



Navigating through uncertain times

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The 47th President of the United States (US) of America, Mr. Donald Trump, immediately after assuming office for the second term in January 2025, issued an executive order directing the US withdrawal from the Paris Agreement. This decision of the US was not perplexing to many since Mr. Trump vehemently emphasised the withdrawal from the Paris Agreement during his presidential election campaign; however, this poses serious threats to fragile environmental conditions as the US would embark upon increasing the pace of new oil and gas exploration and extraction. Also, other downside risks emerge in terms of the cascading effect of the US exit, as countries such as Argentina and Indonesia are also considering parting ways with the Paris Agreement, further denting the fight against climate hazards by increasing global uncertainty.

Adverse repercussions of climate change caused by unbridled emissions have manifested in terms of drought in Ethiopia in 2016, the devastating floods in Thailand in 2011 and Pakistan in 2022, the increasing risks to tropical coral reefs from high temperatures, the hottest summer of 2023 since 1850 besides the displacement and mass migration that occurred in many parts of the world. The ill effects are particularly harmful to emerging and developing economies, low-income economies, and small island nations, given their limited ability to withstand the destruction and their vulnerable geographic location. The losses arising from climate change have further ramifications in terms of adverse economic and non-economic consequences. For example, total economic losses due to extreme climate change-related risks have amounted to a total of € 738 billion

over four decades in the European region. Of this total loss, the highest € 162 billion was during 2021 to 2023. Similarly, non-economic consequences can be gauged in terms of loss of human lives, displacement and migration from native places, and erosion of cultures and lifestyles, among others.

To effectively address these threats, during the 15th COP held in Copenhagen in 2009, the advanced and developed economies pledged to raise US\$ 100 billion annually by 2020 for climate change-related issues in emerging and developing nations with the primary objective of undertaking effective mitigation measures and ensuring transparency in the execution of such measures. Also, the recently concluded COP 29, under the Presidency of Azerbaijan, in the capital city of Baku, held in November 2024, was crucial as it announced the Baku Finance Goal (BFG), a pledge to allocate US\$ 1.3 trillion in climate finance annually to developing nations by 2035. It set an objective for the developed countries to raise US\$ 300 billion, tripling the erstwhile target of US\$ 100 billion.

Nevertheless, nations with greater financial power to support climate funds—particularly those in the industrialised and developed world—have fallen short of expectations. The disparity in the intended allocation of funds and funds deposited for the cause of climate mitigation reflected in terms of the climate funds resources gap is shown in Figure 1. The resources gap, which is the difference between the pledged amount and deposited amount, was highest for the US (US\$ 5.60 billion). This is especially significant as the US is a major source of climate change financing. (Figure 1). The US has pledged the highest amount of funding, which is around US\$ 10.58 billion, while Spain pledged the lowest of US\$

1.01 billion among the top 10 nations towards the cause of climate change funds. The gap is highest for the US and lowest for Sweden (US\$ 0.06 billion), which shows Sweden's commitment and responsible attitude in meeting the pledges. Given that the US has recently withdrawn from the Paris Agreement, the gap may widen, and this would be a demotivating factor for other countries to meet the pledges.

Apart from that, many private players find investment in renewable energy technology discouraging as it requires huge investment and a long gestation period to recover costs. This challenge can be addressed by incentivising the private sector through market-based and compliance-based measures. The private sector needs to be provided with adequate incentives to adopt environmentally sustainable practices. Entities involved in these projects should be incentivised to manage, generate, and distribute renewable energy. Additionally, policymakers should consider measures such as green trading exchange mechanisms, green bonds, carbon credits, climate change bonds, and climate-related public-private partnership projects, inter alia, to encourage adherence to compliance and regulatory requirements. The money raised through green bonds and other instruments should be used for investment in green technology, carbon-resilient infrastructure, and other forms of environment-friendly technologies. It is crucial to address the issue of responsibility sharing among the stakeholders, which extends beyond the Global North or Global South and includes both the public and private sectors. The Corporate Social Responsibility (CSR) fund could also play a crucial role in mitigating environment-related issues, both in India and in developed countries.

In the Indian scenario, these

measures are not mandatory for companies, and as a result, it becomes difficult to fix the responsibility due to a lack of data availability. As a result, targeting incentives toward reducing a particular emission becomes difficult. Nonetheless, pressure from public perception and other stakeholders, besides other compliance requirements related to adopting renewable energy measures, have led Indian companies to increasingly invest in renewable energy or gradually shift to adopt measures related to renewable energy technology. For instance, NTPC Green Energy Ltd. is planning to build 60 GW of renewable capacity by 2032. The company intends to invest Rs. 80,000 crores (US\$ 9.59 billion) in Maharashtra for projects involving green hydrogen, ammonia, and methanol, in addition to 2 GW of pumped storage and 5 GW of renewable energy. Similarly, over the next five to seven years, Tata Power plans to invest Rs 70,000 crore (US\$ 8.42 billion) in the development of 10 GW of solar and wind-generating capacity in Tamil Nadu (IBEF).

The negative externalities arising out of environmental destruction affect everything from mountains to oceans and economies to communities, regardless of their source, underscoring the need for collective, cohesive, and collaborative efforts between developed and developing economies apart from active participation from public and private corporations to mitigate the devastating impact of climate change. It should focus on global cooperation for local challenges, which can be instrumental in the climate change fight. The forthcoming COP 30, scheduled to be held in Belém, Brazil, presents ample opportunities to avoid the road to catastrophe.

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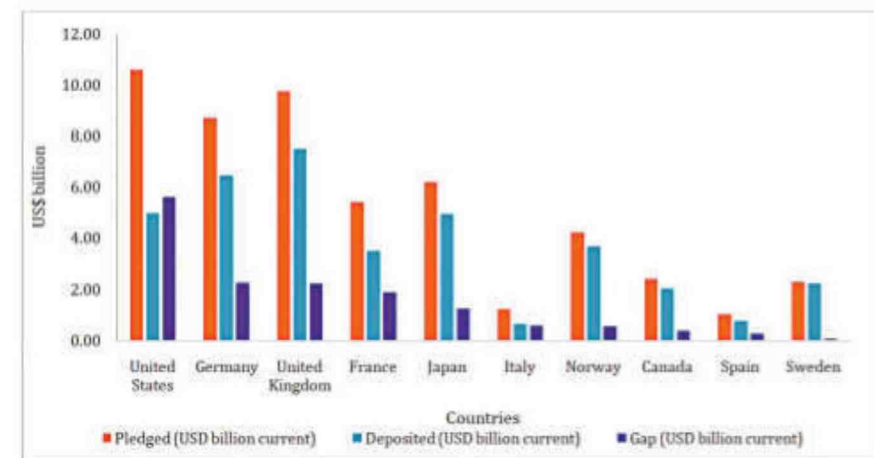


Figure 1: Climate Funds Resource Gap of Top Donor countries over the years (as per decreasing gap)

Source: Authors' calculations based on data obtained from Climate Fund Update (<https://climatefundupdate.org/data-dashboard/>)

Figure 1 captures the supply-side factors by looking at the major funding source countries. In contrast, Figure 2 exhibits the demand side factors by capturing the funding approved and disbursed by the countries in terms of income classification. Figure 2 shows that the gap between approved resources and actual disbursement of funds is the highest in low-income countries and lowest in high-income countries. Besides, it can be inferred that the higher level of funds disbursed from the total funds approved in upper-middle-income and lower-middle-income countries is a result of the higher level of vulnerability to climate change associated with these countries, their low per capita income level, and strong negotiations during different climate funding. However, poor countries received not only lesser funding but also low disbursement of the funding, which shows the highest resource gap in percentage in the low-income groups of countries. These fundings are disbursed in different forms, like concessional loans, grants, equity, and guarantees.

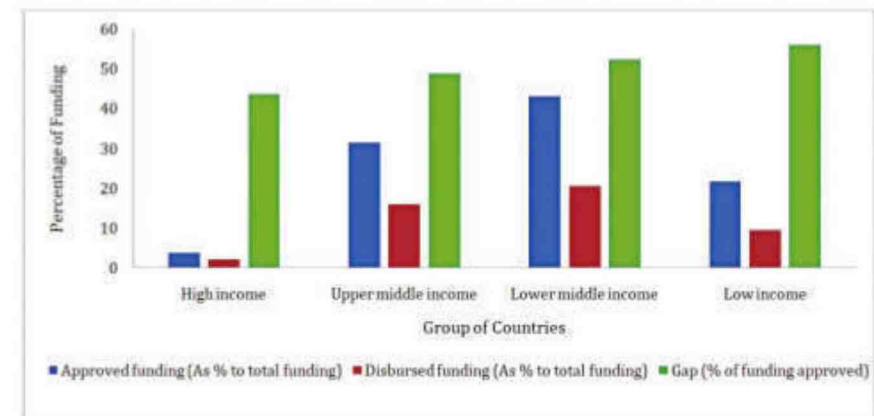


Figure 2: Climate Finance Funding to Different Group of Countries during 2003 to 2023

Source: Authors' calculations based on data obtained from Climate Fund Update (<https://climatefundupdate.org/data-dashboard/>)