Sustainable Finance for the Energy Transition

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Southeast Asia is making good progress on No Poverty (Goal 1), Quality Education (Goal 4), Clean Water and Sanitation (Goal 6), and Industry, Innovation, and Infrastructure (Goal 9).

The South-East Asia subregion has struggled the most in advancing life below water (Goal 14) and climate action (Goal 13).

Source: UNESCAP, Asia and the Pacific SDG Progress 2021.
Financing Gap in Asia-Pacific Region

- Asia will need $26 trillion in investment between 2016 and 2030, or $1.7 trillion per year.
- East Asia is expected to account for 62% of all climate-related investments between 2016 and 2030.
- Asia and the Pacific accounts for more than 50% of global CO2 emissions where more than half comes from electricity and heat.
- Climate adjusted investment in energy accounts for 56% of what the region needs up to 2030.

Source: Estimated from ADB’s 45 developing members. Source: Asian Development Bank.

Note: Climate change adjusted figures include climate mitigation and climate-proofing costs, but do not include other adaptation costs.
Sustainable finance includes finance directed to all sustainable goals, including climate related goals.
Sustainable finance incorporates two definitions. The first includes finance that goes towards sustainable uses (defined by use-of-proceeds clauses). This has a direct impact on the SDGs or climate-related goals. The second definition is related to making finance sustainable. This incorporates environmental, social and governance (ESG) indicators in risk management and reporting in financial instruments. This makes the overall financial system (corporates, borrowers, lenders) increasingly sustainable. Climate finance and green finance is a subset of sustainable finance.
There are challenges for ASEAN countries are:

- Fiscal Constraints due to COVID.
- Rising inflation.
- Clear that the finance gap is considerable and thresholds of bankability have risen.
- Estimates vary but one estimate is that total funding requirement for climate mitigation is approximately US $5.8 billion with the Forestry and Other Land Use (FOLU), waste, and energy sector actions requiring the most funding.
- Another estimate is that funding required for climate adaptation actions is over US $2 billion with infrastructure, water, and agriculture requiring the most funding.
Why Increase Sustainable Finance?

- World Bank estimates investment of US$1, on average, yields US$4 in benefits.
- Align public and private capital with National and International objectives – contributing to the overall coherence of the financial system
- Improves risk management, due diligence and awareness of actors.
- Aligns with investor preferences and especially European capital that adopts the EU taxonomy
- Increases access to private capital e.g., global ESG assets on track to exceed more than a third of the total assets under management (Bloomberg).
- Sustainable finance does not need to compromise on financial returns, especially in the long term.
One indication of ESG Fund Flows

Global Quarterly ESG Fund Flows by Region ($bn)

Asia Pacific Quarterly ESG Fund Flows ($bn)

- Australia
- China
- Hong Kong
- India
- Indonesia
- Japan
- Malaysia
- New Zealand
- Singapore
- South Korea
- Taiwan
- Thailand
Issuances of green bonds expanding in Asia-Pacific, but with large disparities across countries

Value of issued green, social, and sustainability bonds in 2021

Challenges:

- Not only promote climate sustainability but also ensure the reliability of energy supplies and their affordability for governments and their citizens, maintaining social stability.
- Striking a subtle balance among sustainability, reliability and affordability to maintain social stability.

Source: Asia Transition Finance (ATF) Study Group.
ESCAP project on climate finance

Green bond frameworks
- Cambodia, Sri Lanka, Bhutan, etc.

Three main focuses:
- Identify gaps and needs for investments in low carbon development activities in support of NDC implementation.
- Empower Central Banks to enhance their role in domestic climate finance as the regulators of the national financial system.
- Capacity development and technical advisory services to Central Banks to develop policies and guidelines.

Forthcoming work on preparing bankable pipelines of projects that are capable of receiving climate-finance in LDCs, SIDS and LLDCs. This will be done in selected countries as a pilot, working with governments, central banks, investors and private sector to understand climate standards, requirements, returns on investment and risk.
ESCAP’s Thematic Bond Initiatives and Related Activities

2021 Research:
- An Introduction to Issuing Thematic Bonds (link).
- Green and Climate Finance Options to Support the Post COVID-19 Pandemic Recovery and Climate Action (link).
- Sustainability Bond for the Pacific Feasibility Study (link).
- Financing the SDGs to Build Back Better from the COVID-19 Pandemic in Asia and the Pacific (Chapter 2).

Technical Assistance and Policy Support:
- Supported and advised on the issuance of Bhutan’s first sovereign bond.
- Supporting the National Bank of Cambodia on the development of their green finance strategy (including considerations on green bonds).
- ASEAN pathways document on the development of SDG and thematic bonds in ASEAN to unlock investment in the region.
- Collaboration with the Luxemburg Stock Exchange (LuxSE) to support the listing of green bonds and Sukuk from the region on the exchange.

Workshops and Intergovernmental Engagement:
- Subregional workshops and trainings on thematic bonds (ASEAN and North and Central Asia).

Women’s Livelihood Bond
Debt security mobilizing private investment capital to fund a portfolio of loans to women focused borrowers

[Image: Women's Livelihood Bond]
The way forward: Finance

**SUPPLY/Demand Driven Climate Financing**

**Supply of Funding**
- Green climate fund
- National climate funds
- Official development assistance
- Commercial banks
- Central banks
- Private funds

**Nationally Determined Contributions**
1. Identify sectors for intervention
2. Develop bankable projects
3. Match projects to financing sources

**Demand from Sectors**
- Agriculture
- Energy
- Transportation
- Urban Development
- Manufacturing
Key Policy Recommendations

- Strong action is needed to move Southeast Asia away from its current carbon-intensive development trajectory.

- Climate stabilization implies large emission reductions - Emission reductions are driven by land use, energy efficiency, and low-carbon energy sources. The largest single long-term source of cumulative emission reductions over 2010-2050 is energy efficiency gains, while low-carbon energy is most important in the longer-term portion.

- Research investment is required for advanced energy availability: Realizing the potential of advanced low-carbon energy sources to contain decarbonization costs requires early investment in research.

- Energy efficiency and energy substitution determine long-term mitigation costs: Decarbonization of the energy sector is found to derive from increased efficiency of energy use, replacement of carbon-intensive fuels with cleaner alternatives, and reduction in energy consumption.

- Advanced energy technologies are critical to long-term mitigation at acceptable cost.
Regional Level Recommendations

- **Central Banks must guide and shape new financial paradigms by forming an enabling regulatory framework.**

- **Green bonds emerged as a high-value driver of sustainable financial change.**

- **The fastest way to change any industry sector is to influence the regulatory mechanisms which govern it and the role of sustainable financing roadmaps.**

- **ESCAP can play a key role in quickly matching the capacity development needs of the national climate experts with the agencies and partners providing such support through the SDG help Desk.**

- **Key national champions were identified as critical drivers for CF.**

- **Enhanced commitments towards concrete climate-responsive actions.**

- **The need for national coordination and institutional coherence was identified.**
THANK YOU