

**Economic and Social Commission for Asia and the Pacific**Committee on Macroeconomic Policy, Poverty Reduction and
Financing for Development**Fourth session**

Bangkok and online, 1–3 November 2023

Item 3 of the provisional agenda*

**Bridging the gap in sustainable finance in Asia and the
Pacific: principles for action****Bridging the gap in sustainable finance in Asia and the
Pacific: principles for action****Note by the secretariat***Summary*

With current financial requirements far exceeding available resources, the Asia-Pacific region is not on track to meet the Sustainable Development Goals by 2030, nor to achieve its climate ambitions. It is time for all stakeholders – in particular Governments, regulators and private financial entities – to accelerate change by committing themselves to achieving net-zero emissions and transforming their financing priorities, processes and programmes to meet the growing financing needs of the region.

By focusing on sustainable finance, which refers broadly to both the financing of sustainable activities and to financial resources that are sustainably managed, the secretariat addresses the challenges and opportunities for Governments, regulators and private financial entities in the Asia-Pacific region to bridge the gap in sustainable finance. To facilitate the discussion on policies and actions, the secretariat proposes 10 principles to propel the use of financial resources for climate action. These 10 principles are categorized into actions to be taken by Governments, regulators and private financial entities.

The Committee on Macroeconomic Policy, Poverty Reduction and Financing for Development is invited to provide feedback on the 10 principles and discuss ways of strengthening regional cooperation to bridge the gap in sustainable finance in Asia and the Pacific. The Committee may also wish to discuss country-level experiences, challenges and opportunities in enhancing access to sustainable finance.

* ESCAP/CMPF(4)/1.

I. Introduction

1. The achievement of the Sustainable Development Goals and the objectives of the Paris Agreement faces a substantial gap between financial requirements and available resources. According to a report issued by the United Nations Conference on Trade and Development, there exists an estimated annual financial gap of \$4 trillion for developing countries to achieve the Goals.¹ However, in the Sharm el-Sheikh Implementation Plan, agreed at the twenty-seventh session of the Conference of the Parties to the United Nations Framework Convention on Climate Change, in 2022, the transition to a low-carbon economy faced an estimated global financial gap of between \$4 trillion and \$6 trillion per year.²

2. Delivering financing at such a large scale demands rapid systemic change. It requires recognition and willingness by all Governments and stakeholders to transform their financing priorities, policies and regulations, as well as the financial system. In Asia and the Pacific, this change has not proceeded at the urgent pace required. Governments still need to craft credible financing plans and resource mobilization strategies for nationally determined contributions to achieve targets that are progressively ambitious. Regulators must act decisively to manage the risks that climate change and biodiversity threats pose to the financial system, while at the same time shifting capital towards green objectives aligned with the nationally determined contributions.

3. In the private sector, banks and businesses need to adopt net-zero commitments and implement credible transition pathways. The scale of the financial investments needed for this purpose demands new partnerships for projects, in particular for those aimed at energy transition and the adoption of new green technologies. Multilateral development banks and development financial institutions can play a key role in enabling suitable concessionality and risk-sharing. It is fundamental that banks and investors in Asia and the Pacific pivot finance towards the net-zero transition, in particular to provide local currency solutions, which are essential in the current difficult macroeconomic environment. Standards such as sustainable finance frameworks, road maps, disclosure frameworks and taxonomies increase the integrity and clarity of financing sustainable activities. It is expected that increased convergence in these standards is forthcoming, reducing cross-border compliance costs and creating a level playing field.

4. The present document contains an analysis of the challenges and opportunities facing Governments, regulators and private financial entities in the Asia-Pacific region in bridging the gap in sustainable finance, followed by a set of recommendations. The analysis and recommendations are drawn from the forthcoming publication *Sustainable Finance: Bridging the Gap in Asia and the Pacific*. The publication is aimed at spurring a robust and informed debate among member States; facilitating consensus-building on key measures that could increase sustainable finance; and providing clarity as to the benefits and consequences of various policy, regulatory and private finance options. To facilitate the discussion on policies and actions, 10 principles to propel the use of financial resources for climate action in Asia and the Pacific are highlighted in both the present document and the publication.

¹ *World Investment Report 2023: Investing in Sustainable Energy for All* (United Nations publication, 2023).

² See FCCC/CP/2022/10/Add.1, decision 1/CP.27.

5. Sustainable finance encompasses a wide set of definitions, which are important because they define not only the volume of sustainable finance available, but also its integrity. Therefore, before proceeding with an examination of the policies and actions of sustainable finance, it is useful to clarify how it is defined (see table).

Examples of sustainable finance definitions

<i>Body</i>	<i>Definition</i>
European Union	The definition of “sustainable investment” in Regulation EU 2019/2088 includes investments in economic activities that (a) contribute to an environmental objective and (b) do not significantly harm any environmental or social objective. In Regulation EU 2020/852, by which Regulation EU 2019/2088 was amended, six environmental objectives are presented: climate change mitigation; climate change adaptation; the sustainable use and protection of water and marine resources; the transition to a circular economy; pollution prevention and control; and the protection and restoration of biodiversity and ecosystems.
Group of 20	Under the Group of 20 sustainable finance road map issued in October 2021, jurisdictions that intend to develop their own approaches to align finance and sustainability are encouraged to refer to a set of voluntary principles set out below. Principle 1: Ensure material positive contributions to sustainability goals and focus on outcomes; Principle 2: Avoid negative contributions to other sustainability goals (i.e. do no significant harm to any sustainability goal requirements); Principle 3: Be dynamic in adjustments reflecting changes in policies, technologies and the state of the transition; Principle 4: Reflect good governance and transparency; Principle 5: Be science-based for environmental goals and science- or evidence-based for other sustainability issues; Principle 6: Address transition considerations.
International Capital Market Association	Sustainable finance incorporates climate, green and social finance while also taking into account wider considerations concerning the longer-term economic sustainability of the organizations being funded. Due consideration is also given to the role and stability of the overall financial system in which they operate. The definition is based on market usage and draws on references of the Group of 20 and the European Union, according to the International Capital Market Association.
Sustainable Banking and Finance Network of the International Finance Corporation	Sustainable finance refers to policies, regulations and practices utilized by regulators, supervisors, industry associations and financial institutions to (a) reduce and manage environmental, social and governance risks resulting from and affecting financial sector activities, including the risks of climate change; and (b) encourage the flow of capital to assets, projects, sectors and businesses that have environmental and social benefits.

Source: Economic and Social Commission for Asia and the Pacific (ESCAP), *Sustainable Finance: Bridging the Gap in Asia and the Pacific*, forthcoming.

6. Based on the above definitions, two tracks of sustainable finance can be considered. Track 1 refers to sustainable finance that is based on a use-of-proceeds approach, in which the proceeds go towards climate-oriented uses, activities, objectives or outcomes that are clearly demarcated, pre-defined, sustainable and green. An example of track 1 sustainable finance is the definition of climate finance used by the secretariat of the United Nations Framework Convention on Climate Change. In its definition, sustainable finance refers to local, national or transnational financing – drawn from public, private and alternative sources of financing – that is aimed at supporting mitigation and adaptation actions that will address climate change.³

7. Track 2 refers to sustainably managed finance. Track 2 is not focused on where the investment goes or which activities are financed. Instead, it is focused on how sustainability-, climate- or green-related risks materially affect the financial performance of the investment and how those risks are managed.⁴ As an example, the purpose of the Network of Central Banks and Supervisors for Greening the Financial System, launched at the One Planet Summit held in Paris in 2017, is to enhance the role of the financial system in managing risks and capital for green and low-carbon investments in the broader context of environmentally sustainable development. While green finance falls under track 1 of sustainable finance, the concept of “greening finance” falls under track 2.

II. What can Governments do?

8. Policymakers within Governments have an important role in establishing suitable laws and policies. When credible government commitments and priorities for climate action, such as the nationally determined contributions, are communicated clearly to markets, the risks associated with long-term investments can be better managed and priced. For instance, emissions-reducing investments, such as investments in green hydrogen, require upfront, lump-sum capital expenditures, while returns are collected over the long term. Policy signals, through incentives or tariffs, can help reduce both the actual and the perceived risks associated with long-term, upfront investments. Actions by policymakers reverberate throughout different sectors of the economy, precipitating the adoption of new and cleaner energy sources, reducing carbon intensity, tracking emissions and planning the transition to net-zero emissions.

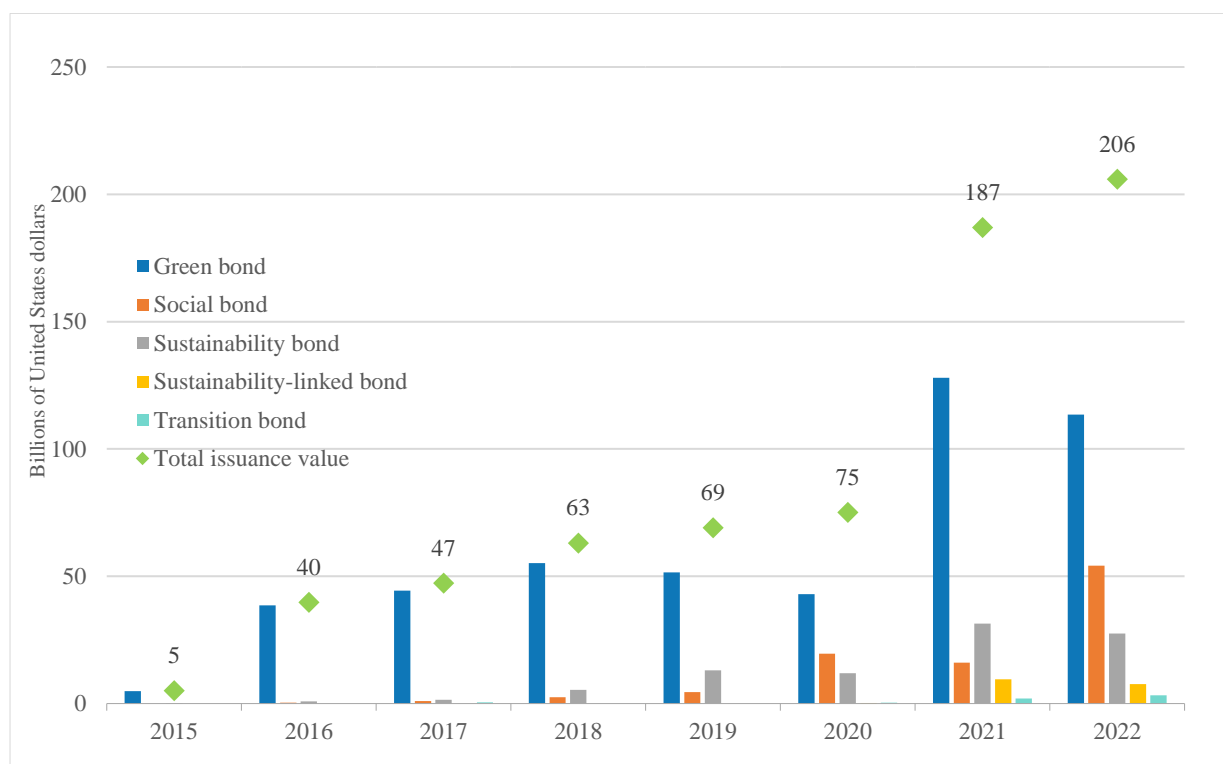
9. Many Governments in the region are increasingly issuing sovereign bonds to finance such investments in climate action and sustainable development. Green, social, sustainability and sustainability-linked bonds, and transition bonds, together referred to as thematic bonds, fall under track 1 of sustainable finance, whereby their proceeds are explicitly directed to fund green, social or sustainable activities. The global market for green, social, sustainability and sustainability-linked bonds had grown to more than \$3.8 trillion outstanding by the end of 2022, and annual issuances in Asia and the Pacific increased from \$5 billion in 2015 to \$206 billion in 2022 (see figure I). Although corporate issuances currently dominate this market, sovereigns are tapping into it more and more, with between \$1 billion and

³ See <https://unfccc.int/topics/introduction-to-climate-finance>.

⁴ For example, when environmental, social and governance risks are analysed with respect to how they would affect the financial returns of the investment, the resulting investments are often labelled as environmental, social and governance investments. Here, “greening finance” would refer to the mainstreaming of environment and climate risk management in the financial sector.

\$2.5 billion raised in 2022 by Indonesia, Malaysia, New Zealand, the Philippines, Singapore and Thailand, as well as by Hong Kong, China. Nevertheless, the issuance of green, social, sustainability and sustainability-linked bonds remains highly concentrated (see figure II).

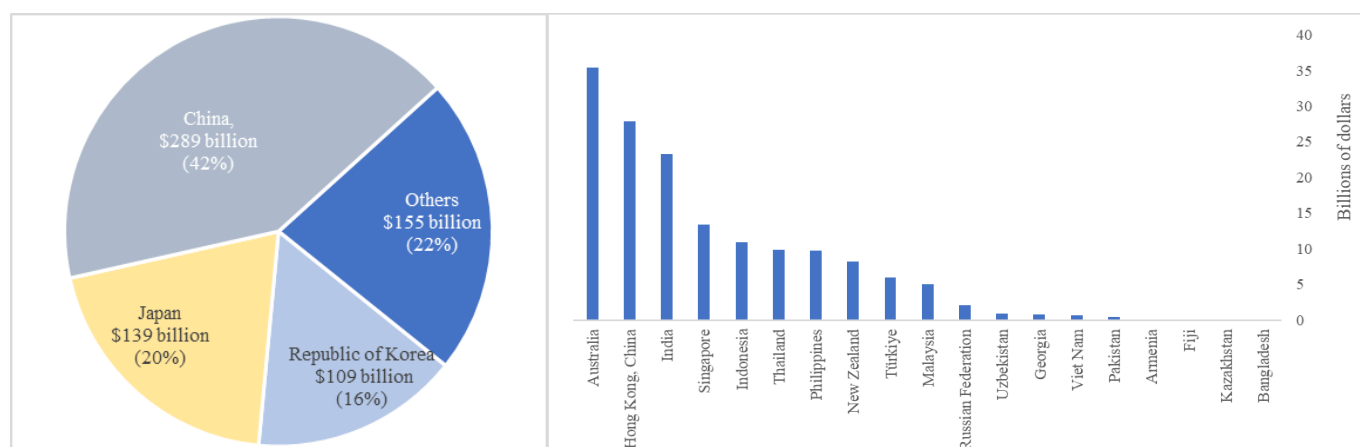
Figure I
Total issuance value of annual green, social, sustainability and sustainability-linked bonds, and transition bonds, in Asia and the Pacific, 2015–2022



Source: ESCAP, *Sustainable Finance: Bridging the Gap in Asia and the Pacific*, forthcoming.

Note: The issuance of bonds by corporates, as well as by sovereigns and other public institutions, reflected in the figure are from Armenia, Australia, Bangladesh, China, Fiji, Georgia, India, Indonesia, Japan, Kazakhstan, Malaysia, New Zealand, Pakistan, the Philippines, the Republic of Korea, the Russian Federation, Singapore, Thailand, Türkiye, Uzbekistan and Viet Nam, as well as Hong Kong, China.

Figure II
Total issuance value of cumulative green, social, sustainability and sustainability-linked bonds, and transition bonds, in Asia and the Pacific, 2015– 2022, by country or area
 (United States dollars)



Source: ESCAP, *Sustainable Finance: Bridging the Gap in Asia and the Pacific*, forthcoming.

10. Important sources of sustainable financing for many developing countries in Asia and the Pacific are multilateral climate funds, such as the Adaptation Fund, the Global Environment Facility and the Green Climate Fund. While the money available from multilateral climate funds is not sufficient to close the financing gap, the funds remain a critical source and channel for developed countries to meet their Paris Agreement obligations to developing countries. In 2021, for instance, according to the Organisation for Economic Co-operation and Development, development finance statistics, climate financing from multilateral climate funds provided \$1.236 billion to Asia-Pacific countries. This source of sustainable finance is attractive because a significant portion of it – about 50 per cent, in 2021 – is available in the form of grants. In contrast, grants constituted 29 per cent of the \$13.5 billion climate finance provided by bilateral donors to Asia-Pacific countries and only 3 per cent of the \$16.5 billion provided by multilateral development banks.

11. Two additional potential sources of sustainable finance that Governments in the region could consider are carbon pricing initiatives and debt swaps. Carbon pricing⁵ provides a transparent price signal to carbon emitters to reduce emissions and a message to investors that low-carbon investment has a value. The use of carbon pricing can help to stimulate investment in clean and low-carbon technologies and in nature-based climate sinks, such as trees and mangrove forests. Governments can allocate carbon pricing revenues to critical social and environmental policies to support sustainable development. Several countries in the Asia-Pacific region have already adopted different forms of carbon pricing. They include Australia; China, which has the largest carbon market in the world; Japan; Kazakhstan; New Zealand; the Republic of Korea; and Singapore. Several other countries

⁵ There are two main types of carbon pricing: emission trading schemes and carbon taxes. A carbon tax directly sets a price on carbon by defining a tax rate on greenhouse gas emissions, while an emission trading scheme caps the total level of greenhouse gas emissions and allows entities with low emissions to sell their additional allowances to larger emitters.

are currently considering carbon pricing policies, including Brunei Darussalam, Indonesia, Malaysia and Thailand. However, the carbon price remains well below what is needed to drive carbon neutrality. According to the World Bank,⁶ as at 1 April 2023, less than 5 per cent of global greenhouse gas emissions were covered by a direct carbon price at or above the range recommended to hold the increase in the global average temperature to below 2°C. It was also noted that most such carbon pricing instruments were expensive and located in Europe.⁷

12. A debt-for-nature (or debt-for-climate) swap is an agreement between a creditor and a debtor by which the former cancels a portion of the latter's foreign debt in exchange for a commitment to invest in a specific environmental and/or climate-friendly project. For example, in Belize in 2021, approximately \$107 million was dedicated to conservation projects, funded by a restructuring of sovereign debt with private stakeholders. Debt swaps could be offered by bilateral official creditors that are signatories to the United Nations Framework Convention on Climate Change in fulfilment of their collective commitment to provide \$100 billion per year in climate finance to developing countries.⁸

13. Moving forward, the most immediate step for policymakers to take is to ensure that the nationally determined contributions are supported by concrete, targeted and sequenced national financing strategies. Climate mitigation and adaptation projects or programmes need to be mapped out with expected or planned sources of government finance, international financial assistance and private finance. Working with financial sector regulators and different sectors of the economy, Governments must intensify efforts to render national net-zero commitments into assurances by financial institutions and businesses.

14. Sustainable finance road maps are one tool that Governments can use to further cement and elucidate financing parameters to support the implementation of nationally determined contributions. Road maps can be used to chart a path to accelerate the provision of sustainable finance, complementing key enabling tools such as sustainable or green taxonomies; green, social and sustainable bond frameworks; corporate sustainability reporting; climate disclosures; and net-zero transition reporting.

15. Forging new climate finance partnerships at scale can also drive initiatives for the net-zero transition. One example involves the just energy transition partnerships launched by Indonesia and Viet Nam in 2022, following the South African model. The just energy transition partnerships are used to coordinate national commitments with regard to peaking emissions, phasing out coal, improving regulations and designing effective pipelines of bankable projects – all initiatives that provide the groundwork to mobilize private and public finance. While not every country in the region should replicate the just energy transition partnerships model, the engagement between policymakers

⁶ World Bank, *State and Trends of Carbon Pricing 2023* (Washington, D.C., 2023).

⁷ The High-level Commission on Carbon Prices concluded in 2017 that carbon prices needed to be at the level of \$40 to \$80 per metric ton of carbon dioxide in 2020 and reach a range of \$50 to \$100 by 2030 to keep temperature increases below 2°C – the upper end of the limit agreed upon in the Paris Agreement (World Bank, *State and Trends of Carbon Pricing 2023*, p. 19).

⁸ Erik Grigoryan and others, “Debt-for-climate swaps as a tool to support the implementation of the Paris Agreement”, MPFD Policy Briefs, No. 121 (Bangkok, 2021).

and financial providers (whether public or private) from the planning and inception stages of energy transitions provide important lessons for the region.

16. In order to bridge the financing gap, an important challenge for Governments to overcome is to enhance coherence across ministries, departments and agencies responsible for designing and implementing climate-related mandates. Lack of coherence increases transaction costs; reduces efficiency; and negatively drives risk perceptions about the reliability, predictability and stability of the policy and regulatory regime. Coherence between policy commitments and regulatory approaches is also essential. One such example is a country that has an ambitious emissions reduction target, but whose legal and regulatory frameworks provide preferential treatment for fossil fuels. Policymakers thus need to balance numerous competing policy choices and regulatory arrangements in many different sectors and levels of government.

17. Another important challenge pertains to building a pipeline of projects that meet the volumes, scales and risk-return profiles that interest multilateral climate funds, multilateral development banks, development financial institutions and private investors. Green projects typically involve high upfront costs and require a longer term for payouts. As a result, investors are exposed to risks at the country, sector and borrower/project developer levels and, increasingly, to risks related to external shocks. Untested regulatory environments and green business models can also create liabilities for first movers. Building bankable project pipelines is thus a whole-of-government process owing to the need to coordinate standards, sectors and investor outreach.

III. What can regulators do?

18. The role of financial regulators in sustainable finance encompasses many areas related both to track 1 and track 2 of sustainable finance, as defined above. Those areas include the following:

(a) Ensuring that financial stability, which is affected by climate change and biodiversity loss, is maintained in the system through macroprudential policies;

(b) Providing adequate microprudential supervision to safeguard the safety and soundness of financial institutions and ensuring that capital is sustainably managed by financial institutions;

(c) Shifting capital towards low-carbon investments;

(d) Aligning national sustainable finance regulation with international norms and standards;

(e) Supporting policy priorities as articulated by member States in the Paris Agreement and related commitments;

(f) Confirming that sufficient information and capacities are available throughout the financial system as pertains to the areas identified above.

19. It is now widely accepted that physical and transition risks related to climate change can undermine the stability of the financial system through multiple channels. Physical risks refer to the risks arising from weather-related events, such as rising sea levels, floods and heatwaves, which can have adverse effects on financial portfolios and can have a jarring effect on financial stability. Transition risks occur when economies move towards a less polluting, greener

economy. Such transitions could mean that some sectors of the economy face big shifts in asset values or higher costs of doing business.⁹

20. Effective financial regulation requires clear, consistent and comparable data, among other considerations. A major challenge to implementing regulatory approaches that would account for climate- and nature-related financial risks is the lack of granular, consistent and comparable data. Various types of data are required, including on the following: the identification of sectors or economic activities that are vulnerable to physical, transition and liability risks; financial institution exposure to such sectors or economic activities; the geographical location of financial institution exposure that is most prone to physical risk; and reports on carbon-related metrics, including scope 1, 2 and 3 greenhouse gas emissions, by financial institutions and their counterparties.¹⁰ The International Sustainability Standards Board standards and requirements for disclosure, issued in June 2023, are expected to establish a common global baseline for corporate sustainability disclosures.

21. In the meantime, voluntary international climate-related disclosures, aimed at supporting regulators with the right information, are increasing rapidly. For instance, in 2021, the Task Force on Climate-related Financial Disclosures recommended the introduction of climate transition plans, defined by the Glasgow Financial Alliance for Net Zero as a set of goals, actions and accountability mechanisms to align an organization's business activities with a pathway to net-zero greenhouse gas emissions that delivers real-economy emission reductions in line with achieving global net zero. Such transition plans should provide necessary clarity and information to financial market actors, ideally through quantifiable and legally binding climate and biodiversity goals for 2025, 2030 and 2050.¹¹ According to the Task Force on Climate-related Financial Disclosures, as of February 2023, more than 4,200 organizations globally, including 1,956 from Asia and the Pacific, had become supporters of the Task Force's recommendations.

22. In addition to playing a supervisory role in managing finance sustainably (track 2 of sustainable finance), regulators are also in a position to concretize policy commitments to shift capital into low-carbon investments (track 1 of sustainable finance). They conduct work on sustainable finance road maps; sustainable finance taxonomies; and green, social, sustainability and sustainability-linked bonds, and transition bonds, and loan frameworks. The efforts of regulators help to provide clarity, boost integrity and signal to investors the credibility of the intentions to undertake a sustainable finance approach.

23. Sustainable finance road maps vary in depth and approach. However, they are typically understood as something more tangible than pure strategy, yet without striving for the detail of an implementation plan. Most sustainable finance road maps contain a description of a suite of sequenced tasks and

⁹ Bank of England, "Climate change: what are the risks to financial stability?", 10 January 2019.

¹⁰ Scope 1 emissions are direct emissions from owned or controlled sources. Scope 2 emissions refer to the indirect emissions from the generation of purchased energy. Scope 3 emissions refer to all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions. The latter are usually the hardest to measure and can account for more than 70 per cent of the carbon footprint.

¹¹ World Wildlife Fund for Nature, *2022 SUSREG Annual Report: An Assessment of Sustainable Financial Regulations and Central Bank Activities* (Gland, Switzerland, 2022).

activities; include assigned stakeholder responsibilities; and are presented in a way that improves communication and cooperation between actors. Often the task of developing a road map is spearheaded by regulators, owing to their convening power and thorough appreciation of their respective franchises – whether banking, capital markets or insurance. A list of selected existing road maps in the region is set out below, with the year of implementation:

Sustainable finance road map 2023–2026	2023
Guidelines for establishing the green financial system	2016
Road map for sustainable finance	2019
Sustainable finance road map, phase II (2021–2025)	2014 (phase I) 2021 (phase II)
National sustainable finance road map	2018 (first version) 2022 (second version)
Sustainable finance road map	2021
Finance for net zero action plan	2023
Road map for sustainable finance	2019
Sustainable finance initiatives	2021

Note: Australia and New Zealand have sustainable finance road maps that are not Government-led.

24. The Economic and Social Commission for Asia and the Pacific (ESCAP) is supporting the National Bank of Cambodia in its development of a sustainable finance road map to advance the green and social finance agenda of Cambodia. The road map is aimed at enabling Cambodia to deliver on its climate goals and on the Sustainable Development Goals; enhance its financial sector’s competitiveness and resilience; coordinate activities between different stakeholders; and analyse possible synergies and trade-offs in the current financial ecosystem. In addition, in partnership with the Global Green Growth Institute and the Association of Southeast Asian Nations (ASEAN) secretariat, ESCAP is supporting the development of the ASEAN green map, which utilizes a regional approach focused on green and climate-related financing aligned with the ASEAN secretariat’s vision to mobilize finance for the Goals in the region.

25. The adoption of sustainable finance road maps is a promising first step, but they mostly remain voluntary in nature. As long as net-zero commitments, or any obligations to the net-zero transition, remain non-compulsory, it will be business as usual in Asia and the Pacific. The financing of coal and other fossil fuels are still on the rise, powered by the increase in energy demand across the region. Although policymakers and regulators in the region can take decisive action to solve the issue, in the current scenario, the sustainable finance gap cannot be bridged.

26. Capacity constraints constitute an important challenge for regulators, especially in the least developed countries and small island developing States. Both regulators and policymakers will need to conduct proper environmental impact assessments; map their biodiversity and carbon sink assets; estimate and protect against climate-related losses in their portfolios; institute locally appropriate safeguards in the financial system; shift their economy to low emission pathways carefully; and ensure that a just transition is maintained. Without the appropriate skills and capacity at the level of financial regulators,

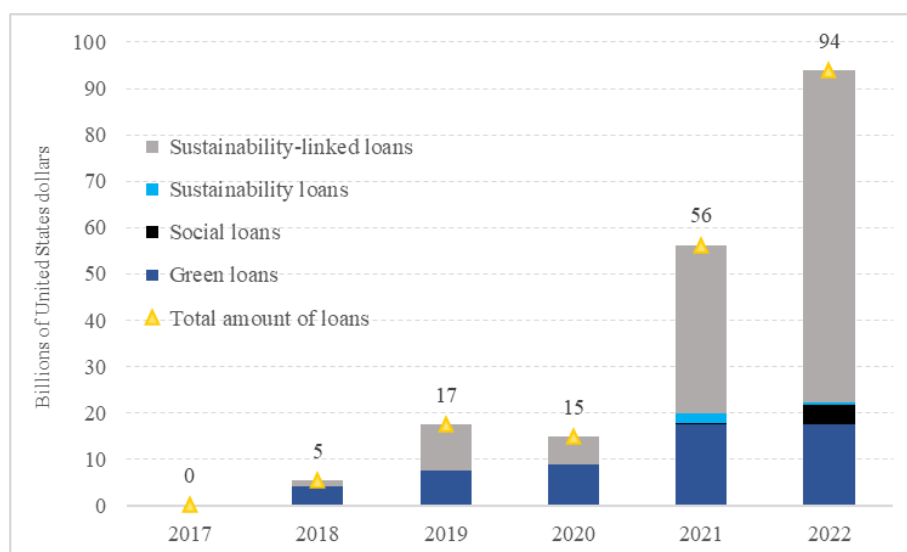
inappropriate, long-term investments could be made that would lock countries into courses of action that are unsustainable and economically disadvantageous.

IV. What can private finance do?

27. The universe of private finance in Asia and the Pacific includes banks who lend to businesses in the real economy; capital market issuers of equity and debt securities; asset owners, including pension funds, sovereign wealth funds, foundations, endowments, trusts and family offices; and asset managers, including mutual fund managers, investment advisors and stockbrokers. Development financial institutions, such as multilateral development banks, bilateral development financial institutions, and national development banks also play an important catalytic role in shifting risk, promoting standards and providing technical assistance in key transactions.

28. While some financial markets in the Asia-Pacific region are extremely deep and liquid, trading cutting-edge structured financial products, the predominant financial instrument used for investment purposes in Asia and the Pacific is still the standard loan product from banks to corporates. Within loan markets, green, sustainability and sustainability-linked loans have been on the rise but the volume of such loans is still small. Sustainability-linked lending became the largest and fastest-growing category of green, social, sustainability and other labelled loans in the region (see figure III), reflecting its versatility in financing entities rather than projects or activities. Sustainability-linked lending can also ensure a direct tie to sustainability outcomes and objectives, depending on the key performance indicators used. In Asia and the Pacific, banks are still at the front line in the transition to net zero, and clearer and more effective regulation can propel them forward.

Figure III
Green, social, sustainability and other labelled loans in Asia and the Pacific, 2017–2022



Source: ESCAP, *Sustainable Finance: Bridging the Gap in Asia and the Pacific*, forthcoming.

29. Private finance has historically operated under the traditional fiduciary mandate to provide risk-managed growth and returns in good faith to stakeholders. In recent years, other mandates, such as specific environmental, climate and social impact objectives (track 1) or environment, social and governance risk management mandates (track 2), have been added, going

beyond what is required by the regulations in the investor's jurisdiction. In any case, the financial risk-return profile is driven by the regulatory framework in place. For instance, many asset owners, especially pension funds and insurance funds, are prohibited by their mandate from investing in non-investment-grade projects or entities. Deposit-regulated financial institutions must also comply with regulations on risk-weighted capital adequacy ratios, meaning they must reserve a certain amount of capital as a fraction of their risk-weighted loan portfolio. Furthermore, investing in other countries exposes banks to exchange rate risks, which substantially influence the risk-return profile of investments and increase the cost of capital.

30. As a result, riskier projects, entities and countries (e.g. the least developed countries) are less likely to qualify under traditional norms as a destination for many funds. Even if they are funded, they will entail a very high capital cost of financing. Thus, for private finance to flow naturally to such "riskier" projects, they must generate very high returns. To compensate for the high cost of capital, sound projects with the potential to achieve a significant environmental impact are likely to be better candidates for concessional and risk-sharing finance, as well as local currency financing. Concessional finance is finance that is below the market rate and takes on many forms, ranging from loans and grants to technical assistance or guarantees. The degree of concessionality is also highly heterogeneous. Financing from multilateral development banks, development financial institutions, national development banks, overseas development assistance and other grant or concessional capital can be used to "de-risk" projects, raise their "grade" and safety rating, and attract more and cheaper commercial financing. Local currency financing for such projects is fundamental because the projects to be funded do not have to reach a higher rate of return simply to cover the exchange rate risk.

31. As a result, a focus is placed on how to rapidly build sufficient "bankable" projects, activities and entities to achieve climate goals while complying with investor specifications and regulations. Different investors have different requirements. It is necessary that a pipeline of projects, activities and entities with adequate risk-return profiles are generated at scale and at a pace that enable Asia-Pacific countries to meet their climate goals and the Sustainable Development Goals. The enormity of these challenges should not be underestimated. The preparatory work and costs of substantively building viable pipelines require a new way of developing projects. In new sectors and areas, such as renewables or decarbonization technologies, regulation has not yet emerged, making costs particularly prohibitive. In addition, new industries and decarbonization technologies risk upsetting long-entrenched power balances and vested interests that may exist. To pave the way forward for a pipeline of bankable projects, strong investor participation in the pre-investment stage is required.

32. Multilateral development banks can play an important role in unlocking sustainable finance by encouraging and supporting policy change and mobilizing additional private finance for global and regional goals alongside their own investments. In 2021, they delivered \$82 billion in climate finance and simultaneously mobilized an additional \$41 billion in private finance. The mobilization of private finance often occurs when multilateral development banks take on an anchor investor role in a pioneering project, which then signals to other investors that the investment is "bankable". When such banks invest in a project, it provides a signal that an adequate amount of due diligence has been performed and that the project has been vetted. It also indicates that a proper assessment has been carried out with regard to the project sponsor's financials; governance issues; and environmental, social and governance risks.

Multilateral development banks and bilateral development financial institutions can also support private credit institutions by investing equity in them, buying bonds issued by them or by extending them credit to allow them to expand their lending portfolios.

33. A major challenge faced by private finance in accelerating sustainable finance in Asia and the Pacific is the limited number of banks that have made net-zero commitments. More than 90 per cent of the 500 largest banks in Asia, with a combined \$71.8 trillion in total assets, \$37.4 trillion in net loans, \$49.7 trillion in customer deposits and \$425 billion in net profit in 2021,¹² have not yet made credible net-zero commitments by 2050 with intermediate targets by 2030. As Managing Director of the Monetary Authority of Singapore, Ravi Menon, succinctly put it: “To achieve net zero by 2050, the necessary policies and the associated investments must be made between now and 2030”.¹³ At the time of writing, only 20 of the 108 banks that had made credible net-zero commitments by 2050 through participation in the Net-Zero Banking Alliance were located in the Asia-Pacific region.

V. Ten principles to bridge the sustainable finance gap in Asia and the Pacific

34. Keeping in view the trends, opportunities and challenges faced by Governments, regulators and private financial entities, as discussed above, the secretariat is putting forward 10 principles to propel the use of financial resources for climate action in Asia and the Pacific, drawn from its forthcoming report. These 10 principles are categorized into actions to be taken by Governments, regulators and private financial entities.

A. Governments and regulators

35. *Develop new climate finance partnerships.* Such partnerships between Governments, regulators, multilateral development banks and private financial entities will guide action towards, and delegate tasks in line with, specific goals. Financing country-led and country-owned just energy transition partnerships provides a useful model for the region, especially if the execution of such partnerships can be accelerated.

36. *Develop effective nationally determined contribution financing strategies, led by authorities with clear mandates.* Nationally determined contribution financing strategies should be used to establish credible transition pathways with interim targets and clear resource mobilization plans. This will provide clear signals to investors, businesses and project developers that Governments are committed to change.

37. *Ensure policy coherence and develop capacities across key government ministries, such as finance, energy, transport and environment, to reduce the costs of financing.* Taking these actions will allow Governments to better work with multilateral development banks, development financial institutions and

¹² The Asian Banker, “The largest banks ranking: largest banks in Asia Pacific in 2021”. Available at www.theasianbanker.com/ab500/rankings/largest-banks-asia-pacific (accessed on 22 August 2023).

¹³ Ravi Menon, Managing Director of the Monetary Authority of Singapore, “What does it take to get to net zero”, speech made at the Economic Society of Singapore Annual Dinner 2022, Singapore, 17 August 2022.

development partners to obtain the assistance necessary in the appropriate time frame.

38. *Take decisive regulatory action to shift capital towards the net-zero transition in Asia and the Pacific.* The Asia-Pacific region is home to significantly large pools of capital capable of bridging the gap in sustainable finance. Regulators need to take a more active role in channelling capital towards climate action, recognizing that doing so will strengthen financial stability in the system. The adoption of consistent taxonomies and road maps across countries will help to create an efficient and level playing field.

39. *Invest in the capacities of financial personnel.* Financial actors performing policymaking and regulatory functions need to be able to assess climate risks, innovate green financial instruments and supervise the transition path towards a green economy.

40. *Invest in much-needed sectoral and project-based financial data.* Common data platforms that share valuable information on environmental, social and governance standards and norms, climate, nature, contracts, clauses, standards, targets and deals (where possible) will help to streamline investment, assist in benchmarking, strengthen credibility and ensure higher replicability.

B. Private financial entities, especially in Asia and the Pacific

41. *Commit to net-zero pledges for 2050 with credible transition pathways, including for the Sustainable Development Goals.* Banks in Asia and the Pacific have been slow to commit to net zero and transition their lending and investing portfolios using as a guide the science-based targets from the 2030 Agenda for Sustainable Development. As a result, from a finance perspective, progress towards climate action in the region has been severely limited.

42. *Increase investments made using local currency financing, in particular investments in energy transition projects and green technologies.* Local currency financing is of critical importance in expediting the scale and pace of private finance because it can be used to fund projects that do not have to reach a higher rate of return just to cover the exchange rate risk.

43. *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.* This would help to de-risk projects that can then be co-financed by private financial entities. A ratio of 1 to 5, which is the target used by the Asian Development Bank, can be employed as a benchmark to ensure concessional funds truly leverage private finance and are put towards well-structured projects.

44. *Increase collaboration with partners in project preparation in more challenging markets, including in the least developed countries and small island developing States, and in new green technologies.* Setting up a modality to enable project developers and financial institutions to meet regularly and create investment projects, in a progressive and iterative manner, can accelerate the preparation of effective pipelines of bankable projects at scale, which will ultimately bring down project risks and costs.

VI. Issues for consideration by the Committee

45. The Asia-Pacific region is home to five of the 10 largest greenhouse gas emitters in the world, and it accounts for almost half of the world's

greenhouse gas emissions. The region also includes six of the 10 countries most affected by climate-related events, such as more frequent and severe storms, flooding, heatwaves and droughts.¹⁴ In addition, the region is not on track to achieve any of the Sustainable Development Goals and is regressing on Goal 13 (Climate action).¹⁵ Furthermore, the nationally determined contributions of the region are falling short of the ambition required to reduce greenhouse gas emissions and limit the temperature increase to 1.5°C above pre-industrial levels.¹⁶

46. As a result, several policy actions are urgently needed to accelerate the attainment of the Goals and meet the ambitions on climate action. By focusing on sustainable finance and addressing the challenges and opportunities for Governments, regulators and private financial entities, the secretariat has proposed 10 principles to propel the use of financial resources to help bridge the sustainable finance gap in Asia and the Pacific.

47. The Committee on Macroeconomic Policy, Poverty Reduction and Financing for Development is invited to provide feedback on the 10 principles and discuss ways of strengthening regional cooperation to bridge the gap in sustainable finance in Asia and the Pacific. The Committee may also wish to discuss country-level experiences, challenges and opportunities in enhancing access to sustainable finance.

¹⁴ *The Race to Net Zero: Accelerating Climate Action in Asia and the Pacific* (United Nations publication, 2023).

¹⁵ *Asia and the Pacific SDG Progress Report 2023: Championing Sustainability Despite Adversities* (United Nations publication, 2023).

¹⁶ *2022 Review of Climate Ambition in Asia and the Pacific: Raising NDC Targets with Enhanced Nature-based Solutions* (ST/ESCAP/3053).