

ESG

6 December 2024

COP29: Tripling climate finance

Summary

- COP29, dubbed the “Finance COP”, closed with a new climate finance goal to support developing countries in managing the impacts of climate change. The agreement will triple finance to developing countries, from the previous goal of US\$100bn annually, to US\$300bn annually by 2035.
- However, developing countries criticised the deal for being insufficient. Nonetheless, there are plans to scale up climate finance to developing countries, from both public and private sources, to at least US\$1.3trn annually by 2035.
- As the quality of finance is also an important factor, it is encouraging to see that COP29 acknowledged the need for public and grant-based resources, as well as highly concessional finance for developing countries.

Ong Shu Yi

ESG Analyst

shuyiong1@ocbc.com

The New Collective Quantified Goal on Climate Finance

Deciding on a new climate finance goal for developing countries, known as the New Collective Quantified Goal on Climate Finance (NCQG), was a key priority for COP29. Developing countries, especially small island developing states, face the greatest climate risks and are most heavily impacted by climate change impacts. These countries require international support to finance climate adaptation, as domestic resources are insufficient to mitigate the impacts.

The NCQG is a key element of the Paris Agreement adopted in 2015, that sets a new financial target to support developing countries in their climate actions for the post-2025 period. This replaces the previous goal set in 2009, where developed countries committed to mobilising US\$100bn per year by 2020 through to 2025 to address the finance needs of developing countries in managing climate change impacts. Developed countries mobilised US\$115.9bn in climate finance for developing countries in 2022, which exceeded the goal for the first time.

Tripling the climate finance goal

In the final hours of extended COP29 negotiations, developed countries agreed to triple the previous commitment of US\$100bn annually in climate finance by 2025 to US\$300bn annually by 2035. While tripling the previous target of US\$100bn annually is a meaningful stride amid complex global circumstances, developing countries expressed disappointment and criticised the deal for being insufficient. Developing countries were instead calling for a quantum ranging from US\$1trn to US\$1.3trn annually to enable conducive climate action.

The contentious agreement involves a broader goal to raise US\$1.3trn in climate finance annually by 2035, which will include funding from all public and private sources. The climate finance goal that was agreed upon can be achieved through various sources of funding, including finance mobilised by multilateral development banks and contributions from other countries. The NCQG text keeps the onus on

developed countries to mobilise climate finance, while encouraging developing countries to make contributions on a voluntary basis. The contributor base comprises developed countries, including the US and European nations, based on the definitions of developed and developing countries that originated in 1992 by the UN Framework Convention on Climate Change. Countries that are defined as developing countries but have undergone rapid economic growth since 1992, including China, are facing international pressure to join the contributor base.

Voluntary climate finance initiatives

Nonetheless, some countries have made voluntary contributions to climate finance in recent years, with new initiatives announced at COP29. For example, Singapore has pledged to commit up to US\$500mn in concessional funding to support the Financing Asia's Transition Partnership (FAST-P) initiative launched by the Monetary Authority of Singapore (MAS). It is a blended finance initiative that aims to raise up to US\$5bn to finance projects that support Asia's green and transition financing needs, by bringing together international public, private and philanthropic partners. Such projects include the early phase-out of coal-fired power plants, electricity grid infrastructure upgrades and decarbonisation efforts in hard-to-abate sectors that may only be marginally bankable. The initiative can reduce investors' risks in financing certain green or transition projects, which can be deemed risky. Australia has approved a US\$50mn investment into the Green Investments partnership under the FAST-P initiative, to support the region's decarbonisation efforts. Moving forward, more like-minded partners are expected to collaborate with Singapore to enhance investment in green and transition projects through the FAST-P initiative.

According to the World Resources Institute, China's voluntary climate finance contribution to developing countries' climate actions has averaged close to US\$4.5bn annually between 2013 to 2022. Most of China's climate finance has been channelled through bilateral and multilateral public mechanisms e.g. multilateral development banks and climate funds. As China is already a voluntary contributor to climate finance, this may encourage developed countries to increase their contributions to climate finance that go towards meeting the new climate finance goal of US\$300bn annually by 2035.

Importance of quality of finance

In addition to the quantity of finance, the quality of finance is also important to financing climate action in developing countries. Developing countries are pushing for grant-based climate finance that is more attractive than loans. Currently, most of the finance goes to developing countries in the form of loans rather than grants. Loans can be seen as unattractive climate finance instruments, as they can exacerbate debt burdens for indebted developing countries. For example, Indonesia has expressed disappointment at the financing terms of its Just Energy Transition Programme (JETP¹), which is an agreement to mobilise US\$20bn in public and private financing to support Indonesia's energy transition. High interest on

¹ The JETP, a financing scheme made up of equity investments, grants and concessionary loans from members of Group of Seven (G7), multilateral banks and private lenders, is aimed at helping developing countries shift to cleaner energy in the power sector.

loans with only a small portion in grants proved challenging for Indonesia, which led to Indonesia delaying its plan to retire its coal-fired power plants early. The final NCQG text agreed upon at COP29 has encouragingly acknowledged the need for public and grant-based resources, as well as highly concessional finance for developing countries. This can better support developing countries in accessing international climate finance to cope with climate change impacts.

Looking ahead

The new climate finance goal builds on significant strides made on global climate action in recent years, against the backdrop of growing geopolitical tensions and macroeconomic uncertainty. The NCQG text acknowledged that costed needs reported in developing countries' Nationally Determined Contributions (NDCs²) are estimated at US\$5.1trn – 6.8trn for up until 2030 or US\$455bn – 584bn annually per year, highlighting concerns in the gap between climate finance flows and needs.

As implementing countries' NDCs hinges on the availability of finance and low-carbon technologies, it is important to scale up climate finance to support developing countries with implementing their climate plans. This can also encourage them to set more ambitious climate goals when the new NDCs are due in Feb 2025. The agreement on climate finance at COP29 lays the foundation for next year's climate summit to be held in Brazil, where countries are expected to map out climate action for the next decade.

² NDCs embody efforts by each country to reduce national emissions and adapt to the impacts of climate change. The Paris Agreement requires countries to put forward new NDCs every five years i.e. 2020, 2025, 2030. All countries are expected to come forward with the submission of the next round of national climate action plans by the 10 Feb 2025 deadline.

Macro Research

Selena Ling
Head of Research & Strategy
lingssselena@ocbc.com

Tommy Xie Dongming
Head of Asia Macro Research
xied@ocbc.com

Keung Ching (Cindy)
Hong Kong & Macau Economist
cindyckeung@ocbc.com

Herbert Wong
Hong Kong & Taiwan Economist
herberhtwong@ocbc.com

Lavanya Venkateswaran
Senior ASEAN Economist
lavanyavenkateswaran@ocbc.com

Ahmad A Enver
ASEAN Economist
ahmad.enver@ocbc.com

Jonathan Ng
ASEAN Economist
jonathannq4@ocbc.com

Ong Shu Yi
ESG Analyst
shuyionq1@ocbc.com

FX/Rates Strategy

Frances Cheung, CFA
Head of FX & Rates Strategy
francescheung@ocbc.com

Christopher Wong
FX Strategist
christopherwong@ocbc.com

Credit Research

Andrew Wong
Head of Credit Research
wongvkm@ocbc.com

Ezien Hoo, CFA
Credit Research Analyst
ezienhoo@ocbc.com

Wong Hong Wei, CFA
Credit Research Analyst
wonghongwei@ocbc.com

Chin Meng Tee, CFA
Credit Research Analyst
menqteechin@ocbc.com

This report is solely for information purposes and general circulation only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This report should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein or to participate in any particular trading or investment strategy. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this report is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this report may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This report may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, it should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. In the event that you choose not to seek advice from a financial adviser, you should consider whether the investment product mentioned herein is suitable for you. Oversea-Chinese Banking Corporation Limited ("OCBC Bank"), Bank of Singapore Limited ("BOS"), OCBC Investment Research Private Limited ("OIR"), OCBC Securities Private Limited ("OSPL") and their respective related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future, interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial or securities related services to such issuers as well as other parties generally. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products. There may be conflicts of interest between OCBC Bank, BOS, OIR, OSPL or other members of the OCBC Group and any of the persons or entities mentioned in this report of which OCBC Bank and its analyst(s) are not aware due to OCBC Bank's Chinese Wall arrangement. This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

The information provided herein may contain projections or other forward looking statements regarding future events or future performance of countries, assets, markets or companies. Actual events or results may differ materially. Past performance figures are not necessarily indicative of future or likely performance.

Privileged / confidential information may be contained in this report. If you are not the addressee indicated in the message enclosing the report (or responsible for delivery of the message to such person), you may not copy or deliver the message and/or report to anyone. Opinions, conclusions and other information in this document that do not relate to the official business of OCBC Bank, BOS, OIR, OSPL and their respective connected and associated corporations shall be understood as neither given nor endorsed.

Co.Reg.no.: 193200032W