural Development (NABARD) that is already making development investment decisions. It is estimated that India already spends almost 2.5 % of its GDP on climate change adaption through various programs and schemes. Mr. Deepak further pointed out that the **agriculture is highly vulnerable to the impacts of climate change and India needs to work more aggressively in reducing the vulnerability factors of agriculture**. Hence, mechanism such as insuring farmers against crop loss needs to be aggressively pursued where the public sector resources are mobilized to create the demand for insured products. Subsequently, the private sector can also chip in as currently they do not find investing in weather insurance, crop insurance etc. favourable.

Ms. Rajasree Ray

Additional Economic Adviser, Ministry of Finance, GOI

Ms Rajashree Ray provided an overview of India's perspective on climate financing. She said that during the UNFCCC Conference in Bonn in May 2015, the India had sought clarity regarding to the guiding principles, resources and institutional arrangements that needs to be in place for operationalising the GCF.

She reminded the audience that enhanced implementation of the objectives of UNFCCC is necessary by following the "common, but differentiated principles" of the Convention and hence the provision of sufficient finance for achieving the goals is critical. While all sources, including private capital, needed to be mobilized, public finance is needed to be on the table so far as mitigation was concerned. **Climate change is a complex policy issue with major implications in terms of finance. Internationally climate change finance forms one of the core issues of climate change negotiations.** The legacy places larger responsibilities on developed countries in mobilizing funds for addressing adaptation and mitigation at the required scale through the financial mechanism of the convention (for developing countries).

She suggested that there are areas of concern in which further work will be needed to safeguard the interests of developing countries in future climate change deliberations. First, **the sources and channels of providing long-term finance by developed countries require clear identification**. It is necessary to expeditiously identify the sources of finance and provide initial capital to the GCF for its operations. Secondly, **it is necessary to include the obligations of developed country parties under the Convention to provide finance, technology, and capacity building support.** Finally, **the issues of mobilization and provision of necessary resources on a predictable basis and relationship of these mechanisms with the financial mechanism of the Convention remain to be addressed.** For instance, given the energy requirement and available resources in India, cleaner coal technology suits the country.

She said that India is strongly committed to engage constructively and productively with the international community in the global efforts to preserve and protect the environment and collectively deal with our common challenge of climate change. India is also committed to spend sizeable resources in meeting the domestic goal of reducing the emissions by 20-25% by 2020 in comparison with 2005 levels. To this end, India wants the Green Climate Fund as the operating entity of Paris 2015 objectives. India would like to see what commitments and actions different parties will adopt to tackle climate change at COP 21.

India recognizes that a strategy for addressing climate change has to be based on the lines of sustainable development. This is reflected in many programmes addressing climate change concerns. Currently in India, Government expenditure on adaptation to climate change exceeds 2.6 per cent of the GDP, with agriculture, water resources, health and sanitation, forests, coastal zone infrastructure and extreme events, being major areas of concern. India is one of the few countries which have carbon tax in place. This was a striking move as India moved from carbon subsidization regime to a significant carbon taxation regime.

Ms. Namita Vikas

Senior President and Chief Sustainability officer, Yes Bank

India is gearing up for the climate action as it has commitment to achieve 175 GW Renewable Energy by 2020. Under the umbrella of climate finance, separate sectoral limits with inclusion in priority sector lending and exclusion from single/group borrower needs to be adopted. The inclusion of Renewable Energy under priority sector lending is a very encouraging one. **Voluntary responsible finance should have inherent ESG (Environmental, Social and Governance) criteria.** There is **a need for establishing the sovereign guidelines for Indian renewable energy funds and for green climate funds**. Encouraging for climatic actions, she suggested that India should decipher climate actions at local level and follow national Adaptation Fund with deployment of Green Climate Fund.

She insisted that designs of the yet-to-be-built buildings in smart cities must have green designs “from start”. She also highlighted various efforts undertaken by YES bank in the area of climate finance and their work in the area of agriculture. She further discussed the role of private sector in climate finance and how public and private sector can work together in this regard.

Mr. K.S. Popli

Chairman & Managing Director, IREDA

Mr. K.S. Popli gave a detailed overview of financing India’s revised goal for achieving 175 GW of renewable energy capacity addition by 2022. He said it was important to have higher targets so that more capacity addition takes place and though nearly 200 Billion USD is required in financing this program which includes 100 GW of solar. Low cost financing will be critical in achieving the gigantic RE objectives for the country.

He stressed upon the current concerns of buying RE power. While renewable energy is aggressively promoted, its average tariff is still higher than the conventional power tariffs and the Distribution Companies (DISCOMs) are not in position to buy power at such high rates. **The long term sustainability and viability RE programs will depend on the credit worthiness of the buyers/ DISCOMs.** This was reflected in the RPO obligations of utilities. However, the proposed funding for renewable energy will be achieved if the target of producing RE power is bigger, which was not the case earlier. Hence, there is increased confidence in producing renewable energy with bigger targets.

The government of India, aided by public and private financing agencies is making provisions for green energy funding. He reminded the audience that Reserve Bank of India (RBI) has already issued guidelines for priority sector lending for renewable energy projects, such that bank loans up to INR 15 crore was available for borrowers**. IREDA via its rooftop solar schemes will provide loans at interest rates of 9.9 to 10.75 percent to system aggregators and developers of rooftop solar.** Similarly Power Finance Corporation (PFC) and Rural Electrification Corporation (REC) will be aiding in the financing of the country’s renewable energy ambitions through green-bond sales. **He pointed out that the resources of National Clean Energy Fund (NCEF) are also to be utilized to reduce the cost of renewable energy.**

Mr. Popli walked the audience through the details of some of the projects in meeting India’s solar ambitions. About 25 solar parks of 500 MW are in the offing. Furthermore, rooftop solar projects will constitute 40 GW of the solar envisaged by 2022 and hence DISCOMs need to have net-metering and feed-in-tariff for grid connectivity while industrial and institutional rooftops will be utilized in the beginning. National Thermal Power Corporation (NTPC) will call for bids from solar project developers for buying 15 GW on behalf of the Ministry of New and

Renewable Energy (MNRE), besides its own RE objectives of installing 10,000 MW. The work for construction of green energy corridors has been started which will ensure the power distribution from these renewable energy projects. The pockets of the RE generation would get grid interactive and thereby the RE distribution losses would reduce.

Dr. Parikh invited questions from the participants and deliberations were held on the views expressed by the panelists. The seminar concluded with vote of thanks by Dr. Jyoti K. Parikh, Executive Director, IRADe.