FINANCE FOR CLIMATE ACTION IN ASIA AND THE PACIFIC: A Regional Action Agenda to Access Debt Capital Markets

UNITED NATIONS
ESCAP
Economic and Social Commission for Asia and the Pacific

The darker area of the map represents the members and associate members of ESCAP.

The Economic and Social Commission for Asia and the Pacific (ESCAP) serves as the United Nations' regional hub promoting cooperation among countries to achieve inclusive and sustainable development. The largest regional intergovernmental platform with 53 member States and 9 associate members, ESCAP has emerged as a strong regional think-tank offering countries sound analytical products that shed insight into the evolving economic, social and environmental dynamics of the region. The Commission's strategic focus is to deliver on the 2030 Agenda for Sustainable Development, which it does by reinforcing and deepening regional cooperation and integration to advance connectivity, financial cooperation and market integration. ESCAP's research and analysis coupled with its policy advisory services, capacity building and technical assistance to governments aims to support countries' sustainable and inclusive development ambitions.

UNITED NATIONS ECONOMIC AND SOCIAL COMMISSION FOR ASIA AND THE PACIFIC

FINANCE FOR CLIMATE ACTION IN ASIA AND THE PACIFIC: A REGIONAL ACTION AGENDA TO ACCESS DEBT CAPITAL MARKETS

UNITED NATIONS ESCAP
Economic and Social Commission for Asia and the Pacific

FINANCE FOR CLIMATE ACTION IN ASIA AND THE PACIFIC: A REGIONAL ACTION AGENDA TO ACCESS DEBT CAPITAL MARKETS

United Nations publication

Printed in Bangkok
ST/ESCAP/2803

Cover photo credits: Pexels [Tirachard Kumtanom]

EXECUTIVE SUMMARY

Developing countries in Asia and the Pacific are historically the least responsible for greenhouse gas emissions that result in climate change, but are most vulnerable to its environmental, economic and social impacts.

Priority responses to the challenge of global warming include strategies to reduce vulnerability; climate-proofing infrastructure to protect lives and assets; investing in adaptation strategies; strengthening resilience; and reducing emissions.

This will require significant investments by both public and private sectors. Global estimates of the cumulative investment needed to stay within a 2ºC temperature increase by 2030-35 range between $55 and $93 trillion. Developing Asia alone needs an estimated US$3.6 billion per annum up to 2030 to transition toward net zero emissions and increased resilience as required by the Paris Agreement. This economic transition also presents a unique opportunity for private finance. Estimates suggest that the Paris Agreement has opened up nearly $23 trillion in opportunities for climate-smart investments in emerging markets up to 2030.

But low-income countries have huge spending needs and scarce resources to undertake the investments necessary to cope with climate change and these requirements are likely to exceed the fiscal space available in most countries. Therefore, it is incumbent on the international community to provide and coordinate adequate financial support to these countries.

Enabling these countries to better access debt capital market instruments, in order to finance the transition to low greenhouse gas emissions and climate-resilient economic development, could be one of the most effective ways to finance climate action. This could provide the best opportunity for the region to deepen its financial system and reorient it towards new growth opportunities. Several countries in the Asia-Pacific region are already leading on the climate action agenda. Their efforts to implement the Paris Agreement must be supported by a financial system that promotes growth and sustainable development.

The region should now consider developing a clear Regional Action Agenda that unifies its climate ambitions with the need to make finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development. To this end, UNESCAP is proposing to establish a programme on finance for climate action, in partnership with UNFCCC and others, to advance finance for climate action in the region and to support the definition and implementation of a Regional Action Agenda.

In particular, green bonds represent a promising new tool to increase the intermediation of global private capital towards climate-resilient investment opportunities in the region. This report identifies several imperatives to improve the contribution of the region's financial sector to sustainable and inclusive growth, and reinforce the funding capacity towards projects that support the shift to a low carbon and resilient economy.

First, it is important that the market structure of Least Developed Countries (LDCs), Landlocked Developing Countries (LLDCs) and Small Island Developing States (SIDS) is improved in order to capture the benefits from the recent emergence of green bonds as a specific instrument of global finance. Without stronger foundations, the capital markets in the region risk losing out on the global reallocation of private funds toward climate-related investments. These foundations include the acceptance of the widely agreed Green Bond Principles in the region and in each target country, the enforcement of disclosure and the reduction of issuance costs by borrowers, as well as the emergence of standardized terms for financial instruments. Yet, the examples of China and India demonstrate that such instruments can easily be used to attract significant fund flows into the region.

Second, it will be important to facilitate the emergence of a pipeline of specific projects that can be financed through green finance instruments. In a world awash with capital, it is paradoxical that the complexity of finding investment opportunities remains a stumbling block. This lack of a viable pipeline can deter global investors from considering investment opportunities in the target countries. By facilitating the emergence of such a pipeline, the region will be better equipped with a credible investment proposition for global private capital flows.

Third, there is a need to supplement the emergence of green projects with a grant facility to make up for the capital markets' shortcomings in the target countries. Many private borrowers risk foregoing the opportunity of raising funds through international bonds or loans, while relying on comparatively scarcer bank loans, given the additional burden put on them by international guidelines. Through a targeted grant facility, the region can solve many of these shortcomings and support the emergence of a rich pipeline of new bond issues, while reinforcing the microstructure of its local capital markets, thus capitalizing on such development to create a positive feedback loop to support longer term economic and social growth.

Fourth, it is necessary to foster the acceptance of projects from the target countries by the global investment community, and in particular the global green funds. With adequate marketing directed at the global financial community, the region can increase its impact on the global financial community and reduce the intangible barriers that may remain in the minds of global investors by pooling resources and adopting a unified approach. Finally, the foundations can be laid for the emergence of new forms of financing to create increased funding capacity in the region, using some proven techniques, such as securitization.

ACKNOWLEDGEMENTS

This report was prepared under the overall direction and guidance of Shamshad Akhtar, Under-Secretary General of the United Nations and Executive Secretary of the Economic and Social Commission for Asia and the Pacific. Laura Altinger developed the concept and led the research, together with Cedric Rimaud. Research assistance was provided by Borja Fernandez Martinez, Sirinart Suanyam and Nixie Abarquez. Thanks are due to ESCAP colleagues for their inputs and comments, especially Michael Williamson.

Chawarin Klongdee led the publications co-ordination and Sirinart Suanyam provided excellent graphic design support, together with the team from Clung Wicha Press.

CONTENTS