



ESCAP
Economic and Social Commission
for Asia and the Pacific

Sustainable Finance: Bridging the Gap in Asia and the Pacific

CICA Business Council



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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



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

Report of the G20 Independent Expert Group (July 2023)

Annual incremental investment of **\$3 trillion** needed for climate action [**\$1.8 tr**] and SDGs [**\$1.2 tr**] in developing countries (ex-China) **by 2030**

\$2 trillion additional domestic resource mobilization (DRM) and local finance

\$1 trillion in additional external financing commitments needed annually

\$500 billion of official development financing

\$500 billion of private capital for sustainable development



Source: ESCAP based on G20 Independent Expert Group Report, July 2023

Challenging macroeconomic environment due to rising inflation and interest rates, which contributes to higher cost of capital for sustainable and climate investments

Double digits inflation rates in several Asia-Pacific economies in 2022, surpassing central bank targets



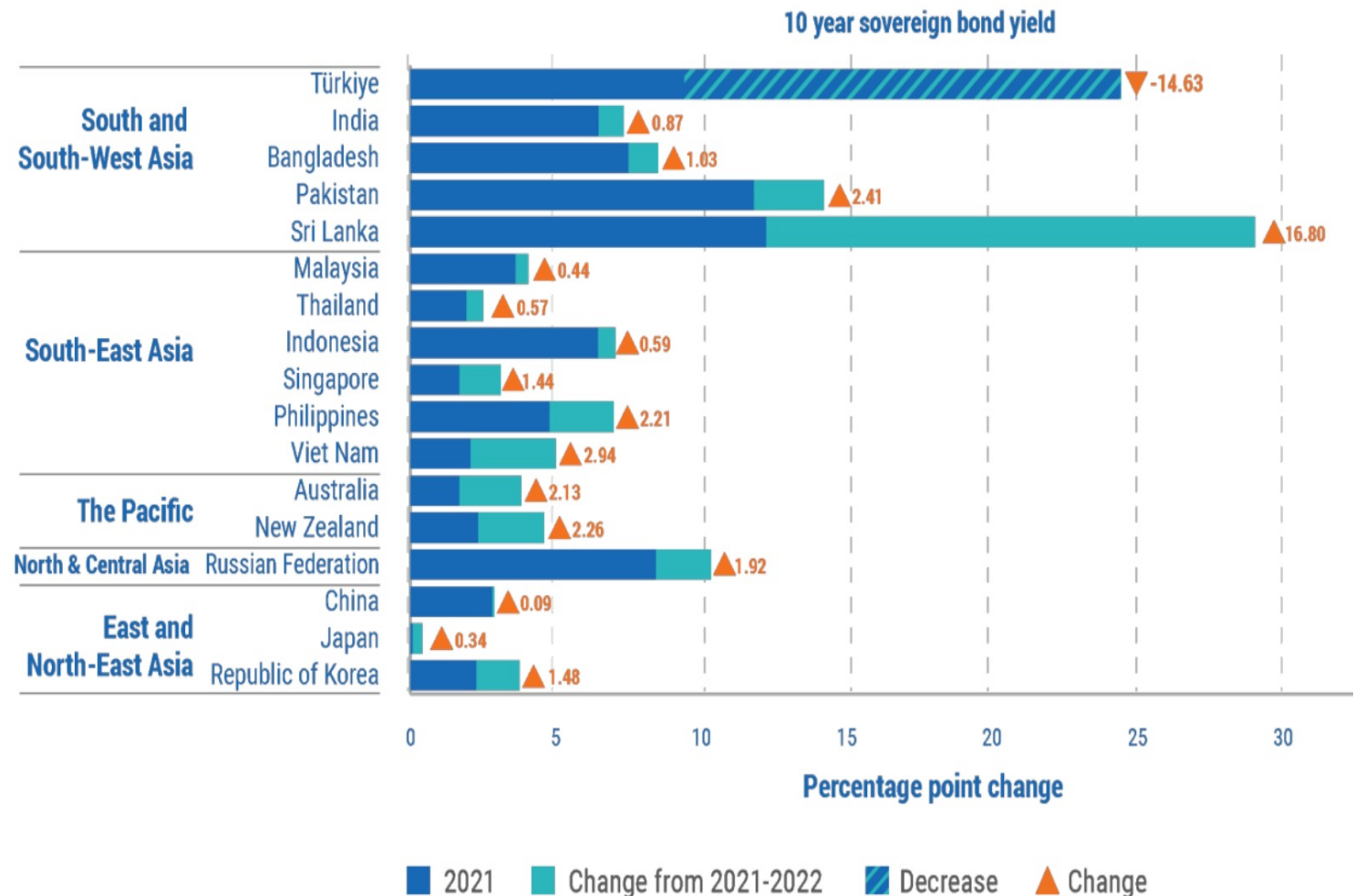
Rising interest rates, driven by **monetary tightening** in advanced economies and domestic inflationary pressures



Downward pressure on exchange rates and capital outflows to safe havens



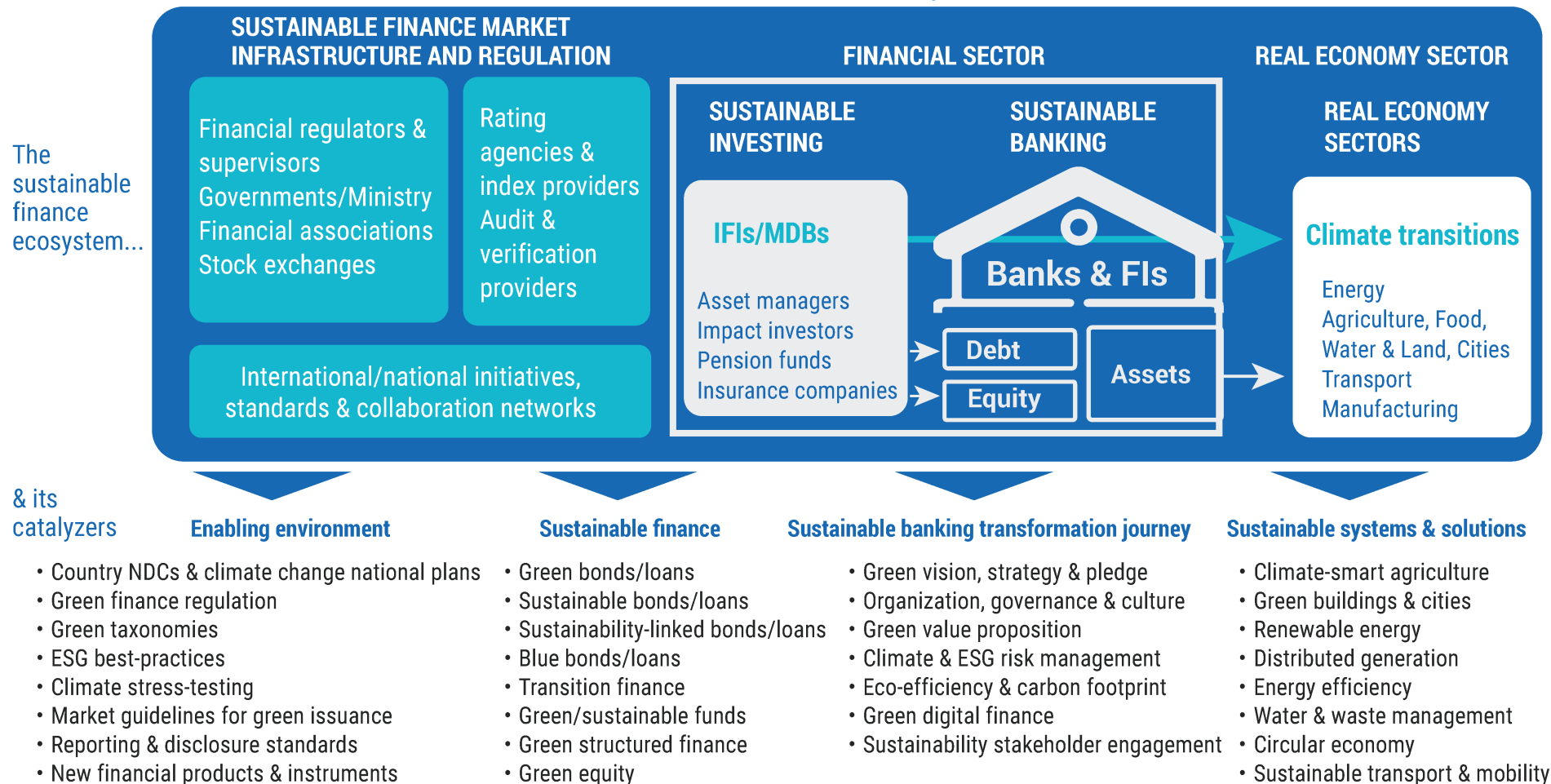
Higher risk premia and borrowing costs



Source: ESCAP

The Sustainable Finance Ecosystem

The sustainable finance ecosystem



Source: ESCAP adapted from the International Finance Corporation

What can governments do?

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

Sustainable
finance
roadmaps

GSS+
bonds

Carbon
markets

Debt for
nature and
debt for
climate
swaps

NDC
financing
strategies

Access to
multilateral
climate
funds



What can regulators do?

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

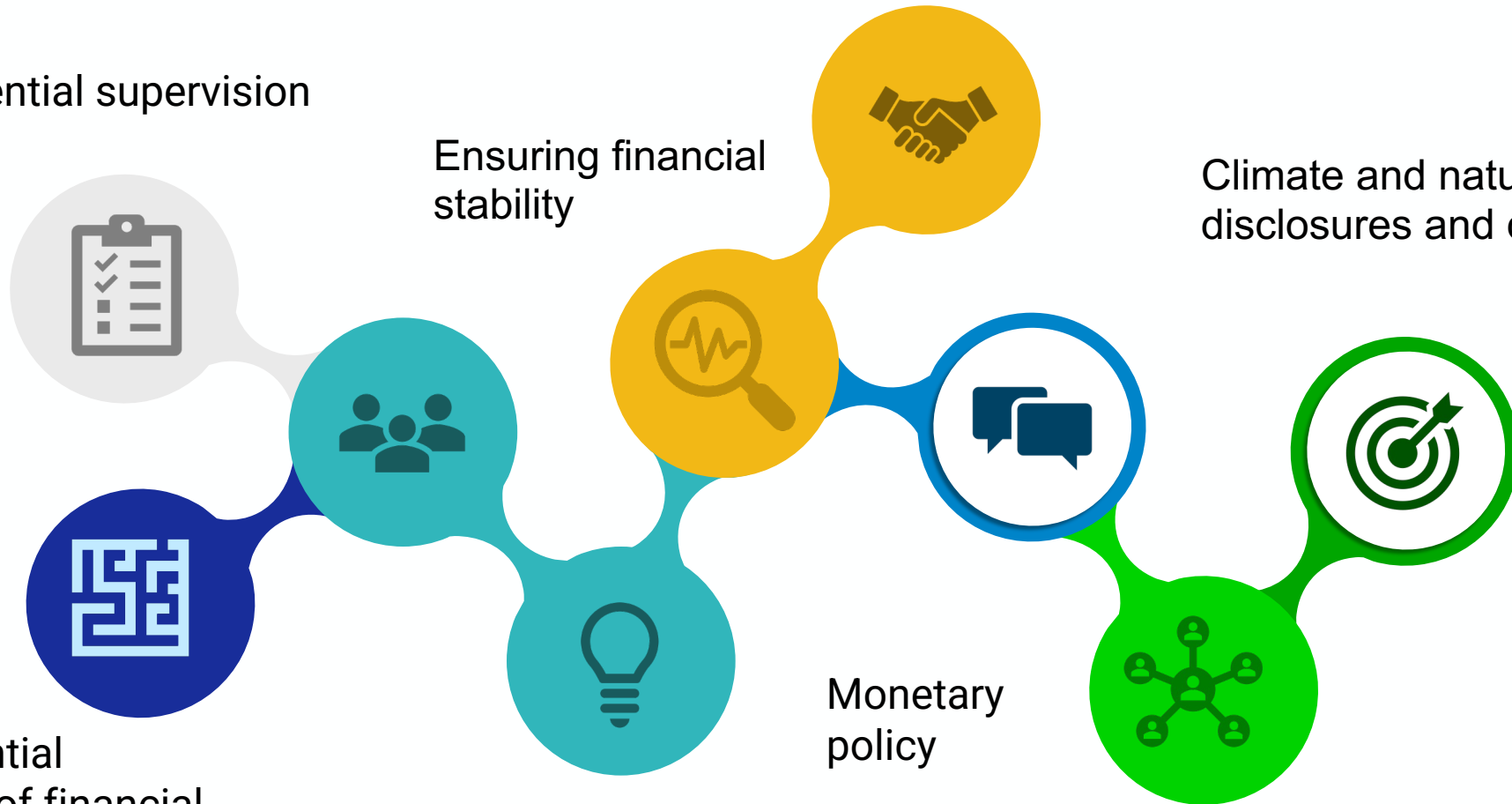
Macroprudential supervision

Ensuring financial stability

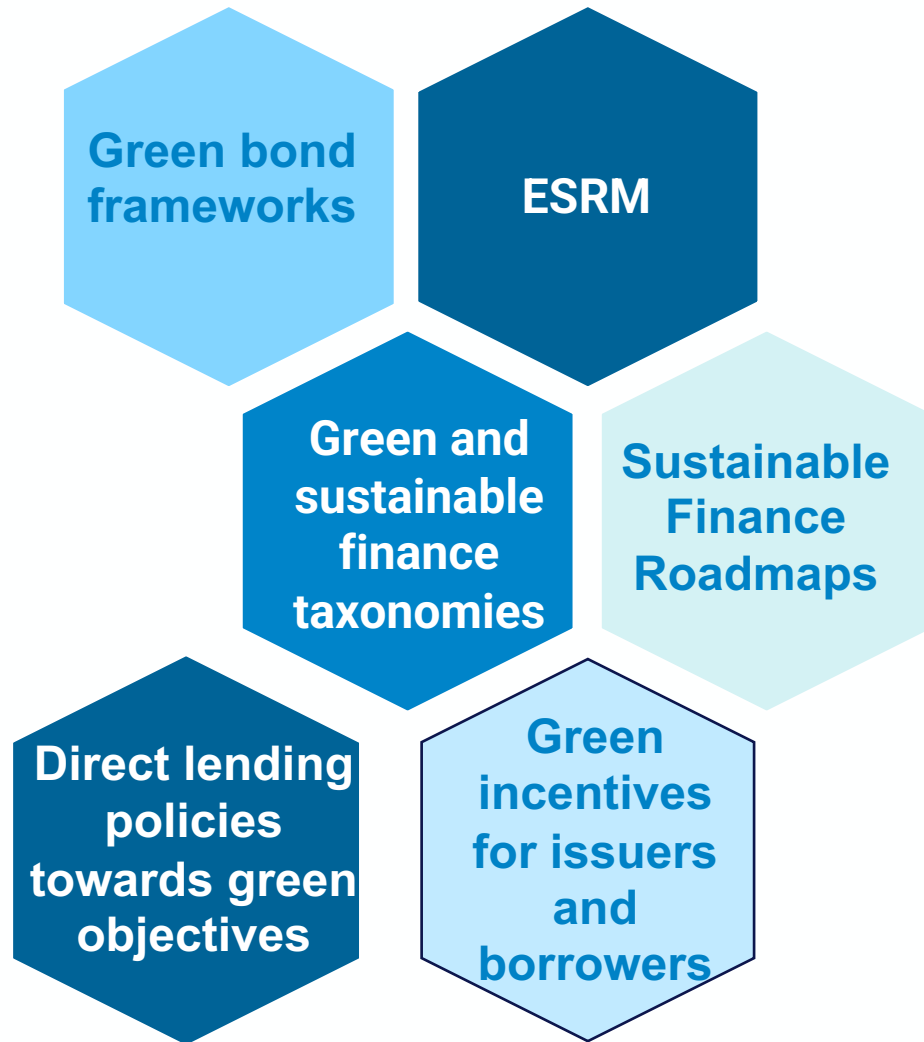
Climate and nature-related disclosures and data

Microprudential supervision of financial institutions

Monetary policy



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.**



What can private finance do?

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

8%

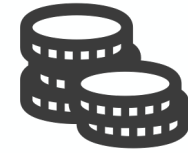
OF COMPANIES IN ASIA-PACIFIC HAVE SET A NET ZERO GOAL.



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



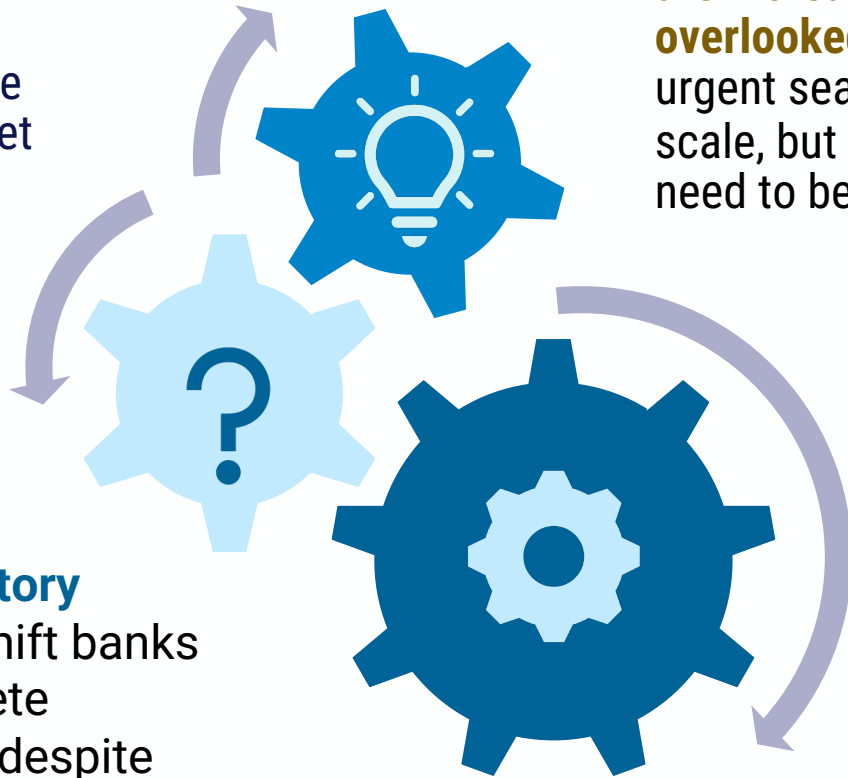
PRIVATE FINANCE IS THE MAJOR SOURCE OF FUNDING FOR FINANCING CLEAN ENERGY INVESTMENT, BUT BANKABILITY ISSUES PERSIST

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

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



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

Lack of local currency financing

Limited availability of bankable projects

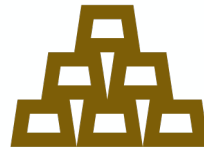
JUST ENERGY TRANSITION PARTNERSHIPS (JETPS)

- 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

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

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

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

ESCAP Financing for Development report No. 5 “Sustainable Finance: Bridging the Gap in Asia and the Pacific”



- The report **discusses challenges, opportunities and recommendations** for policymakers, regulators, and private finance in the Asia-Pacific region **to bridge the gap** in sustainable finance
- It aims to spur a robust and informed debate amongst ESCAP member States **on key measures to move towards increased sustainable finance**, and to bring greater clarity regarding the **benefits and consequences** of various policy, regulatory and private finance choices.

Thank you

