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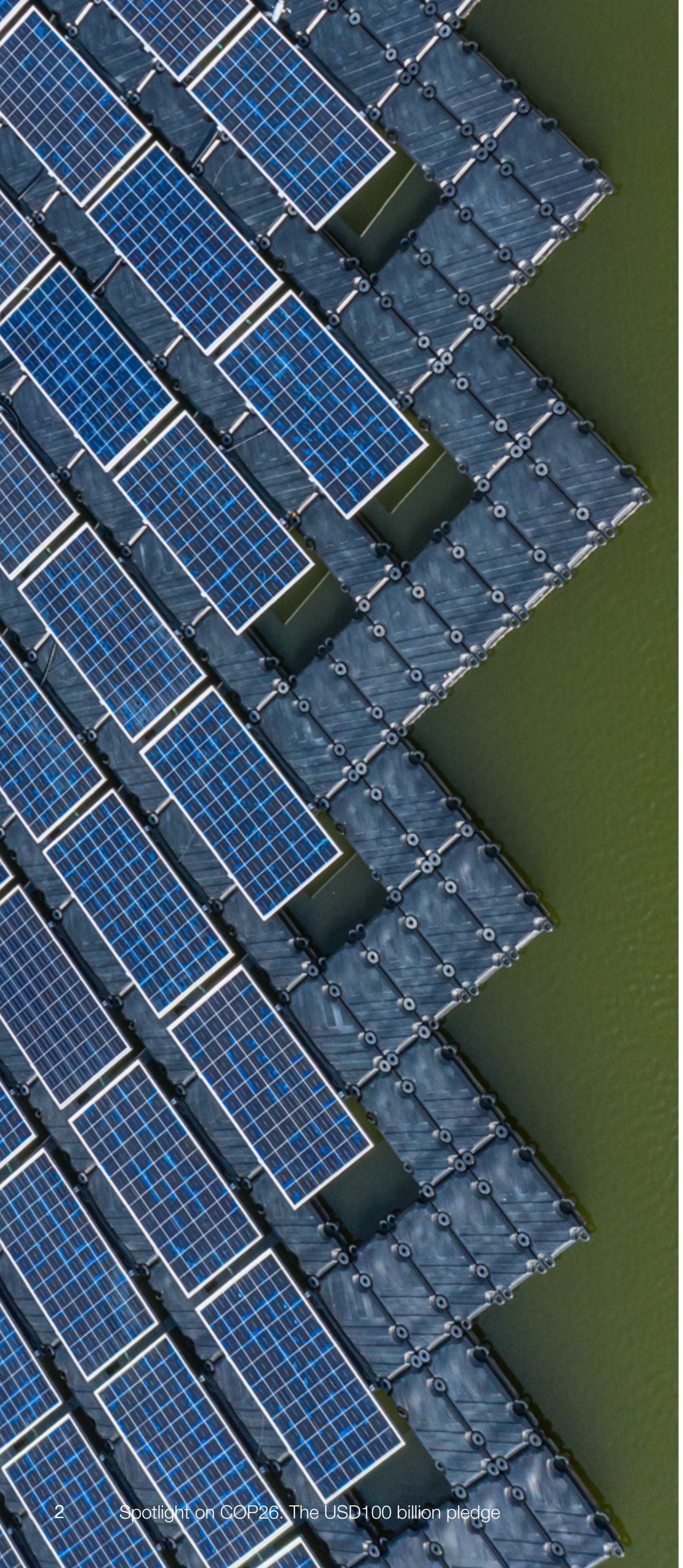
Spotlight on COP26:
The USD100 billion pledge

Businesses active in developing nations want politicians to provide greater clarity about their climate commitments at COP26, writes **Scott Neilson**, a partner in Allen & Overy's Tokyo office.

If you take a boat ride across the Cirata reservoir in West Java in Indonesia in the next few months, you will encounter a flurry of construction. A vast 145 MW floating solar panel farm is being built. The USD127 million project is expected to be completed at the end of next year and once fully up and running, it will be the largest floating solar power plant in Asia. The new facility will provide enough energy to power 50,000 homes and reduce carbon emissions in Indonesia by 200,000 tons annually.

When I speak to clients across Asia Pacific, they tell me that this is exactly the sort of scheme that they want to see more of. Yet, these types of projects remain a rarity in developing nations.



Infrastructure

The big problem is that the infrastructure and the incentives are not in place for private sector companies to make it work in many developing countries. Many businesses want to get on board with the green agenda, but they cannot do that if power grids are not able to accept renewable energy; not everyone has access to electricity; or the right subsidies are not in place.

That is why the work of global leaders at COP26 in Glasgow is so important. Many business leaders believe that money from richer nations will be crucial in helping developing countries upgrade their infrastructure and bring in new green policies. This will then allow them to step in and do their bit in the transition to net zero.

Promises, promises

The governments of developing nations do not have the money (and sometimes the expertise) to make these necessary changes on their own. Coal may be dirty, but it is a cheap and stable source of power, making it difficult to give up. Eighteen months into a global pandemic, already cash-strapped governments have many other pressing priorities. It often makes more sense to spend scarce funds on health and education, rather than upgrading sub-standard but still functioning power infrastructure.

So what have rich nations promised so far? At the G7 meeting in Cornwall in June, leaders pledged to raise USD100bn a year to help poor countries cut emissions.

A statement released by UK prime minister Boris Johnson at the time argued that rich nations had an obligation to help developing nations and "that action needs to start with us". He also pointed out that developed nations had used fossil fuels to boost growth for over 200 years and were responsible for 79% of historical greenhouse gas emissions.

Some argue that despite the laudable rhetoric, politicians are not taking their obligations to poorer nations seriously enough. Arguably, this has just played out with the "delivery plan" for the USD100bn published recently confirming it won't be met until at least 2023.

Déjà vu

But for many climate watchers, this announcement was also met with a sense of déjà vu.

At COP16 in 2010, leaders also pledged to raise USD100bn a year for developing nations to tackle climate change by 2020. But much of this money failed to materialise. The high water mark was 2019 when USD79.6bn was provided to poorer nations for their climate change efforts, according to the OECD. The majority of this was parcelled out in the form of concessionary loans, with just 29% of the money provided through grants in 2019.

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The Energy Transitions Commission estimates that USD1-2 trillion a year is needed to achieve net zero by 2050. So even if the USD100bn commitment is honoured by 2023 (as developing nations pledged in late October), it will not go very far – especially when you consider that it will be spread across dozens of developing nations.

Bridging the gap

So far so gloomy. But if leaders from G7 nations at COP26 can put flesh on the bones of their commitments – providing specifics about where the cash will come from, how it will be distributed and the types of projects that will benefit – that would be a start.

My clients tell me that it is not a shortage of technology, money or desire that is stopping them from financing green projects in developing countries. It is a lack of good projects.

Loans from richer nations can help pay for upgrading electricity grids, improving public transport or supporting municipalities in paying for waste and water projects. All of these types of projects would deliver a big bang for richer nations' buck. Better yet would be grants, which enable poorer nations to grow their budgets, rather than just shift money from one over-stretched department to another over time with an added interest cost.

The governments of poorer nations can also help business by developing supportive policies and laws that de-risk projects and facilitate the private sector in taking innovative approaches. Knowledge sharing from richer nations would also help in this effort, as would more support for multilateral agencies like the Asian Development Bank, the European Bank for Reconstruction and Development and the International Finance Corporation.

Ultimately government money alone will not be enough to tackle climate change. Private money is also crucial to bridging the gap – and the billions of dollars flowing into ESG and sustainability linked funds shows that there is appetite to finance green projects. But business needs the infrastructure and markets to be in place before they can take up the baton. Without steps from richer nations to support those who need it most, projects like the Cirata solar farm will remain a rarity.

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