L'ACTU ESG

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COP29: A LOT IS STILL NOT ENOUGH!

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KEY POINTS:

- The decision was taken at COP29 to triple climate financing for developing countries
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- Financial targets have been set for 2030 and 2035
- The most important thing remains the search for a gradual phase-out of fossil fuels

How can US$300bn be too little? Under a new finance goal, developed countries agreed at COP29 to triple climate finance for developing countries. The richest countries pledged at least US$300bn annually by 2035.

An increasingly important investment...

Originally, developing countries demanded close to US$1tn per year by 2030 (and $1.3tn by 2035) from developed nations. Now, this figure represents an overarching goal, calling on the mobilization of all sectors, both public and private. Why does the source of commitment matter? According to the latest study by the Independent High-Level Expert Group on Climate Finance (IHLEG)[1], climate action requires US$6.5tn in annual investment by 2030 and US$7.6tn per year by 2035. Of this, emerging markets and developing countries (excluding China) need c.US$2.4tn per year by 2030 (US$1.4tn from domestic resources and US$1tn from external finance).

While investment is expected to come from different funding sources, the cost of capital is a key element for beneficiaries, especially for those countries that are the most vulnerable. Maximizing the share of public commitment from external finance sources would indeed minimize the additional climate-related debt burden on beneficiaries.

"Any shortfall in investment before 2030 will place added pressure on the years that follow, creating a steeper and potentially more costly path to climate stability". The findings of the IHLEG report suggest that the opportunities related to investments (avoided costs and co-benefits of climate action) could amount to 15-18% of global GDP in 2030. To put things into perspective, the climate action need of US$6.5tn in annual investment is equivalent to 6% of the World's GDP in 2023.

> « Any shortfall in investment before 2030 will place added pressure on the years that follow, creating a steeper and potentially more costly path to climate stability »

... but must be supported

Taking a step back, the actual amount committed to climate finance is of little value, unless there is increased commitment to phasing out fossil fuel (as introduced last year but disappointingly not reinforced this year outside of the Powering Past Coal Alliance[2]) or enhanced ambitions in countries' NDCs (leveraging on the progress made on Article 6). The 2024 Emissions Gap Report[3] estimates that prolonged current mitigation efforts would lead to c.3.1°C in warming. However, if unconditional and conditional pledges are fully implemented, the global temperature rise could be brought down to c.2.6°C.

1) Raising ambition and accelerating delivery of climate finance - Grantham Research Institute on climate change and the environment (lse.ac.uk)
2) 25 Countries and the EU launch Call to Action for No New Coal in National Climate Plans - PPCA (poweringpastcoal.org)
3) Emissions Gap Report 2024 | UNEP - UN Environment Programme

During the COP, John Kerry made a statement raising doubts about whether even "clawing back" to the 1.5°C target was possible. Clawing back would imply cutting emissions by 42% by 2030 and 57% by 2035. The odds are indeed stacked against us, but a strong increase in private sector investments in mitigation and adaptation could keep our hopes alive.

« When and where public financing falls short, private financing sources should fill the gap. And while the scale and rate of delivery of climate finance are decisive in reaching climate targets, the main complexity is to channel the flows to maximize their additionality. »

Global assets under management reached US$132tn in June 2024[4] (of which privately held assets account for roughly 10%[5]), which means that just 1% to 6% of global AuM would need to be channeled towards global climate action in order to meet the annual investment objectives highlighted by the IHLEG. Private capital, infrastructure and ring-fenced debt are asset classes where additionality can be maximized as well as social and environmental co-benefits.

The need for close links between public and private funding

In France, the enactment of the "loi industrie verte" in October 2024 is a good example of how private capital is being gathered to finance the climate transition. Energy-transition related, private equity investments are financed through the systematic allocation of a portion of life insurance or retirement savings assets. "Obligations de transition"[6] will also be launched in France in January 2025. Small and medium sized enterprises will gain access to a new funding solution for their transformation or the development of energy transition solutions. While these frameworks maximize domestic outcomes, similar investment programs exist to fund high impact projects in developing countries.

When and where public financing falls short, private financing sources should fill the gap. And while the scale and rate of delivery of climate finance are decisive in reaching climate targets, the main complexity is to channel the flows to maximize their additionality.

4) Beyond the balance sheet: North American asset management 2024 | McKinsey
5) Global Private Markets Review 2024 | McKinsey
6) Qu'est-ce qu'une obligation transition ? | Ministère de l'Économie, des Finances et de l'Industrie et Ministère chargé du Budget et des Comptes publics (economie.gouv.fr)

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