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Press Release

The transition needed to achieve climate change objectives is far reaching and the scale of financing needed is also much larger than has been talked about. While much of the financing needed will have to be private, it will have to be leveraged by greatly expanded public flows from Multilateral Development Banks: Montek Singh Ahluwalia

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"The global warming targets agreed in Glasgow call for massive investments in clean energy and related sectors in developing countries, much above what is likely on a business as usual basis. How to financing the additional investment is a major unresolved challenge facing the global community." This was said by **Montek Singh Ahluwalia**, Distinguished Fellow, Centre for Social and Economic Progress (CSEP), in the course of a Flagship Seminar "Climate Change Policy for Developing Countries" hosted virtually by CSEP on **February 28, 2022.** The webinar was organised to discuss the findings of CSEP's recently published Working Paper— "*Climate Change Policy for Developing Countries*," authored by **Montek Singh Ahluwalia** and **Utkarsh Patel**, Associate Fellow, CSEP.

Opening the discussion, Ahluwalia said CoP-26 in Glasgow represented a major step forward since all countries, including the developing countries, to reducing emissions to net zero albeit by different dates. However, the reduction trajectories agreed are not enough to limit global temperature rise by the end of the century to 1.5°C. They have to be further tightened and this has been left to subsequent CoP discussions. Ahluwalia emphasised that climate justice required that the advanced countries and China must reduce emissions even faster than currently promised.

The objective of reducing emissions involves structural and policy changes in many sectors, including electrification of transport, shift to RE based electricity in future; phasing out of coal-based generation, development of green hydrogen etc. It calls for a "whole of the economy" approach which involves many difficult policy choices including elimination of fossil fuel subsidies and possibly also carbon taxation.

The additional investments needed by developing countries for mitigation and adaptation are very large and cannot be met entirely by external flows. A substantial portion of the financing would have to be raised domestically, partly by restructuring existing investments, and the rest could come from international sources. Even on this assumption the scale of international financing would have to be an order of magnitude larger than what has been discussed thus far. While much of the international finance would have to come from private flows, this would need to be leveraged by public financial flows which would have to be channelled through multilateral development banks.

Ahluwalia said that if MDB financing is to be an important part of the solution, the relevant forum to negotiate the increase is not the UN but the G 20. With the next three G 20 summits in Indonesia, India, and Brazil respectively, there is a great opportunity for developing countries to focus the G 20 on channelling public climate finance through Multilateral Development Banks.

Impact of Climate change on GDP and Productivity

Dr Anshu Bharadwaj, Chief Executive Officer, Shakti Sustainable Energy Foundation said economic projections of growth need to factor in the adverse impacts of climate change, the same way Covid-19 was factored in. "We will be misreading the situation if climate change is not accounted for. Similar to Covid-19, a mechanism should be developed through discussions between climate scientists and policy makers to figure out how to factor in the adverse impact of climate change to the GDP baseline, otherwise we will be projecting a totally unrealistic GDP estimate," said Dr Bharadwaj.

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Energy pricing is a difficult thing considering the political challenges. “The rate at which demand for electrical appliances is growing, especially in cooling and other sectors, we need to expedite energy price rationalization, given its political challenges,” said Dr Bharadwaj.

Carbon budget

“Carbon budget becomes a political choice for us [India],” said **Ulka Kelkar**, Director, Climate program, WRI India.

Highlighting the findings of the recent Intergovernmental Panel on Climate Change (IPCC) report, Kelkar said “climate action/adaptation is becoming increasingly important and we are approaching the limits.” Adding to the relation between economic benefits and climate change, Kelkar posed a query: “Are we underestimating the economic benefits of climate action?”

Talking about inclusive climate action, Kelkar said: “The scale of transformative action should account for possible inadvertent consequences and their distributional impact” and called for “embedding climate change into development planning,” giving the example of domestic budgetary resource such as *climate budget tagging* model followed in the states of Odisha and Bihar.

Dr Mekala Krishnan, Partner at the McKinsey Global Institute (MGI), highlighted the trajectory of staying under 1.5°C outlined by the IPCC, adding that “commitments on the paper are very far from actions on the ground.”

“For solving the net-zero equation and ensuring a more orderly transition”, Krishnan said “we need to focus on physical building blocks, economic and societal adjustments, and commitment and enabling mechanisms”.

On the issue of climate equity, **Nitin Desai**, former Chief Economic Adviser and Secretary, Department of Economic Affairs, Ministry of Finance (India) mentioned: “If everybody has an equal right to what remains of the carbon space, in terms of population, then the target net-zero dates for China would have to come down to 2033, the US to 2028, and the UK to 2037. So, 2050 is just not good enough, as far as reaching net zero in an equitable way is concerned.”

Citing the recent IPCC report, Desai noted that “resilience is basically combining mitigation and adaptation in handling development. Both [adaptation and mitigation] have to go together, especially if you’re looking at issues like water, or agriculture.”

***About CSEP**: The Centre for Social and Economic Progress (CSEP) conducts in-depth, policy-relevant research and provides evidence-based recommendations to the challenges facing India and the world. It draws on the expertise of its researchers, extensive interactions with policy makers as well as convening power to enhance the impact of research. Our researchers work across domains including, but not limited to, Growth, Finance & Development; Energy, Natural Resources and Sustainability; and Foreign Policy and Security. All our research and policy recommendations are freely available to the public.*

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