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COP27: Financing Pledges and Managing Expectations

By Margareth Sembiring

SYNOPSIS

The aim of Egypt's chairmanship of the latest climate change conference was on the implementation of financing pledges to realise specific goals for mitigating the climate crisis. Yet, limited success was achieved. Going forward, it is necessary to manage expectations and to redirect efforts into what is deliverable.

COMMENTARY

This year's Conference of the Parties of the United Nations Framework Convention on Climate Change, commonly referred to as COP27, was held in Sharm el-Sheikh, Egypt, from 6-18 November. The tone of this year's conference shifted from the usual emphasis on carbon emission reduction to financing, especially with regard to the loss and damage due to climate change suffered by the poorer countries. After resisting the idea for about three decades, the COP27 ended with the wealthier countries finally agreeing to set up a fund for the purpose.

Financing and Donor Preferences

Such an agreement is a positive outcome. But based on experience to date, realising money promised has never been easy. In 2009, for example, the developed countries pledged to mobilise US$100 billion per year by 2020 to help developing countries work on their climate initiatives. The COP21 held in Paris in 2015 subsequently extended the deadline to 2025, thus signalling a realisation that the target would be missed. As it turned out, the money accumulated by 2020 was only US$83.3 billion, that is, far below the original target.

In the lead-up to COP26 held in Glasgow last year, President Joseph Biden announced that the United States would double the country's climate aid fund to

US$11.4 billion per year by 2024. In March this year, however, the US Congress only approved US$1 billion a year for 2022, far less than what was stated by the US President.

The under-delivery on financing packages originated from clear preferences of donors on how money is raised and disbursed, and provided to who. More than 70 per cent of the public financing from the developed countries were in the form of loans while grants constituted only 30 per cent. Additionally, private financiers from the developed countries favoured funding projects in low-risk, middle-income countries.

A similar pattern was observed in the distribution of the Clean Development Mechanism (CDM) projects. Formulated as part of the 1997 Kyoto Protocol, the CDM allows developed countries to offset their emissions by implementing emission-reduction projects in developing countries. To date, about 80 per cent of CDM projects are located in the Asia-Pacific, with close to 90 per cent of them in China and India. In contrast, only 3 per cent of CDM projects are carried out in Africa.

At this juncture, it is evident that the goodwill to assist the poorer countries often runs into the practical challenges of securing domestic support and meeting the donors' preferences for projects in countries that are more likely to give them higher returns. Cautious optimism is therefore needed when delving into financing matters so as to set realistic expectations of what can be achieved in climate plans.

Meeting Emission Reduction Promises: Southeast Asia's Experience

Cautious optimism is likewise necessary when assessing emission reduction promises. Southeast Asia's experience is a case in point. The COVID-19 pandemic and the huge amounts of resources channelled to combat it in the last three years sparked a worldwide concern whether countries would continue with their commitments for climate action. Notwithstanding this, most Southeast Asian countries pushed ahead to express firmer climate mitigation pledges.

At COP26 held last year, Indonesia, Thailand, and Brunei Darussalam expressed their intention to go net-zero in carbon emissions by around mid-century. Malaysia, Vietnam, and Laos had expressed such a plan earlier. Cambodia and Singapore had also announced their respective plans.

Southeast Asian countries have likewise updated their nationally determined contributions (NDCs) in the last two years with Indonesia, Thailand, Vietnam, and Singapore submitting their latest updates around the time of COP27. These NDCs articulated stronger emission reduction targets by 2030 even as the global economy was reeling from the impacts of the war in Ukraine.

While such pledges and plans reflect intentions, the litmus test lies in follow-up implementation. Besides budget allocation, consistency in the pursuit of low-carbon policy objectives across different sectors is also critical. For the emission reduction agenda to be effective, governments must single-mindedly favour green solutions.

This has, however, proven to be challenging as evidenced by the responses of Southeast Asian countries during the COVID-19 pandemic. The idea for a green economic recovery was widely promoted by its proponents to convince governments to shift their budgets to greener options. Instead, Indonesia, Vietnam and the Philippines adopted a mixed approach to help both the fossil fuels and renewable energy sectors survive and recover.

A similar reality was seen in electricity generation in the region. Southeast Asia had aspired to having 23 per cent of its primary energy mix comprised of renewable energy sources. But the renewable energy share has remained at 14.3 per cent since 2015 although more renewable energy facilities were built in the last couple of years. This shows that fossil fuel-based power plants were also expanding at the same time.

The lack of whole-hearted commitment is also discernible from the green investment trend in Southeast Asia. Greening the economy requires a total transformation across multiple sectors, but most investments have thus far been very selective. For example, an estimated total of US$15 billion was mobilised between July 2021 and March 2022, but it was used mostly to fund proven low-risk green solutions.

And more than 90 per cent of corporate green investments went to the renewable energy and built environment sectors, with the overwhelming majority favouring big infrastructure projects, particularly solar and wind facilities, given their maturity and scalability. In comparison, other sectors such as electric mobility, forest conservation, and sustainable farming received much less funding.

Such skewed preferences pose a challenge to the holistic and comprehensive transformation necessary to realise drastic emission reduction goals. The fact is that too many domestic imperatives have come into the way. The lack of political will to change policy and to plan for a different future is a major challenge in Southeast Asian states.

Cautious Optimism Needed

Money is undoubtedly a critical enabler for the implementation of plans. The International Renewable Energy Agency (IRENA) estimates that Southeast Asia will need more than US$7 trillion from 2018 to 2050 to effect an energy transition that is compatible with the 2050 net-zero vision.

Against this backdrop, the heavy emphasis given to financing at COP27 is a move in the right direction. However, a lot more needs to be done. Developed countries must honour their funding commitments. On the other hand, having learnt from existing practices that generally conform to the funders' interests, developing countries will need to create a conducive environment that gives greater assurance for project bankability. This includes regulatory certainty, a clear roadmap with cost breakdown, and the right incentives, among others.

The entire process takes time, and this partly explains why the current speed of change is far below what is needed to reduce emissions and achieve the Paris Agreement 1.5°C target by the end of the century.

Faced with these challenges, it is imperative for all parties to exercise cautious optimism about climate mitigation-related plans and pledges. All parties need to be prepared for the under-delivery of funding promises, skewed donor preferences in project selection and lack of commitment to reducing carbon emissions.

Margareth Sembiring is an Associate Research Fellow at the Centre for Non-Traditional Security Studies (NTS Centre), S. Rajaratnam School of International Studies (RSIS), Nanyang Technological University (NTU), Singapore.

S. Rajaratnam School of International Studies, NTU Singapore
Block S4, Level B3, 50 Nanyang Avenue, Singapore 639798
T: +65 6790 6982 | E: rsispublications@ntu.edu.sg | W: www.rsis.edu.sg