# ESCAP Regional Cooperation Mechanism for Low Carbon Transport

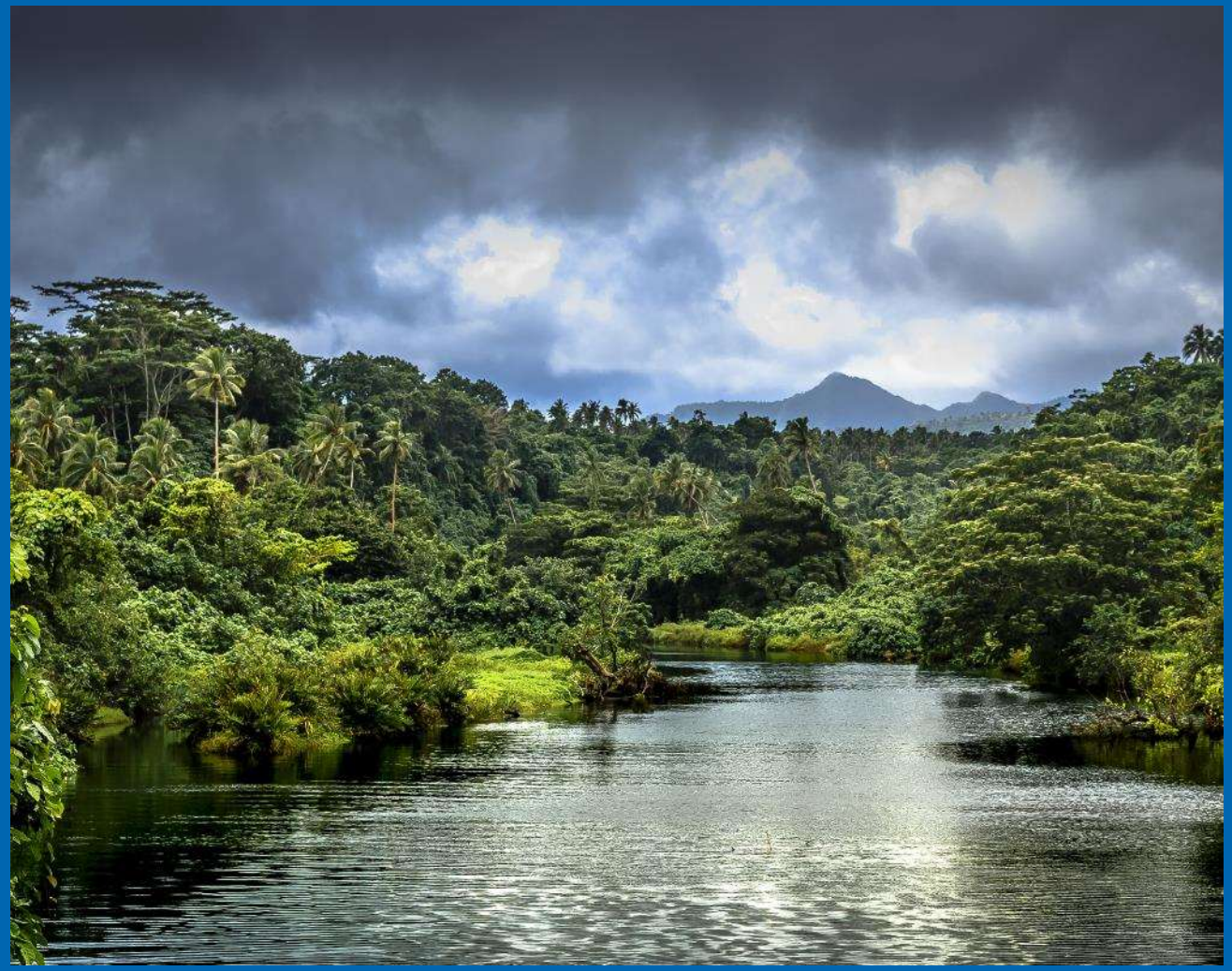
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16 May 2024

# Overview

- Introduction
- What can policymakers do?
- What can regulators do?
- What can private finance do?
- Ten principles for action to bridge the sustainable finance gap In Asia and The Pacific



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# Substantial and rising estimates of financing requirements to meet countries' SDG and climate ambitions

## Total investment needs to achieve climate, nature and SDGs per year by 2030 in EMDEs excluding China

**$5.4 trillion**



**$2.4 trillion** for climate and nature-related investments

- Energy transition $1.55 trillion
- Adaptation and resilience, coping with loss and damage $500 billion
- Natural capital and sustainable agriculture $350 billion



**$3 trillion** for other SDG investments

The investment needs to transform the transport system is estimated at $500 - 600 billion

*Source:* ESCAP based on G20 Independent Expert Group Report

*Note:* Totals may not add due to rounding.

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# Financing the common goals

- Lack of adequate financial resources is one of the main challenges facing Asia-Pacific countries in effectively pursuing common and related goals of the Agenda 2030 for Sustainable Development, the Paris Agreement and the Kunming-Montreal Global Biodiversity Framework.
- Not surprisingly, financing strategies that meet such common goals are increasingly being requested, defined and implemented by countries around the world.
- Financing pathways to achieving national commitments in these 'triple agenda' are unique to each country. A mix of domestic, international (including ODA), public and private financial resources are required for each country to meet its national priorities and ambitions.

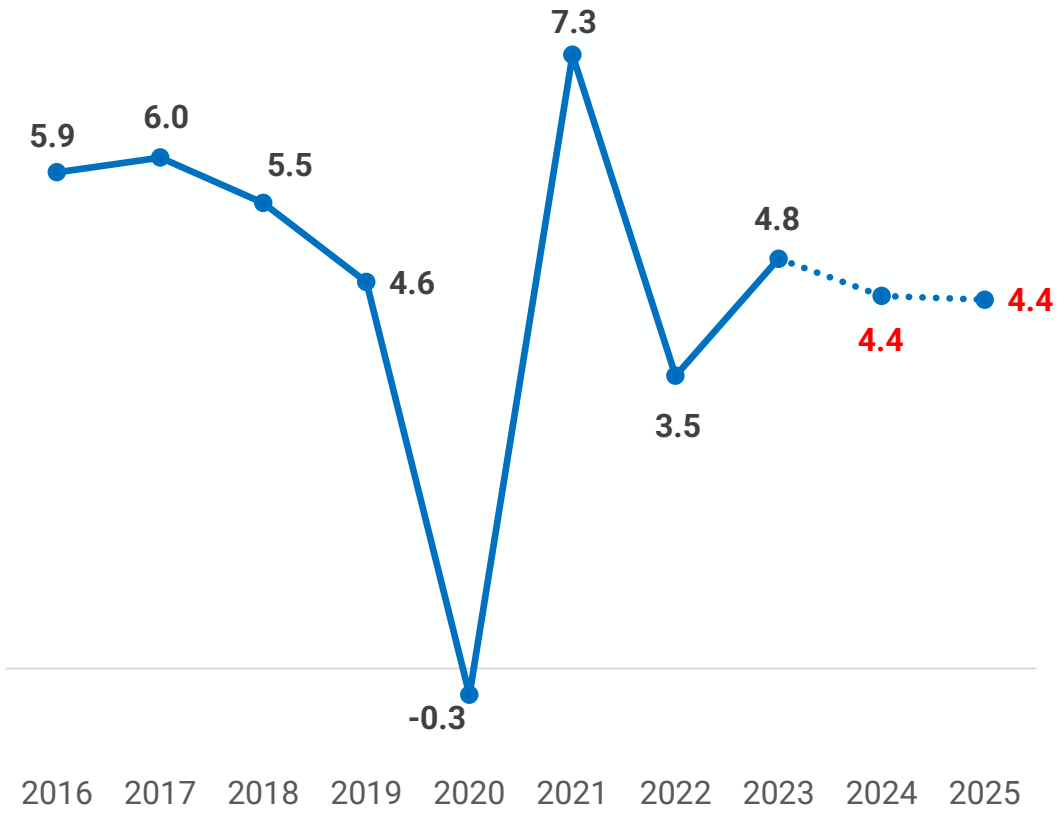



*Selected examples of common goals of the triple agenda*

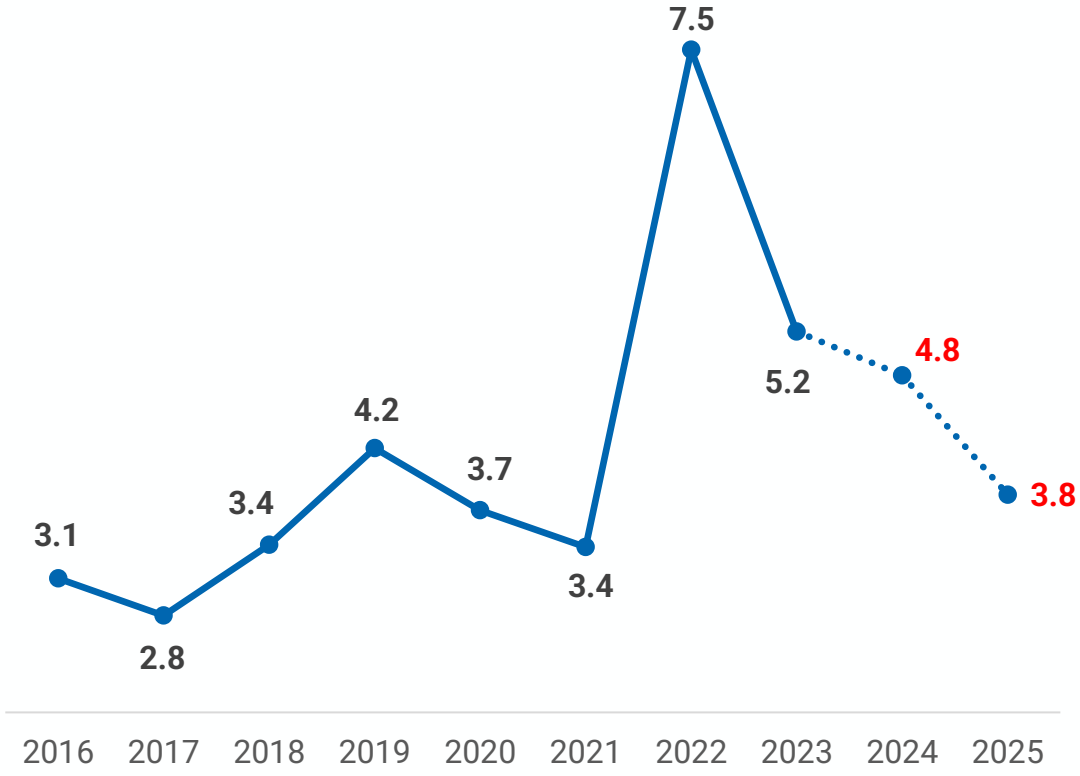
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# Steady, yet below-trend GDP growth and declining, yet relatively high inflation

Real GDP growth (%)




Headline inflation (%)

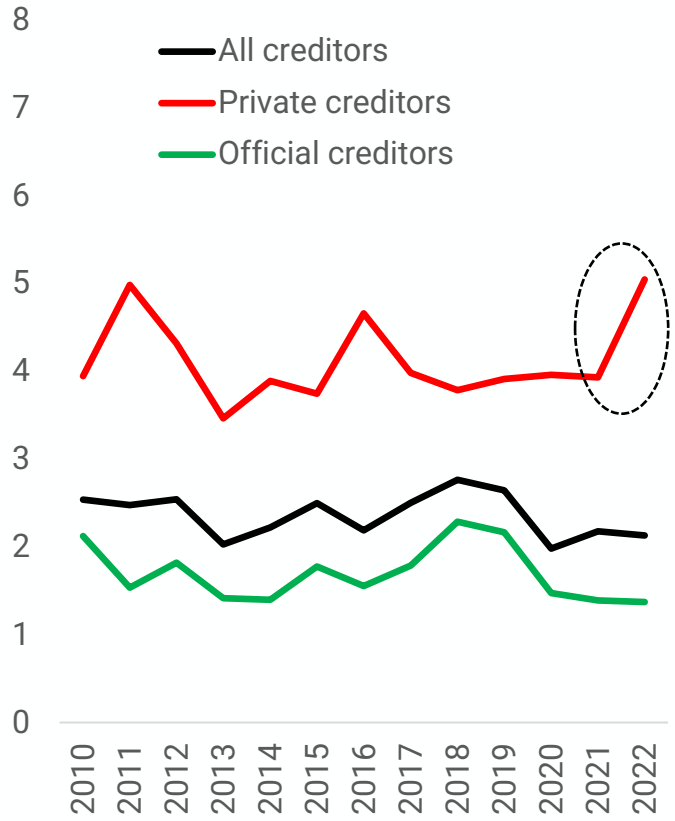



*Source:* ESCAP estimates and projections as of February 2024.

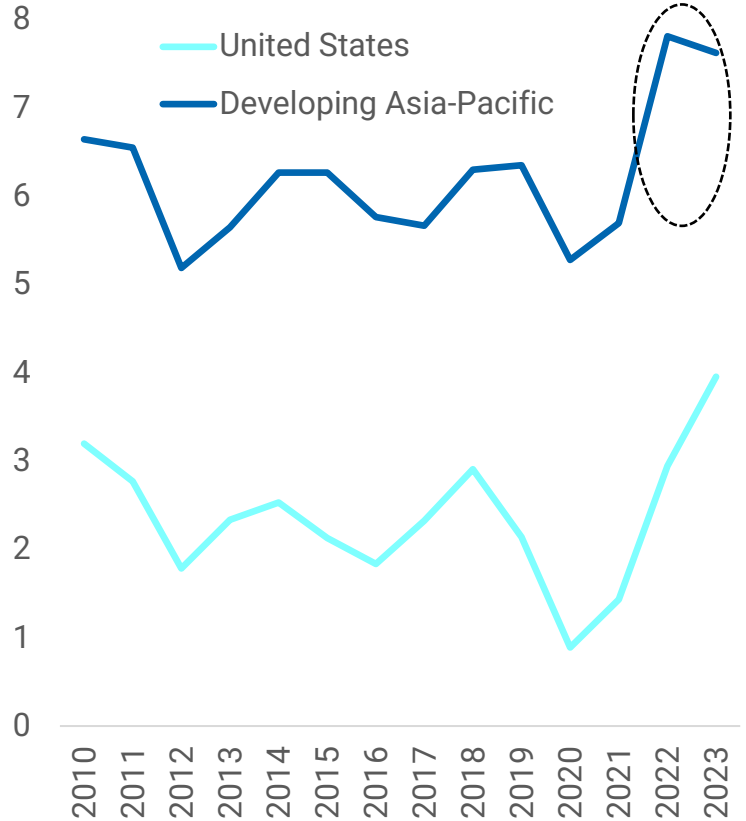
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# Government borrowing costs in Asia-Pacific are rising, with shorter loan maturity

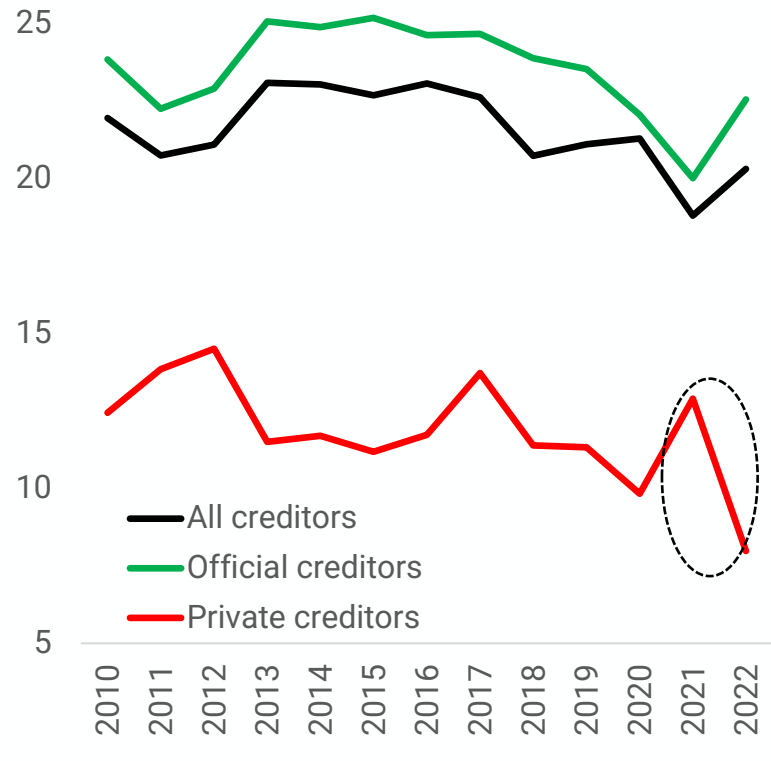
Average **interest** on new external debt commitments (%)




Average local-currency **sovereign bond yields** (%)



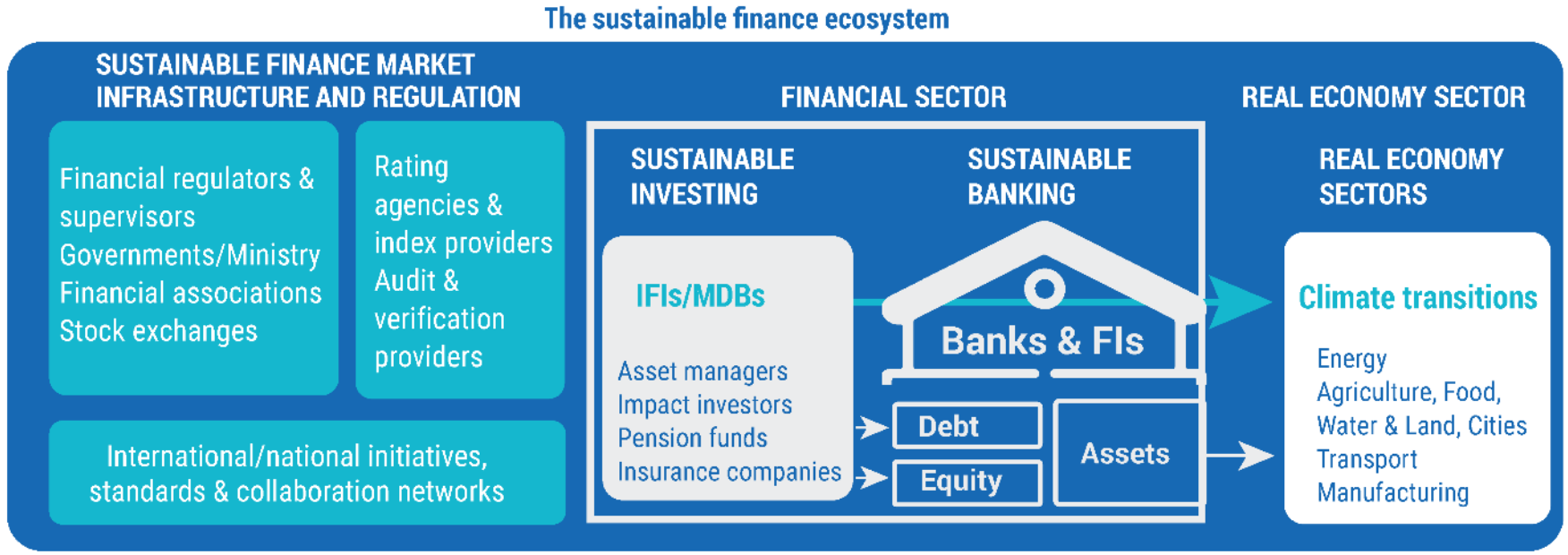

Average **maturity** on new external debt commitments (years)




Source: ESCAP, based on World Development Indicators database and Bloomberg.

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# The Sustainable Finance Ecosystem




The sustainable finance ecosystem...

& its catalyzers

**Enabling environment**

- Country NDCs & climate change national plans
- Green finance regulation
- Green taxonomies
- ESG best-practices
- Climate stress-testing
- Market guidelines for green issuance
- Reporting & disclosure standards
- New financial products & instruments

**Sustainable finance**

- Green bonds/loans
- Sustainable bonds/loans
- Sustainability-linked bonds/loans
- Blue bonds/loans
- Transition finance
- Green/sustainable funds
- Green structured finance
- Green equity

**Sustainable banking transformation journey**

- Green vision, strategy & pledge
- Organization, governance & culture
- Green value proposition
- Climate & ESG risk management
- Eco-efficiency & carbon footprint
- Green digital finance
- Sustainability stakeholder engagement

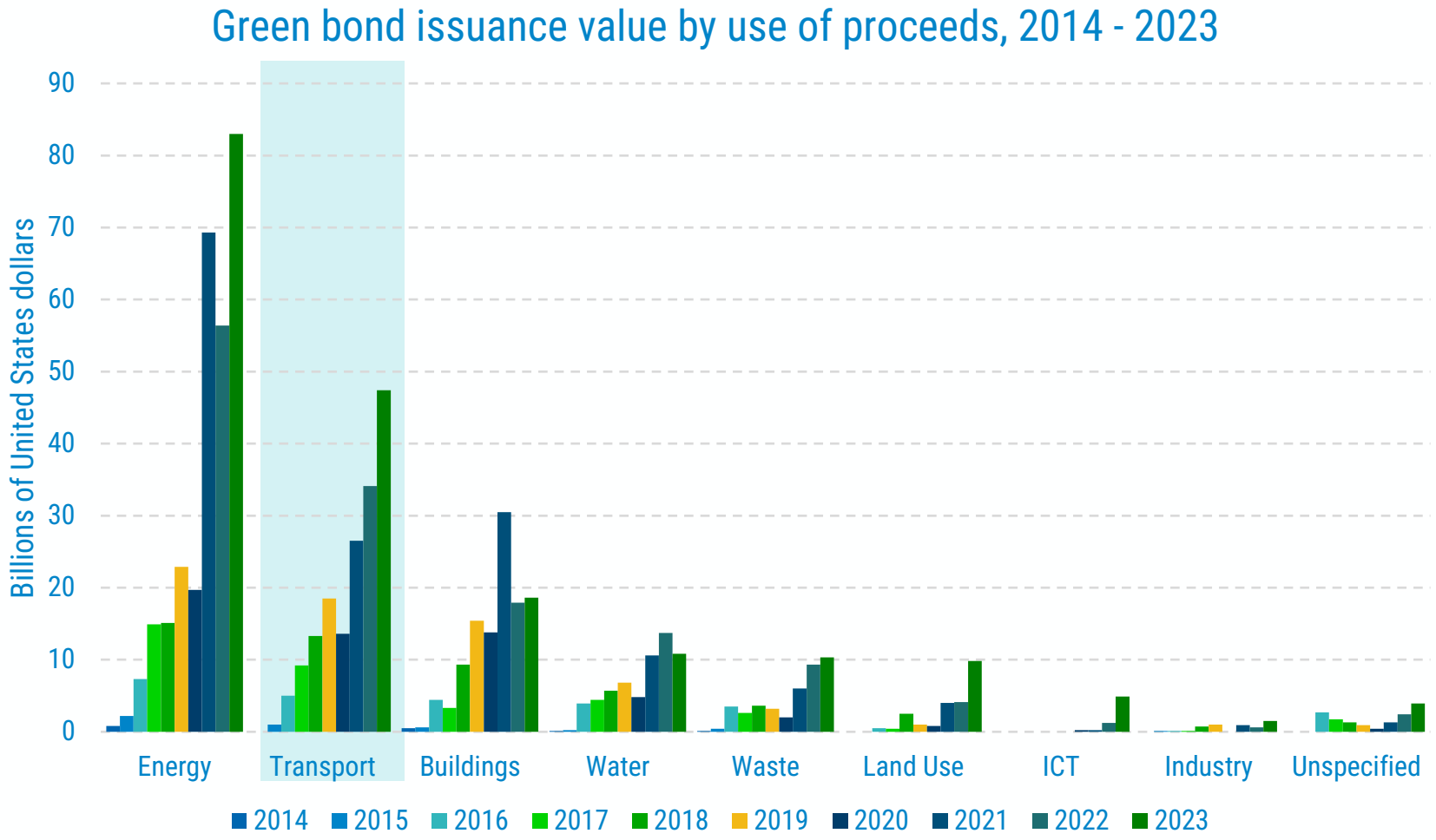
**Sustainable systems & solutions**

- Climate-smart agriculture
- Green buildings & cities
- Renewable energy
- Distributed generation
- Energy efficiency
- Water & waste management
- Circular economy
- Sustainable transport & mobility

*Source:* ESCAP adapted from the International Finance Corporation

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# Through the sustainable finance instrument, investment toward low carbon transport is increasing in Asia and the Pacific




*Source:* ESCAP based on Climate Bonds Initiative

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# What can governments do?

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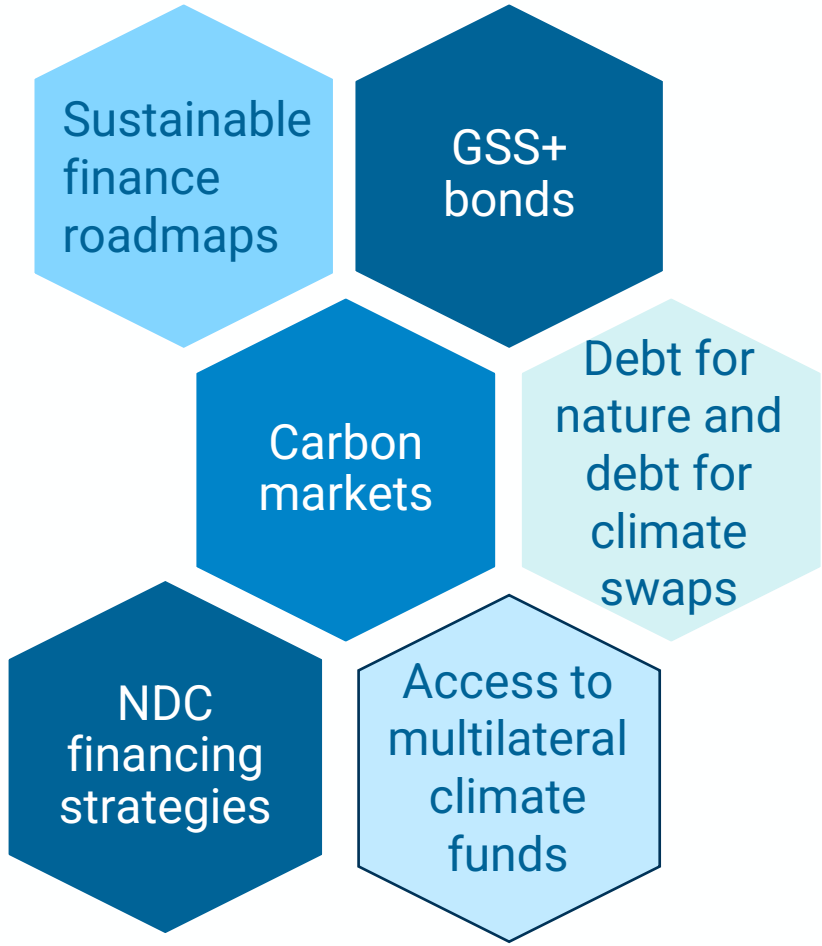
# Role of governments to signal credible intentions and present national climate action priorities to markets

*Need for coherence between policy commitments and regulatory frameworks*

**Challenges**

- Limited availability of country NDC financing needs and ambitious NDC financing plans
- Rapidly changing sustainable finance landscape
- Lack of harmonization to access different climate finance sources
- Sovereign Credit Ratings and Lack of Local Currency Options
- Lack of bankable green project pipelines
- Limited technical capacities across project cycle
- LDCs and SIDS specific challenges and vulnerabilities to attract private finance and access multilateral climate finance

**Instruments and tools**

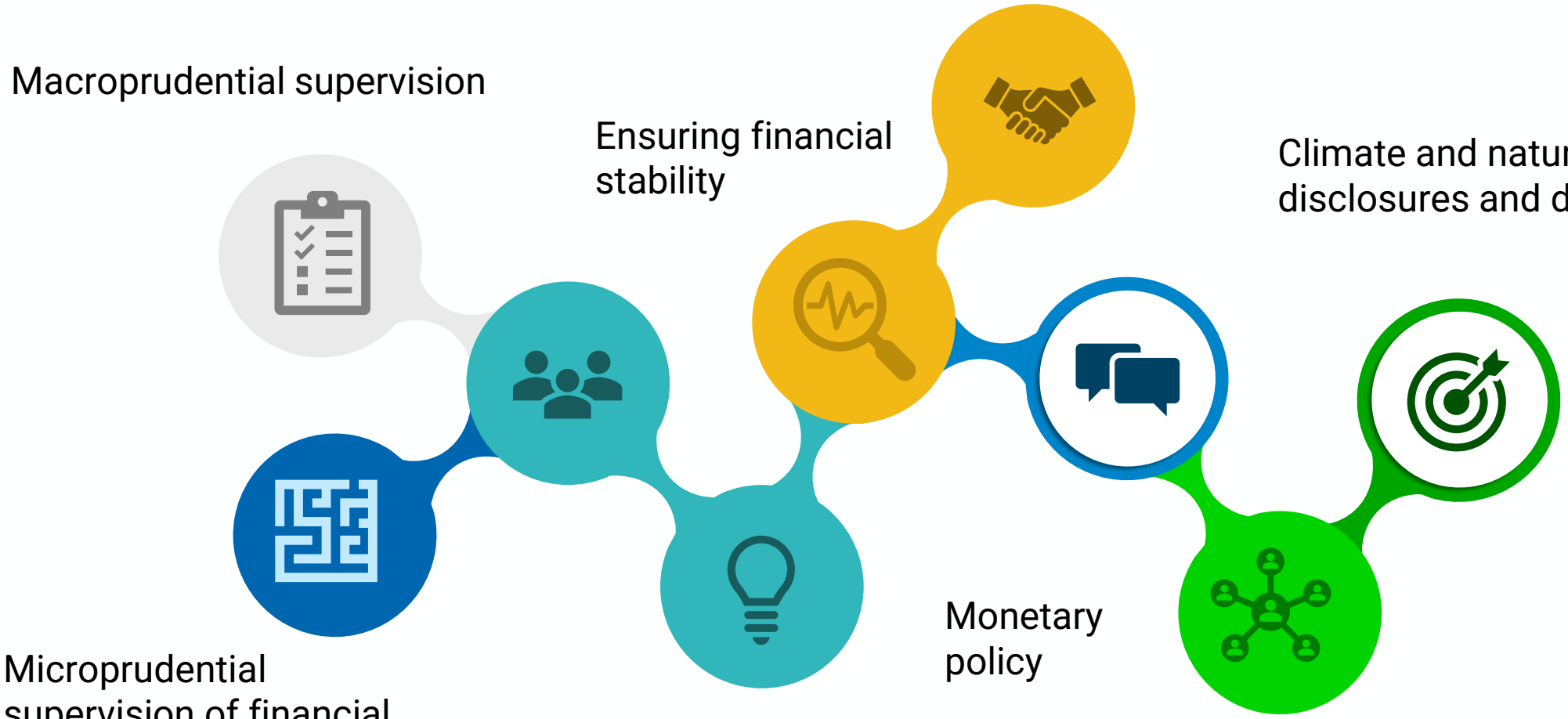



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# What can regulators do?

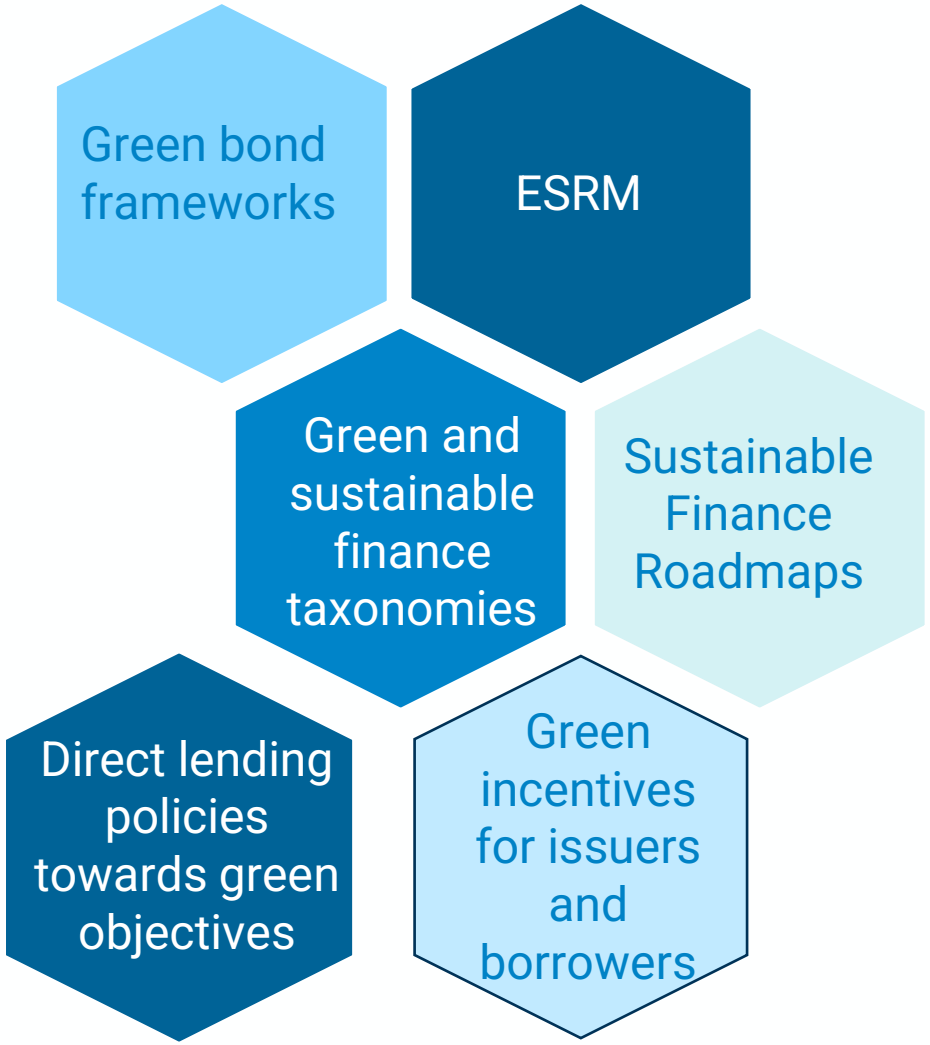
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# Regulators have a critical role to manage climate-related financial risks and shift capital towards the green transition




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# How are regulators supporting government priorities and shifting capital to low carbon investments?




The **International Sustainability Standards Board global baseline disclosure standards**, released in June 2023, will take a further step towards taxonomy unification and **allow for comparability and interoperability between taxonomies across the region**.



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# What can private finance do?

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# Asian banks and companies are still considerably slow to make their net zero commitments

8%

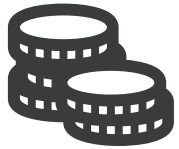
OF **COMPANIES IN ASIA-PACIFIC HAVE SET A NET ZERO GOAL**.



**LENDING TO FOSSIL FUELS AND COAL IN THE REGION IS STILL ON THE RISE** AND IS LARGER COMPARED TO OTHER GEOGRAPHIES IN THE GLOBE.

5,000

**COAL FIRED POWER PLANTS** IN ASIA-PACIFIC, WHICH WILL REQUIRE FINANCING FOR AN EARLY PHASEOUT



PRIVATE FINANCE IS THE MAJOR SOURCE OF FUNDING FOR FINANCING CLEAN ENERGY INVESTMENT, **BUT BANKABILITY ISSUES PERSIST**

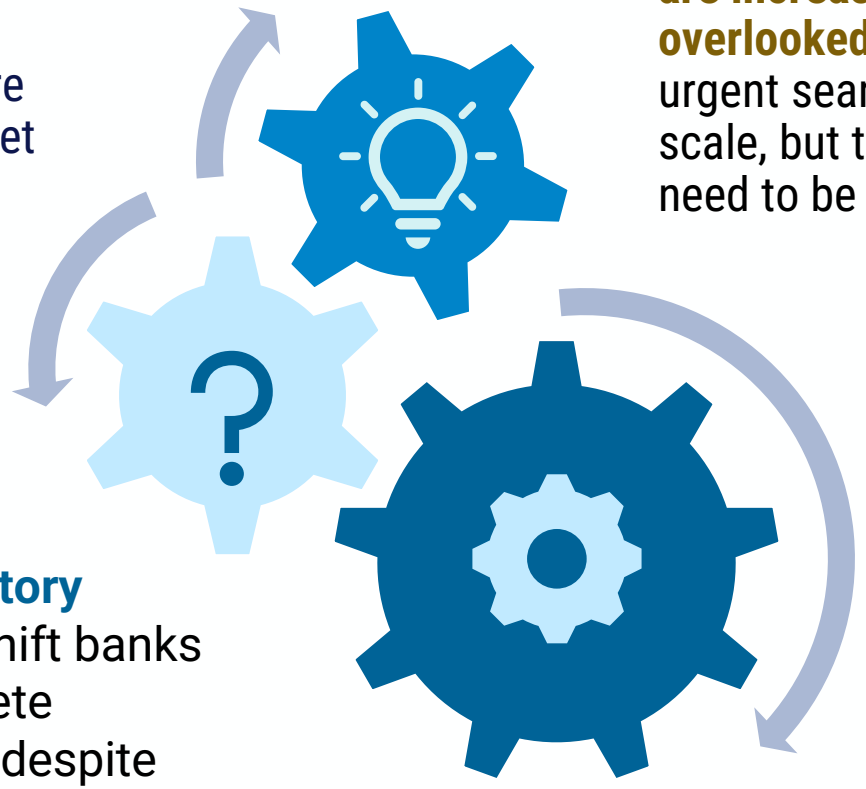
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# Asia's growing energy demand requires significant private finance for the climate and just energy transition, but challenges abound

**Inadequate project preparation support** to ensure that projects meet the risk-return-mandate requirements of different

investors

**Small-ticket projects are increasingly overlooked** in the urgent search for scale, but they also need to be nurtured.



**Lack of mandatory regulation** to shift banks towards concrete commitments, despite national commitments to the Paris Agreement

**Lack of local currency financing**

**Limited availability of bankable projects**

## JUST ENERGY TRANSITION PARTNERSHIPS (JETPS)

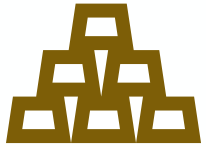
- Launched in Vietnam and Indonesia
- Provide a transactional template to find cost-effective financing from multiple sources, creating a catalytic effect
- Consider the needs and objectives of different types of investors

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# MDBs and DFIs play a powerful role to mobilize concessional and catalytic investments to leverage private investors



**Act as anchor investor** to de-risk pioneering projects and increase their bankability to investors



**Encourage and support policy change** and mobilize additional private finance alongside own investments



**Support private credit institutions by investing equity** to help financial institutions expand their lending

- Need to increase MDB and DFI concessionality and expand risk-taking
- Role of MDB Capital Adequacy Frameworks reforms to increase lending capacity, while preserving long-term financial sustainability

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# Ten Principles For Action To Bridge The Sustainable Finance Gap In Asia And The Pacific (I)

## *Governments and Regulators*



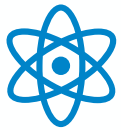
New climate finance partnerships between governments, regulators, MDBs and private finance will guide action



Effective NDC financing strategies are developed, led by authorities with clear mandates, which signal credible transition pathways with interim targets and clear resource mobilization plans



Policy coherence and capacities are to be developed across key government ministries such as finance, energy, transport, and environment to reduce the costs of financing



Decisive regulatory action can shift capital in Asia and Pacific towards the net zero transition



Investment in the capacities of financial personnel is essential



Investment in much-needed sectoral and project-based financial data strengthens solutions

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# Ten Principles For Action To Bridge The Sustainable Finance Gap In Asia And The Pacific (II)

*Private Finance – Asian and Pacific Investors*

Commit to net zero pledges for 2050 with credible transition pathways including 2030 goals

Increase local-currency participation in energy transition projects, as well as green technologies and other net-zero investments

Support expansion and acceleration in the provision of concessional financing and risk-sharing by multilateral development banks, bilateral development financial institutions, and public development banks to de-risk projects to be co-financed by private finance

Intensively collaborate with partners in project preparation in more challenging markets, whether it is in the least developed countries (LDCs), small island developing States (SIDS), or in new green technologies

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# Thank you



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