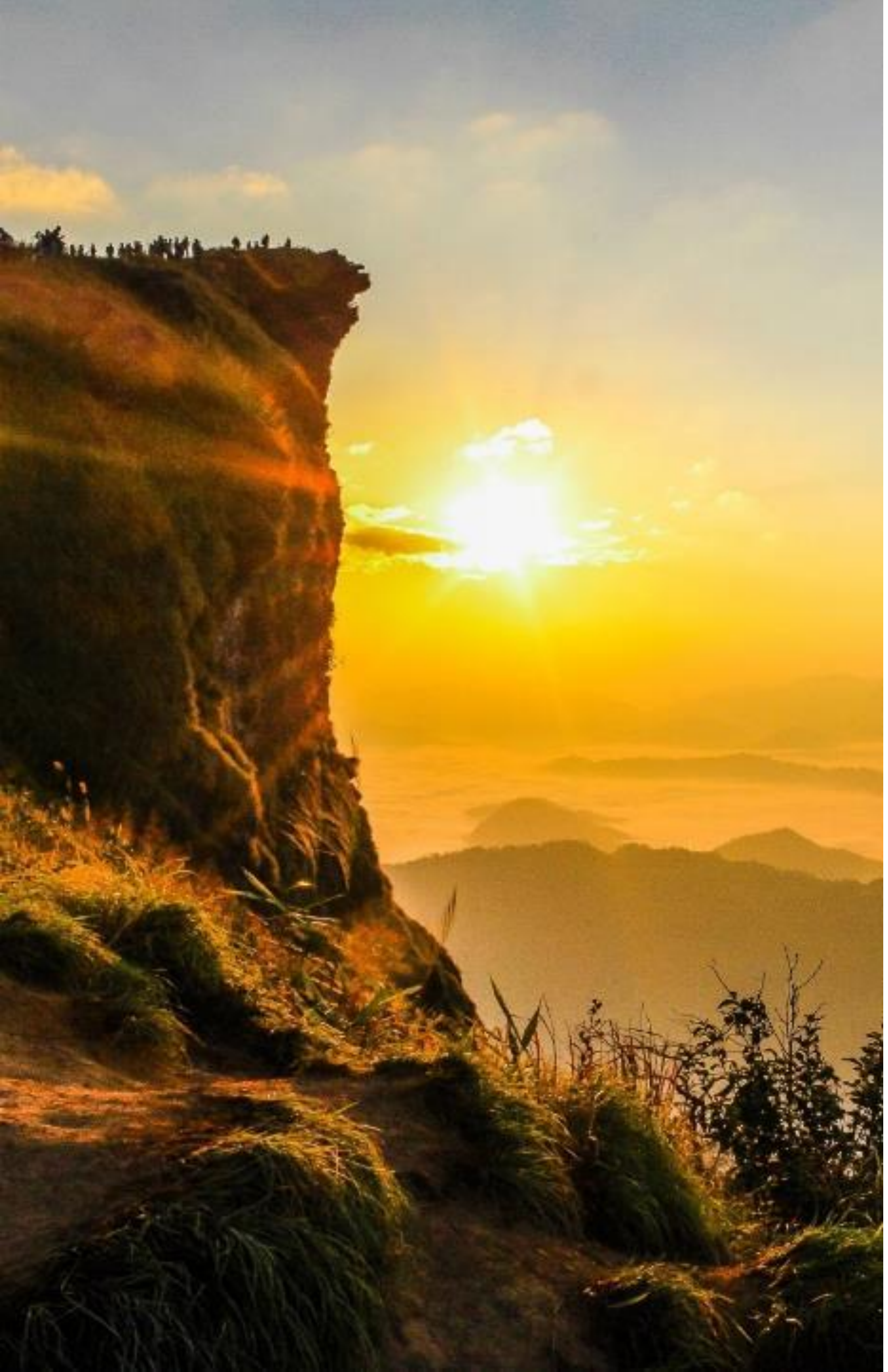

CLIMATE POLICY INITIATIVE

Addressing Challenges in Mobilizing Effective Climate Finance

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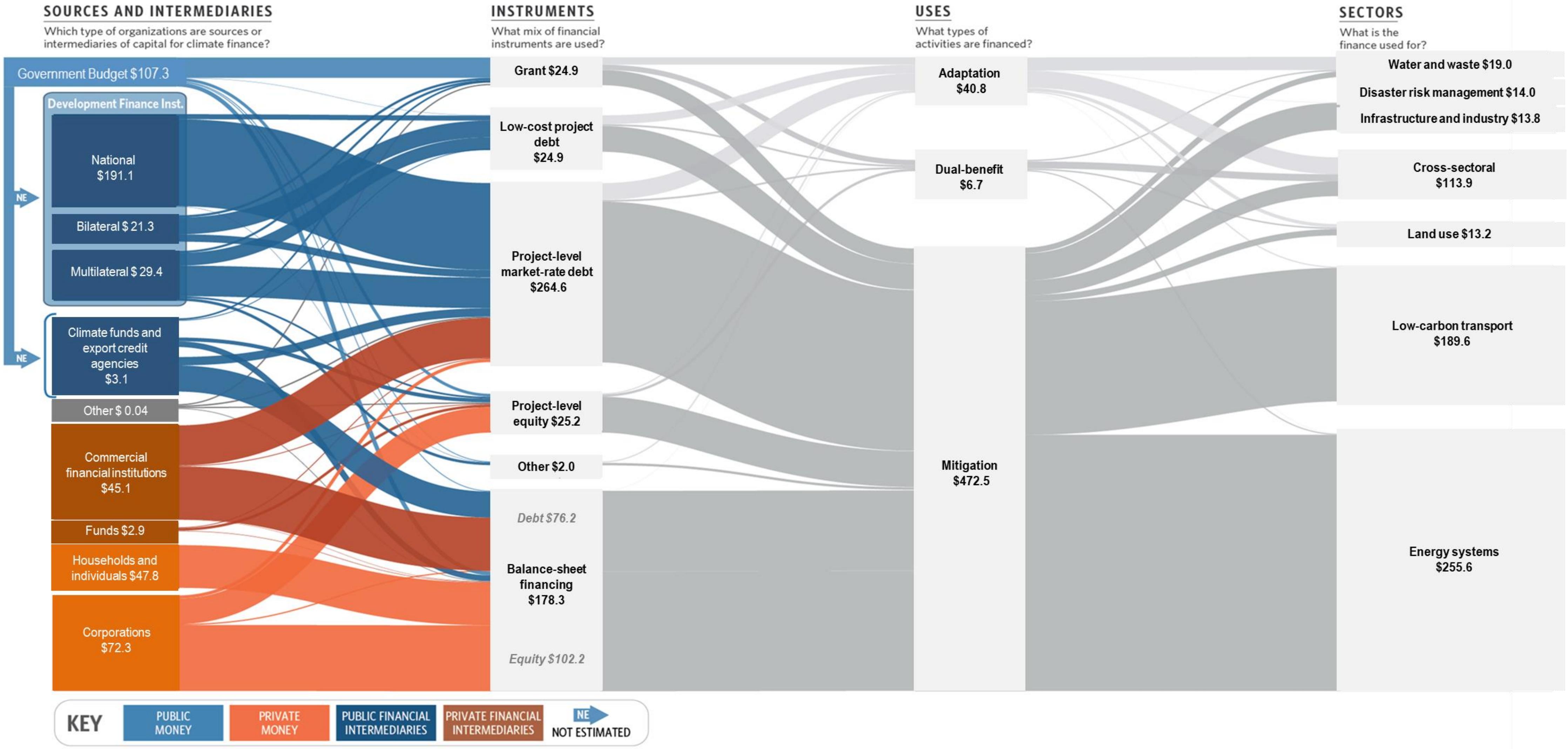
April 2024

Climate Finance in Asia and the Pacific, 2018 – 2019 ($520 billion)

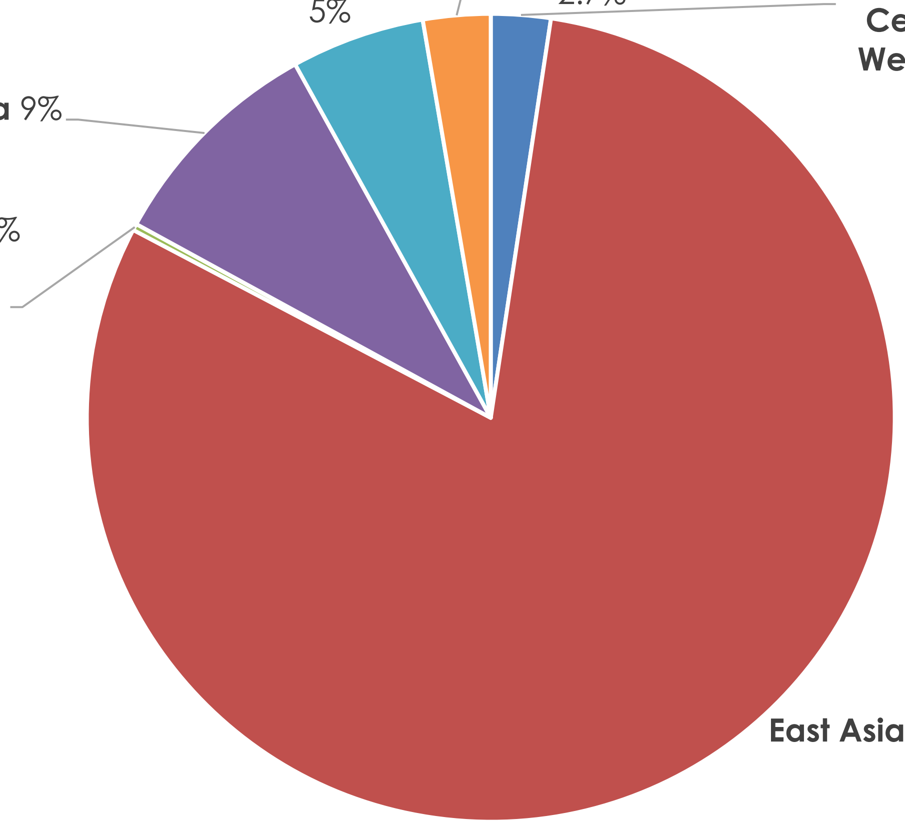


Source: ADB & CPI (2023)

CLIMATE POLICY INITIATIVE

Climate Finance in Asia and the Pacific: Supply vs. Need

What we track – Climate Finance Supply



Source: ADB & CPI (2023)

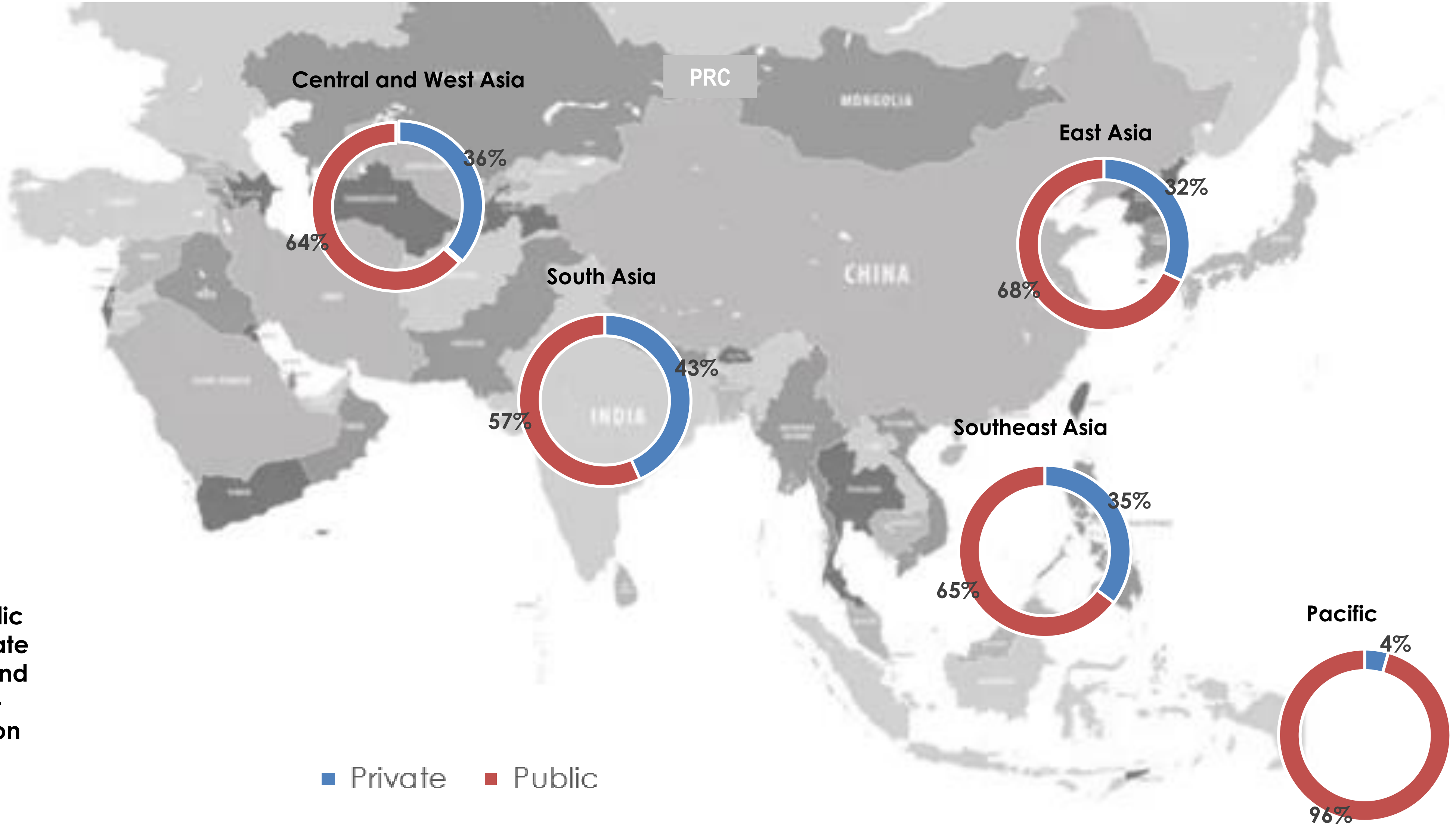
Climate Finance Need:

- **Up to $1.7 trillion annual finance flow*** will have to be invested until 2030 to meet the Asia and the Pacific's NDC targets.
- **At least $4.3 trillion of <u>global</u> annual finance flows or 20% year-on-year increase by 2030 is required** to avoid the worst impacts of climate change.
- Despite seemingly dramatic scale of funding gap, it represents less than 5% of global GDP**

*Estimated based on investment needs for climate change mitigation or adaptation, or both, in accordance with the commitments made by 38 developing countries in their NDCs

**Global total GDP is on avg USD 94 trillion per year based on IMF estimation (IMF, 2021)

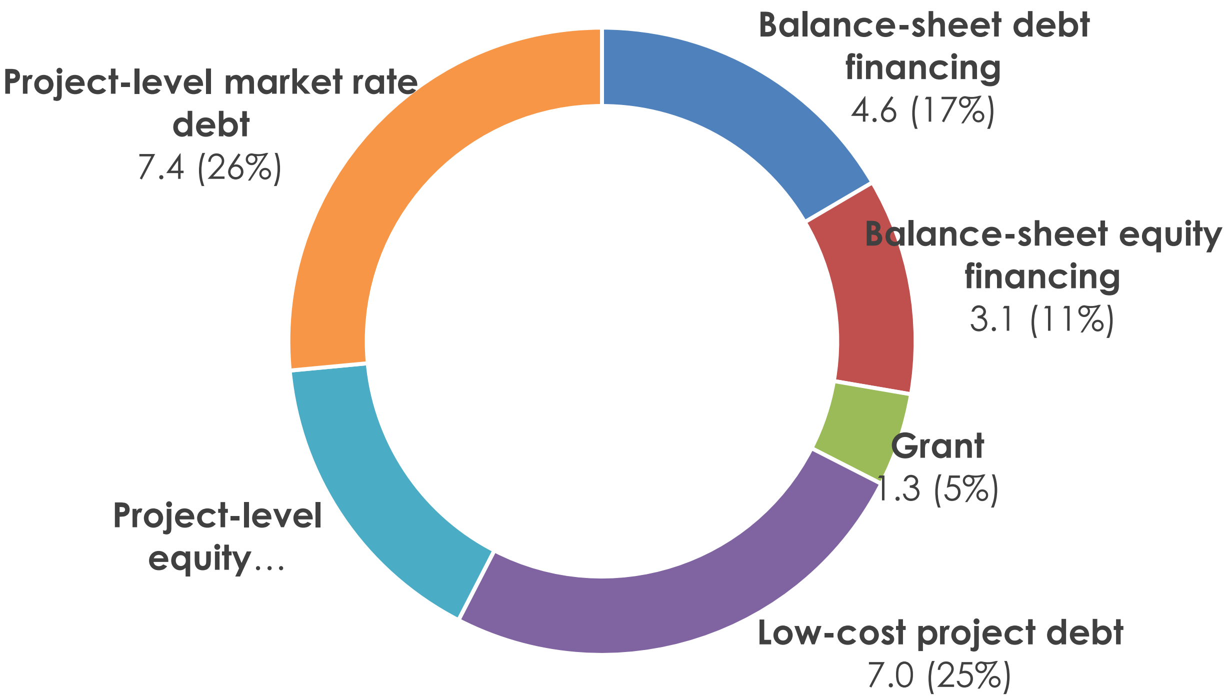
Source of finance: Public sector climate spending dominates; private finance needs to scale up

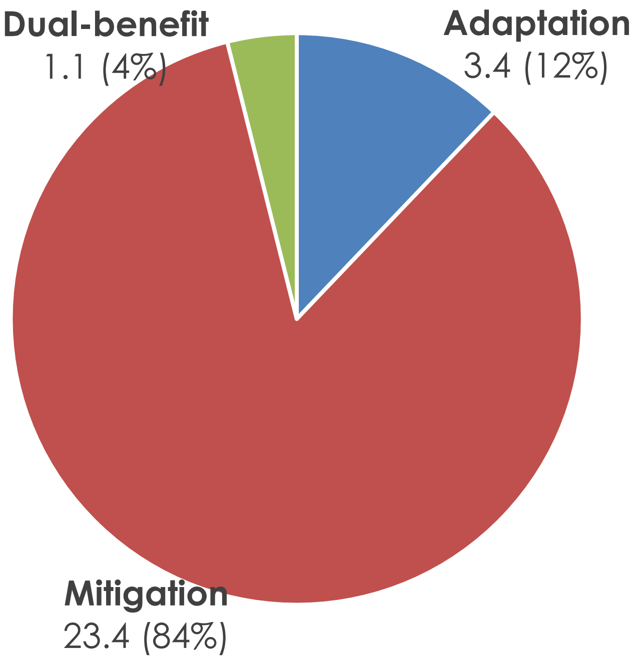


Proportion of Public and Private Climate Finance in Asia and the Pacific, 2018–2019, by Subregion

Source: ADB & CPI (2023)

Southeast Asia’s climate finance zoomed-in (in $ billion): CF is mostly in debt funding sourced internationally, with adaptation finance remains lagging





Financial instruments
- Debt instruments were growing in volume and variety (e.g., green bonds and sukuk, green credit facilities, blended finance)
- Equity flowed almost exclusively to energy investments, e.g., RE generations and energy efficiency.
- Grants were channelled for cross-sectoral investments

Sector financed
- Mainly internationally sourced, adaptation finance went to priority sectors, e.g., land-use change and forestry, natural resource management, water
- Institutional strengthening, capacity building, and other actions intended to facilitate policy-making also received portion of adaptation finance

Source: ADB & CPI (2023)

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Key challenges in mobilizing effective climate finance – adaptation finance and data gap

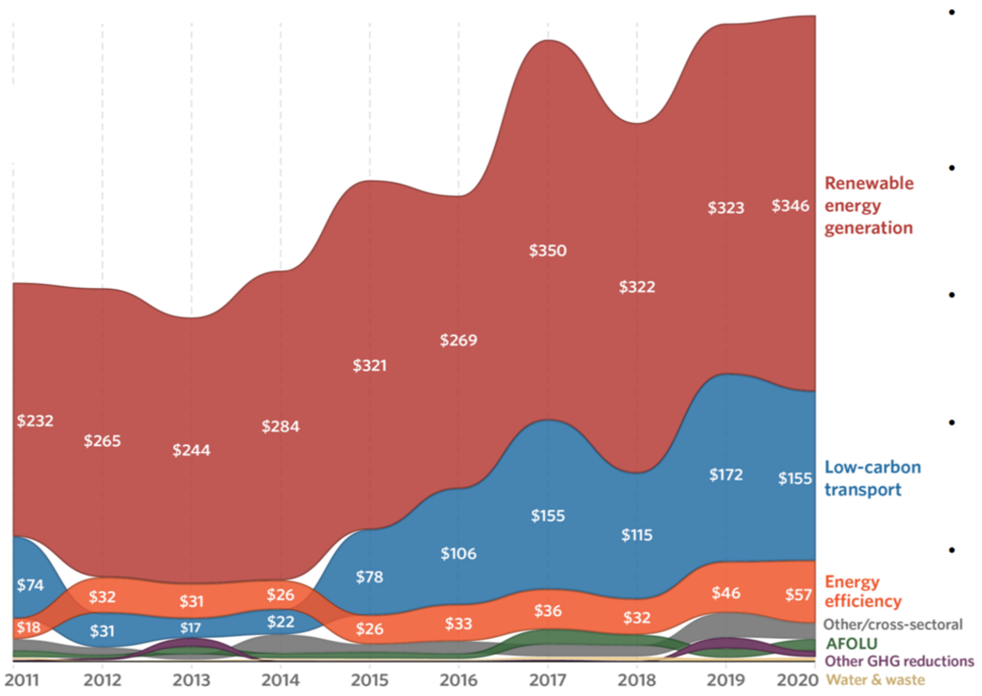
- Insufficient effort is being made to address climate adaptation. Adaptation projects are -
  - Higher perceived risk, requiring higher capital up front, and longer-term
  - Usually fragmented, small in scale, incremental, and sector-specific—all potential deterrents to financing, particularly by private investors (IPCC 2022)

- Data gaps and limitations in tracking and reporting climate finance, and lack of transparency and disclosure**, are even more pronounced when it comes to adaptation finance data**.
  - **Data are mostly fragmented** because of the lack of precise and comprehensive national-to-local (project-level) finance-related data for individual countries.
  - **Constraints on defining adaptation-relevant activities, and universally accepted impact metrics for adaptation finance are lacking** (UNFCCC 2018; CPI 2019a).
  - **Publicly available data on private climate finance, and particularly on adaptation finance, are limited** – voluntary reporting, confidentiality reason

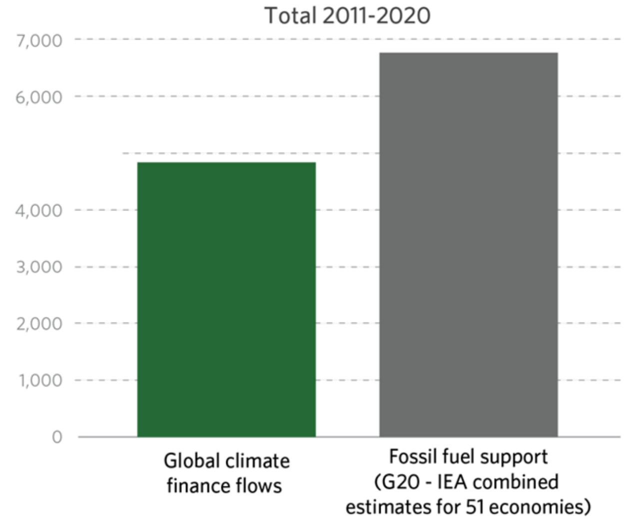
Key challenges in mobilizing effective climate finance – access to finance

- The region (global trend shows similar outlook – snapshot below) still rely mainly on fossil fuels, making the low-carbon transition a key challenge. Though more than 80% mitigation finance goes to renewables, but still outpaced by fossil fuel subsidies

Climate mitigation finance by solutions between 2011-2020 (USD bn)



Fossil fuel subsidies vs climate finance (USD bn)



Source: Fossil fuel subsidies data by OECD Inventory of Support Measures for Fossil Fuels; global climate finance data is by CPI

Source: CPI (2022, 2023)

- Limited access to long-term finance, especially for small-scale climate projects, constrains the capacity to attract sufficient investment to the sector, region, or country where it is needed most.
- There are gaps in institutional capacity and arrangements for access to climate finance – MDB's role, international finance

Addressing challenges of mobilizing climate finance in Asia, esp. Southeast Asia

public

- **Scarce public funding is being directed at subsidizing the fossil fuel** industry in many emerging economies. **Shift these and add green conditionalities to any subsidy.**
- **Climate solution projects suffer from regulation uncertainty**. Cost overruns, delays, and permit risk limit the supply of high-quality climate solution projects.

blended

- **Risk is generally higher in emerging markets** compared to advanced economies. Additionally, the cost of capital for developing countries is increasing due to climate vulnerability (United Nations Environment Program, 2018).
- **Risk mitigation tools are being deployed at too small a scale**. Mobilized private finance has been increasing, averaging USD 48.6 billion over 2018-2020 (TOSSD, 2022). However, to meet needs, the public investment and/or the ratio of public to private investment, must further increase.

private

- **FI net zero commitments have not translated into internalized policy**. ESG disclosure and climate risk assessment as a matter of fiduciary responsibility need to become the norm.