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COP29: Tripling climate finance

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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.

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 (JETP[1]), 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 (NDCs[2]) 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.

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