AMSA

COP26: Mobilize finance – opportunities and challenges

Green Innovations Team – December 2021

Celia-Wan-Sze-Yiu- Analyst

Francisco Seirul-lo Salas – Co-head of Research

www.amsa-network.com

After two weeks of intense negotiations, the 26th UN Climate Change Conference of the Parties (COP26) drew to a close on 13th November 2021. Although some environmental groups expressed grievances to its outcome, Jennifer Morgan, the Greenpeace International Executive Director, acknowledged some breakthroughs in the Glasgow Climate Pact. Indeed, the Pact has put forward an unprecedented agreement to 'phase down' (instead of 'phasing out') the use of coal and given more directions on mobilizing finance to address climate change in developing countries. Focusing on the latter, this report will briefly summarize the consensus, instructions, and challenges international climate financing faces after COP26.

1. Fixing the broken promise

During COP26, developed countries formally acknowledged that they had fallen short of the climate pledge made in 2009 Copenhagen COP15 Conference. According to the pledge, by 2020, rich nations had to channel US$100 billion a year to developing countries for their climate adaptation and mitigation. However, by 2019, only US$79.3 billion was realized. In light of this, various developed countries have agreed to scale up their climate finance commitment in COP26. For instance, the United States has decided to double its public climate finance to developing countries to US$11.4 billion by 2024. In addition, the European Commission has pledged a EUR 4 billion topup, such that its expenditure to support climate action in developing countries between 2021-2027 will be more than EUR 28 billion. Other EU countries like the Netherlands have separately agreed to increase their public climate finance. Most countries underline that they would use a substantial part of finance for adaptation purposes.

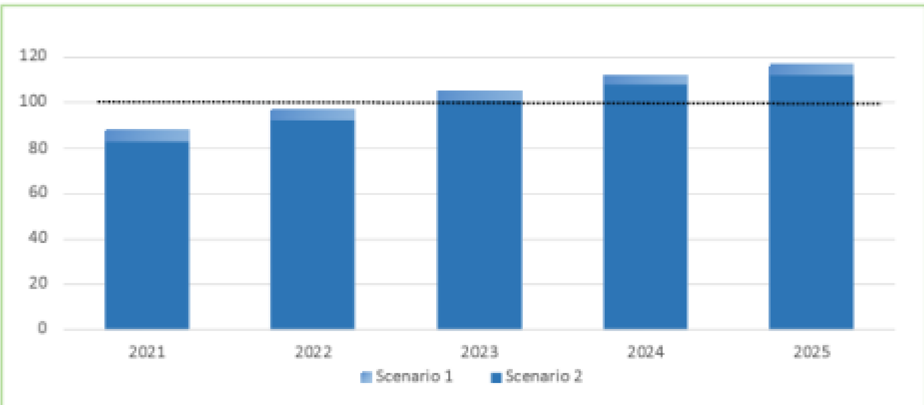

Figure 1. Annual Projections Towards the US$100 billion goal (Source: COP26)

Collectively, developing countries agreed to meet the US$100 billion goals by 2023. According to the annual projections of their climate finance Delivery Plan, developing countries shall be able to mobilize more than US$ 100 billion annually thereafter. In reality, a yearly increase in climate financing is necessary considering the inflation rate there (In 2020, the average inflation rate of the emerging markets and developing economies came to 5.07%).

2. Delineating public finance and private finance approaches

Apart from the Climate Finance Delivery Plan, advisory reports concerning the priorities of public and private finance approaches were separately delivered. The two systems were seen as complementary to assist the developing countries in combating climate change. In a nutshell, the mission of public finance is to develop the infrastructure necessary for the transition to a greener and more climate-resilient global economy. In contrast, private finance takes the role of funding green innovations and injecting trillions of total climate investment into the economy. Concerning public finance, the advisory report has highlighted the strategic roles of multilateral development banks, public development banks and developing finance institutions. It also recommended the existing multilateral climate funds to increase their capacities to further the goals of the Paris Agreement. Moreover, the report proposed to finance the poorest and the most vulnerable countries in the form of grants. Further, suggestions such as greater use of insurance, increased financing to nature restoration and developing gender-responsive approaches to aid women and girls, the far more vulnerable gender in climate change, were also brought up as priorities in public financing. In relation to private finance, COP26 envisaged a virtuous cycle to assist the globe in attaining net-zero carbon emissions.

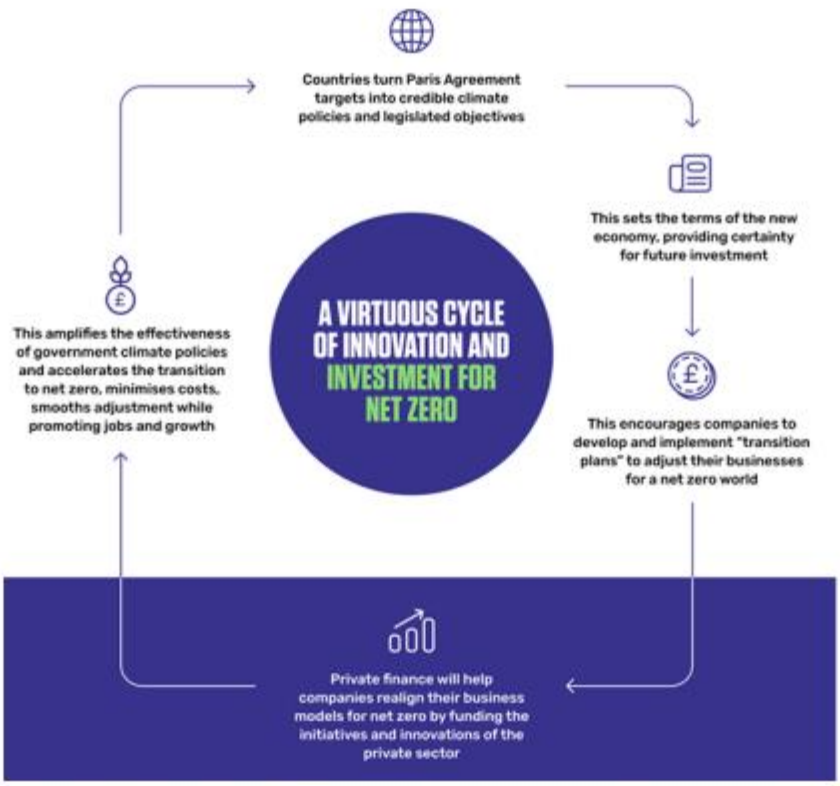

Figure 2. A Virtuous Cycle of Innovation and Investment for Net Zero (Source: COP26)

From setting the reporting system in alignment with Task Force on Climate-Related Financial Disclosures (TCFD), managing physical and transition risks pertaining to climate change, realizing the returns in opportunities arising from the net-zero business transition to mobilizing new market investments, the report encourages private finance sector to take climate change into account in every financial decision it makes, thereby realizing the virtuous cycle above. Overall, COP26 maintained that the concerted effort from governments, banks, companies, financial firms, insurers and investors is necessary to achieve our climate goals.

3. Post-COP26 climate finance challenge: Taxomania

Although the future of green finance seems promising, the increasingly complex rules on 'green' investment might deter investors. Over 30 countries across Asia, Latin America, and Europe are currently developing their taxonomies, defining their localized version of sustainable investment. On the one hand, understandably, investors wish to lower the process costs and risks by seeking a globally aligned system. But, on the other hand, if we blindly pursue a unifying method to calculate sustainability, we might lose the original intention of sustainable finance which aims to address the local needs.

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