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COP29: Reason for Hope Despite the New Climate Financing Deal

By Margareth Sembiring

SYNOPSIS

Although COP29 did not deliver a satisfactory new climate financing figure, other developments outside of the UNFCCC give reason to hope for a sustained momentum for climate action.

COMMENTARY

The 29th Conference of Parties (COP29) of the United Nations Framework Convention on Climate Change (UNFCCC) in Baku, Azerbaijan, concluded with a new financing deal amounting to US\$300 billion per year by 2035, up from the previous US\$100 billion per year that developed countries pledged fifteen years ago at COP15 in Copenhagen. The plan to increase their contribution to climate financing starting from 2025 is instituted in the [Paris Agreement](#). It goes in parallel with the ratcheting mechanism of increased greenhouse gas emission reduction targets over the years.

Close to three years of preparatory work preceded the much-anticipated new collective quantified goal (NCQG) – the financial target to support developing countries in their climate actions post-2025 – to be agreed at this year's summit, which gave it the "climate finance COP" label. Despite the tripled figure, it fell far short of developing countries' [US\\$500 billion](#) demand, which was backed by a [UN report](#) that suggested around US\$1 trillion for the NCQG to be sufficient. In addition, in contrast to developing countries' [preferences](#) for public funds, the deal made it clear that private funds are going to have an increasingly important role in climate financing.

Although the overall outcome was a major disappointment for developing countries, the lower-than-expected US\$300 billion should not come as a major surprise given developed countries' track record of consistently missing the previous annual US\$100 billion target, except for 2022. The failure to meet their commitment reflects protracted

conflicting domestic priorities, which can explain why the private sector's greater involvement is seen as an inevitable solution to climate financing.

Southeast Asia Climate Financing Needs

Like other developing countries, developing Southeast Asian countries depend on financial assistance for climate action and would have benefited from a higher NCQG. To illustrate, having suffered an [estimated](#) US\$97.3 billion loss from climate-related events in the last decade, the region will need around US\$422 billion to adapt to climate adversities in the next five years.

In addition, in terms of climate mitigation, the region requires more funds to realise its renewable energy ambition, which has seen remarkable growth in recent years. Solar power development is particularly promising. At 23 Gigawatt (GW), it constituted around seven per cent of [ASEAN's](#) installed capacity in 2022, the second largest renewable energy in use after hydropower. More solar power projects are in the pipeline, including Malaysia's fifth 2 GW large-scale solar programme and Thailand's plan for sixteen floating solar farm projects totaling 2,725 Megawatt (MW) in capacity.

The potential rise of renewable energy use in the region is evident in Southeast Asian countries' energy [plans](#). For example, Vietnam envisions renewable energy making up 15-20 per cent of its installed capacity by 2030, and the Philippines plans to increase the shares of solar and wind in installed capacity to respectively 5.6 per cent and 11.7 per cent by 2030. Funding support is critical to realise these visions.

Additionally, renewable energy development is often a key component in each country's Nationally Determined Contributions (NDCs), which contain both unconditional and conditional emission reduction targets. Contingent upon international assistance, countries aim for higher reduction targets for the latter. As such, the more money being pledged by developed countries, the more aggressive renewable energy development in developing countries can be. In the [Asia-Pacific](#), around US\$2 trillion annually is necessary to realise NDC targets.

Developments Outside the UNFCCC

Despite falling short of expectations, the NCQG should not dampen the region's enthusiasm for climate action. Outside of the formal UNFCCC climate financing mechanism, other types of financing have emerged and organised themselves. For example, in line with the spirit of providing more funding for developing countries, Singapore – considered a developing country in the UNFCCC and is therefore not obligated to contribute to the UNFCCC's climate financing – launched the Financing Asia's Transition Partnership ([FAST-P](#)) last year and recently committed up to US\$500 million to support the initiative.

As a blended finance where Singapore will match dollar-for-dollar the contributions by its partners, FAST-P demonstrates Singapore's leadership in fostering public-private partnership and encouraging other actors including governments, multilateral development finance institutions and philanthropies, to contribute more to plugging the climate financing gaps in the region.

Moving forward, the potential for private sector contribution to climate financing is indeed likely to be more significant following the maturing of markets for low-carbon technologies such as solar and wind power. More, such as electric vehicles, are to come. The [private sector](#) contributed about US\$168 billion, or 32 per cent, of climate financing between 2018 and 2019, and the share is anticipated to climb up to 90 per cent by 2030. While more private capital is expected to be on board, governments must ensure that the [right regulations](#) are in place to enable the private sector to meet both their environmental goals and for-profit interests.

In this regard, Southeast Asian governments' ongoing efforts to develop taxonomies is a move in the right direction to further encourage private capital in sustainability financing. Following the ASEAN Finance Ministers and Central Bank Governors' Meeting in March 2021 that resulted in the establishment of the ASEAN Taxonomy Board (ATB), the ASEAN Taxonomy for Sustainable Finance has been developed, with its [Version 3](#) being released earlier this year.

While the ASEAN Taxonomy serves as the overarching guide, individual ASEAN countries have likewise come up with their own, including the Thailand Taxonomy Phase 1 in June 2023, the Singapore-Asia Taxonomy in December 2023, the Indonesia Taxonomy for Sustainable Finance (ITSF) in February 2024, and the Philippine Sustainable Finance Taxonomy Guidelines (SFTG) in February 2024.

Taxonomy will help to inform investors of activities' alignment with environmental objectives, including climate change mitigation, by assessing and classifying them into green, amber, or red categories. The green category signifies conformance with a trajectory of 1.5 degrees Celsius and/or near zero emissions, whereas the amber category reflects a potential towards such objectives. Conversely, the red category denotes incompatibility with the said pathway. Such taxonomy thus gives investors greater clarity of the risks and potential return of investments of activities of interest accordingly, and in turn, is expected to direct more investments to green and amber categories away from the red one.

Conclusion

At this juncture, it is evident that there is positive momentum that has been built over the years for sustained climate action in Southeast Asia despite the lower-than-expected new climate financing deal in Baku. This, however, does not negate the necessity for committed financing from developed countries. After all, the world is still attempting to curb the rise of global temperature to below 1.5 degrees Celsius by the end of the century. Despite the goal becoming increasingly hard to attain with a current estimation for the planet to warm up to [3.1 degrees Celsius](#), it is important for all relevant stakeholders to spare no effort at realising their climate action goals.

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.
