



Accelerating Green Finance for Post COVID-19 Recovery in Southeast Asia



GREEN FINANCE STRATEGIES
FOR POST-COVID-19
ECONOMIC RECOVERY
IN SOUTHEAST ASIA
GREENING RECOVERIES FOR PEOPLE AND PLANET
OCTOBER 2020

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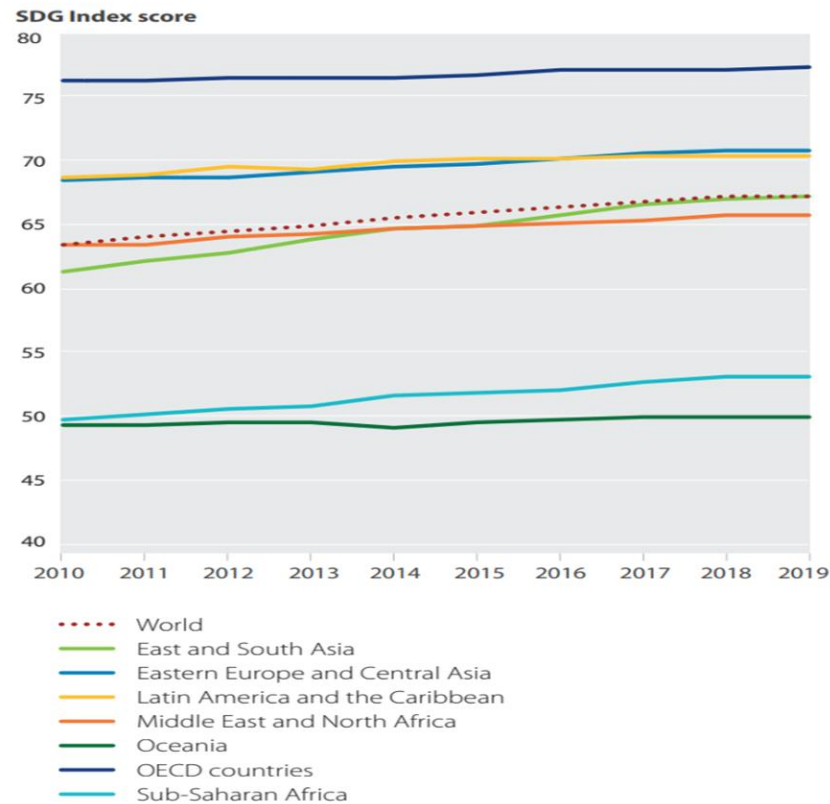
ADB Climate Commitments

- First MDB to make climate financing commitments UN Summit 2015
- From \$3 billion (2014) annual climate finance investment - \$6 bn (2020) TARGET
 - ACHIEVED ONE YEAR EARLY - \$ 7 billion in 2019
- 2030 Targets
 - 75% of all operations – focus on climate change
 - \$80 billion cumulative finance into climate investments

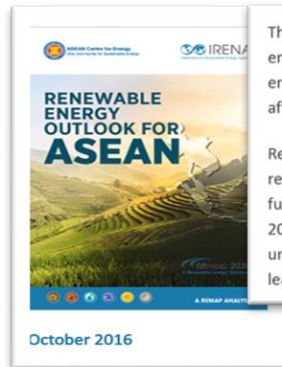
Source: Refinitiv Sustainable Finance Review 1H 2020

The Good....Some progress in SDGs and Climate

Progress on the SDG Index by regions (2010–2019)



Source: Refinitiv Sustainable Finance Review 1H 2020



The nations of Southeast Asia stand at a crossroads in terms of their collective energy future. Amid rapid economic growth, they face a 50% rise in regional energy demand within a decade. This brings challenges in supplying energy affordably, sustainably and securely.

Recognising this, the Association of Southeast Asian Nations (ASEAN) aims to rely more on renewables to support a sustainable, secure and prosperous future. The region has set out to make 23% of its primary energy renewable by 2025, compared to 9.4% in 2014. Yet current policies – including those still under consideration – only suffice to reach just under 17% renewables. This leaves a crucial six-percentage-point gap.



- Key ASEAN targets include

i. Energy transition:

- ASEAN has exceeded its energy efficiency target, reducing energy intensity by more than 21.9% compared to 2005 levels, well ahead of its 2020 target.
- ASEAN will continue to work towards the region's long-term target to reduce energy intensity by 30% by 2025.
- Additionally, ASEAN also set a target to increase the component of renewable energy mix by 23% by 2025.

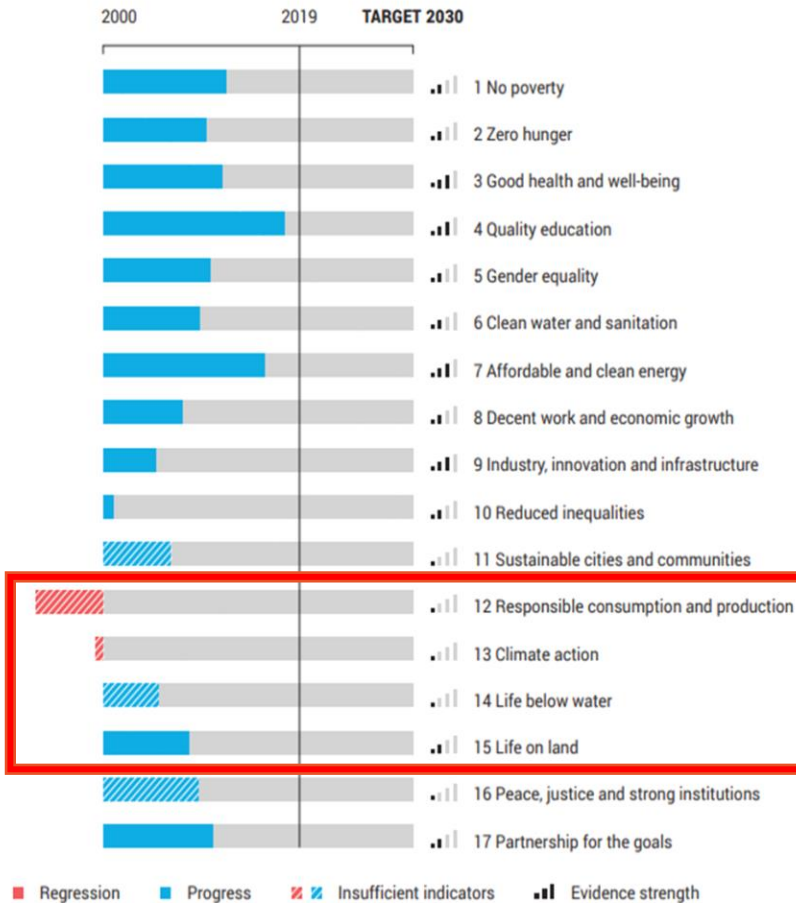
ii. Land transport:

- ASEAN aims to reduce the average fuel consumption per 100 km of new light-duty vehicles sold in ASEAN by 26% between 2015 and 2025.
- ASEAN will also (a) introduce and strengthen fiscal policy measures based on fuel economy or on CO₂ emissions at national level where applicable to incentivize consumers to purchase efficient vehicles; and (b) promote the adoption of national fuel consumption standards for light-duty vehicles in all markets, striving towards a regional standard in the long term.

- Strong improvement in SE Asia
- Greater understanding of the climate change – all AMS have ratified the Paris Agreement and communicated their NDCs
- 23% RE Target being met
- Emerging projects in SE Asia

The Bad....A lot more is needed AND Faster

Progress on the SDGs in Asia and the Pacific



BUT

- 263 m still in extreme poverty
- Inequitable growth? "By 2030 richest will account for 4% of global population and 25% of consumption (Brookings)"

UNEP's annual *Emissions Gap Report* says that even if all current unconditional commitments under the Paris Agreement are implemented, temperatures are expected to rise by 3.2°C, bringing even wider-ranging and more destructive climate impacts. Collective action must increase more than fivefold current levels to deliver the world needed to meet the 1.5°C goal.

3.2°C

2020 is a critical year for climate action, with the UN climate change conference in Glasgow aiming to determine the future course of efforts to avert crisis, and countries expected to significantly step up their climate commitments.

26 NOV 2019 | PRESS RELEASE | CLIMATE CHANGE

Cut global emissions by 7.6 percent every year for next decade to meet 1.5°C Paris target - UN report

PLASTIC OCEANS

ABOUT FILMS PROJECTS TAKE ACTION RESOURCES BLOG DONATE

The Facts

"More than 8 million tons of plastic are dumped in our oceans every year."

WHO: 7 million people dying yearly from polluted air

Over 90 percent of people on Earth are breathing high levels of pollutants, according to a World Health Organization report. The UN body warned that toxins in the air can lead to strokes, heart attacks and lung cancer.

- **Marine populations** declined 49% in past 50 years
- 90% loss of **coral reefs** by 2052
- Ocean "dead zones" quadrupled since 1950
- Third of fish stocks overfished (**almost two-thirds in South East Asia**)
- 92% of AP population's air exceeds WHO small particulate matter (PM2.5) standard
- 6 of 10 countries with highest number of **deaths is in Asia**
- 369 m without **basic sanitation in AP**
- Economic costs of the air pollution on health in Asia was estimated at \$1.7 trillion (10% of GDP) in 2016.

Source: United Nations Economic and Social Commission on Asia and the Pacific. 2020. *Asia and the Pacific SDG Progress Report*. Bangkok.

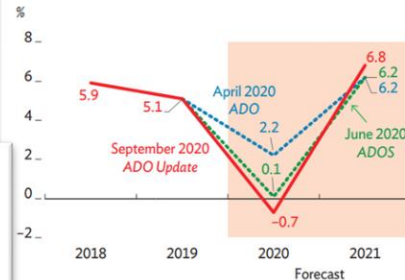
Getting worse...COVID-19

GDP growth rate, % per year

	2019	2020			2021		
		April ADO 2020	June ADOS	September Update	April ADO 2020	June ADOS	September Update
Southeast Asia	4.4	1.0	-2.7	-3.8	4.7	5.2	5.5
Brunei Darussalam	3.9	2.0	1.4	1.4	3.0	3.0	3.0
Cambodia	7.1	2.3	-5.5	-4.0	5.7	5.9	5.9
Indonesia	5.0	2.5	-1.0	-1.0	5.0	5.3	5.3
Lao People's Democratic Republic	5.0	3.5	-0.5	-2.5	6.0	4.5	4.5
Malaysia	4.3	0.5	-4.0	-5.0	5.5	6.5	6.5
Myanmar	6.8	4.2	1.8	1.8	6.8	6.0	6.0
Philippines	6.0	2.0	-3.8	-7.3	6.5	6.5	6.5
Singapore	0.7	0.2	-6.0	-6.2	2.0	3.2	4.5
Thailand	2.4	-4.8	-6.5	-8.0	2.5	3.5	4.5
Timor-Leste	3.4	-2.0	-3.7	-6.3	4.0	4.0	3.3
Viet Nam	7.0	4.8	4.1	1.8	6.8	6.8	6.3

Figure 1.0.1A GDP growth in developing Asia

Developing Asia is now expected to contract this year...



Source: Asian Development Outlook database.



- COVID: Gains reversing?
 - 71 - 100 million people WW pushed into extreme poverty in 2020?
- COVID-19 will have severe negative impact on most SDGs
 - **2020: 0.7%** economic contraction in developing Asia, the first time in 6 decades – **3.8%** in SE Asia
 - Youth job losses possibly doubling post COVID-19: **10 - 15 million jobs** may be lost across 13 countries in Asia Pacific in 2020

The Challenge: Massive Financing gaps

Table 3: Estimated Infrastructure Investments and Gaps, 25 DMCs, 2016–2020
(\$ billion in 2015 prices)

	Estimated Current Investment (2015)	Baseline Estimates			Climate-adjusted Estimates		
		Annual Needs	Gap	Gap (% of GDP)	Annual Needs	Gap	Gap (% of GDP)
Total (25)	881	1,211	330	1.7	1,340	459	2.4
Total without PRC (24)	195	457	262	4.3	503	308	5.0
Selected Central Asia Countries (3)	6	11	5	2.3	12	7	3.1
Selected South Asia Countries (8)	134	294	160	4.7	329	195	5.7
Selected Southeast Asia Countries (7)	55	147	92	3.8	157	102	4.1
Selected Pacific Countries (5)	1	2	1	6.2	2	2	6.9
India	118	230	112	4.1	261	144	5.3
Indonesia	23	70	47	4.7	74	51	5.1
PRC	686	753	68	0.5	837	151	1.2

PRC = People's Republic of China.

Numbers in parentheses refer to the number of selected countries.

Note: The gap as a % of GDP is based on the annual average of projected GDP from 2016 to 2020. The 25 DMCs covered here are listed in Annex Table 2.

Source: ADB (2016a); Country sources; Investment and Capital Stock Dataset, 1960–2015, IMF; Private Participation in Infrastructure Database, World Bank; World Bank (2015a and 2015b); World Development Indicators; World Bank; ADB estimates.

- **UN Estimates:** \$3–\$5 trillion annually, globally for SDGs
- **ADB:** Developing Asia needs \$26 trillion investments in infrastructure from 2016 to 2030, or **\$1.7 trillion per year**, to maintain growth, eradicate poverty, and respond to climate change (climate-adjusted estimate)
- **The GAP:** Even before COVID-19, the region faced a substantial investment gap **\$459 billion per year** (\$907 billion p.a. if including social infrastructure)

Key Impact of worsening COVID Impacted budgets: Less to spend on SDGs and Climate

The Need: Attract Private Capital from ALL Sources...mitigate the constraints

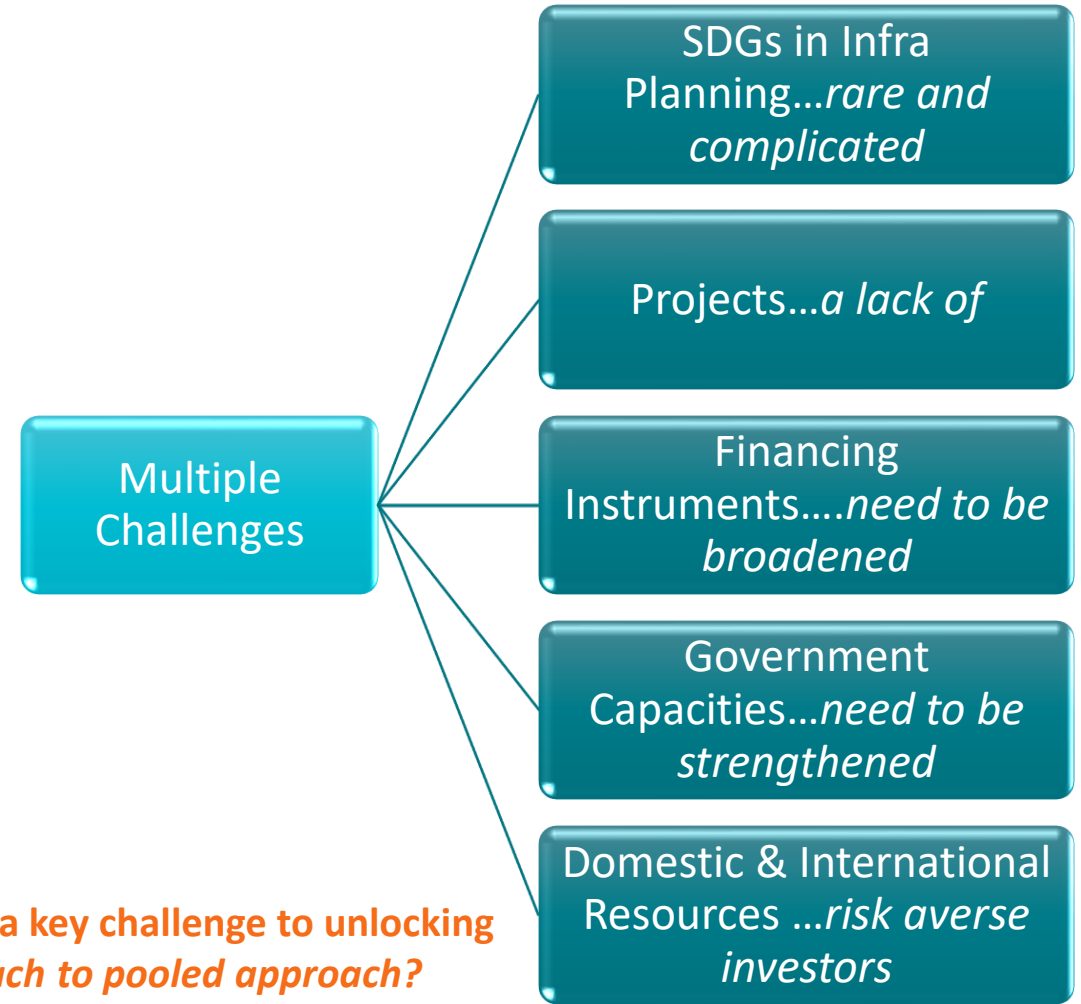
US\$46.7 trillion (2019).....\$60 trillion + (2030)?

Global institutional pension fund assets (2019)

- **OECD:** Pension fund assets rose to \$32 trillion in OECD area and \$0.7 trillion in 29 other selected (non-OECD) reporting jurisdictions in 2019

But

- Flows smaller for AP region in general
- Low levels of domestic revenue mobilization (below \$ 600 per person versus \$15,000 in high income countries) - limits ability of governments to fund services and public investment



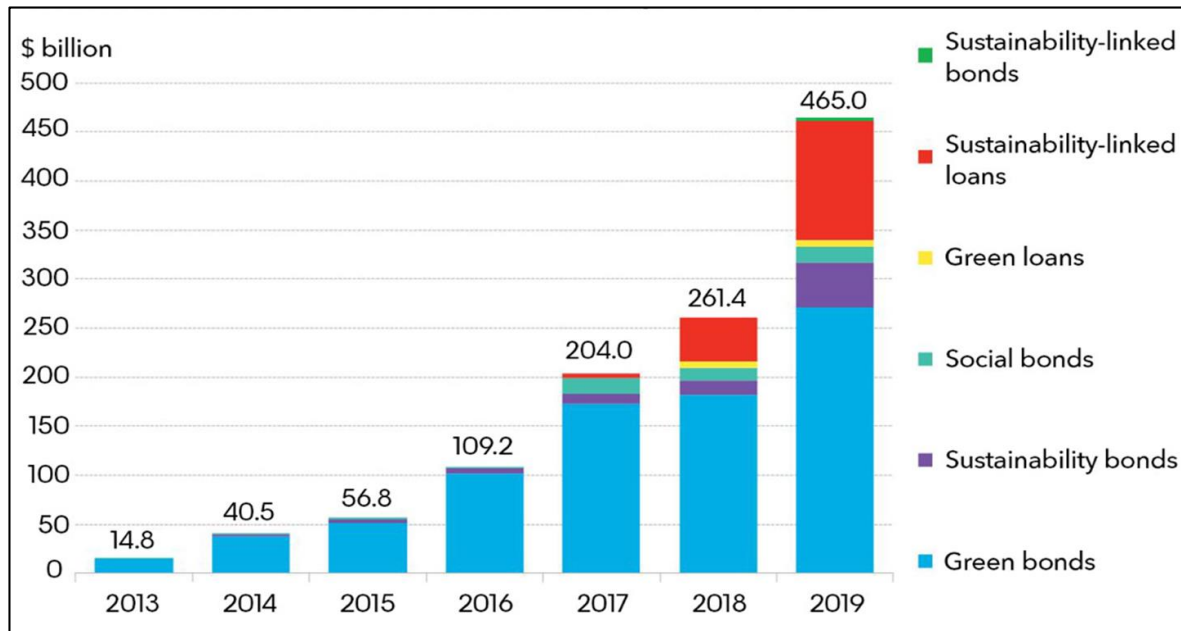
Stimulating sufficient quantities of quality private investment is a key challenge to unlocking private contributions toward the SDGs...from project approach to pooled approach?

Green Finance for Post COVID Response: A Critical Way Forward

Green Finance: As a cross cutting theme across several SDGs, green finance provides a clear roadmap for countries to achieve their SDGs and Paris Agreement Goals.....AND green projects will attract private capital sources.

Green finance denotes all financing instruments, investments and mechanisms that contribute to a "climate plus" approach, impacting on both climate and environmental sustainability goals. Green finance promotes a reduction in greenhouse gases and improved climate resilience, air and water quality, ecosystems, biodiversity, and use of resources. **ACGF, 2020**

Growth of the Green Finance Market



Source: Climate Bonds Initiative. Forthcoming. Climate Bonds Initiative Market Summary H1 2020.


Figure 5: Global Green Bond and Loan Issuance Increases



* ASEAN issuance represents 3% of global total, 12% of Asia-Pacific in 2019.
Source: Climate Bonds Initiative. 2020. ASEAN Green Finance State of the Market 2019.

- **Green bonds** in Asia Pacific (incl Japan) in 2019 - record high of **\$47.6 billion**; China - majority - US\$22.9 billion in proceeds
- **ASEAN** Green bond market 2019 –ASEAN issuance doubled **\$7.8bn**; cumulative ASEAN issuance since 2016 at \$ 13.4bn; still small globally - 3% of global total and 16% of the Asia-Pacific

Green Finance Recoveries...already in progress

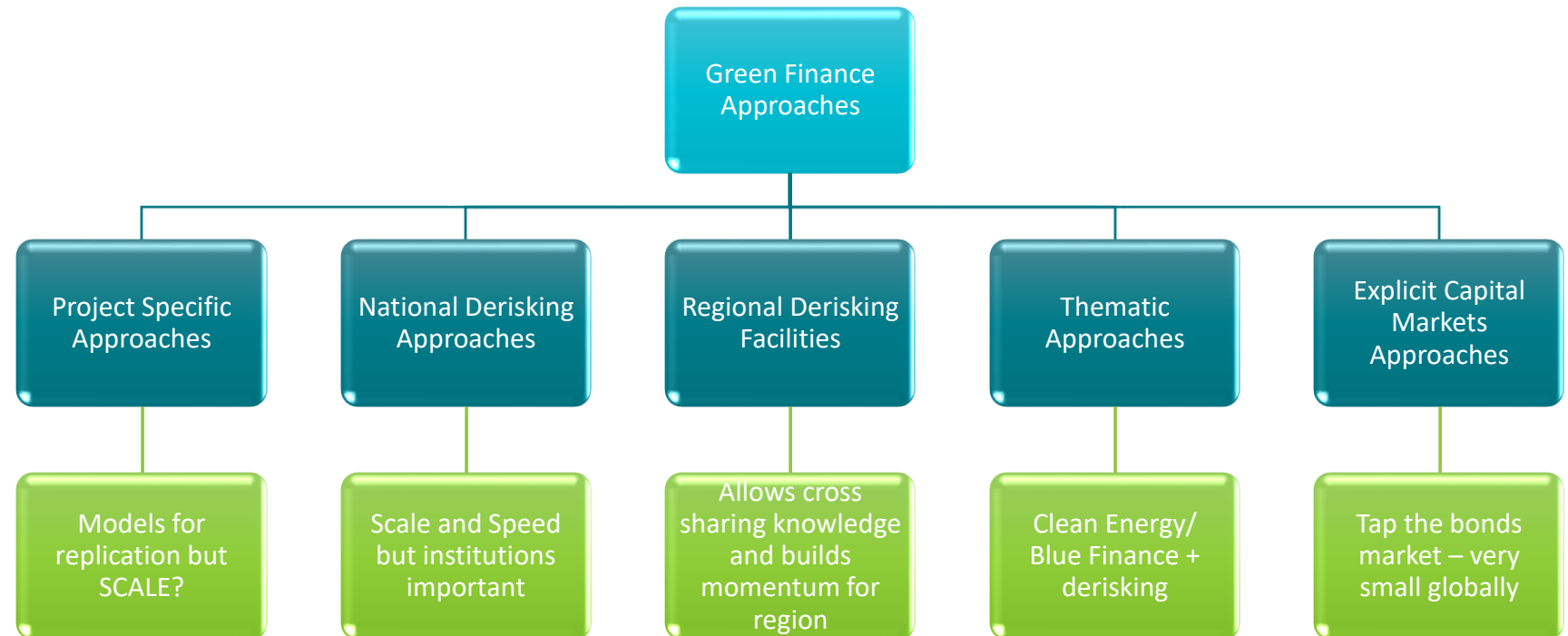
ASEAN CATALYTIC GREEN FINANCE FACILITY
ASEAN Infrastructure Fund Limited

ASEAN CATALYTIC GREEN FINANCE FACILITY
AN ASEAN INFRASTRUCTURE FUND INITIATIVE

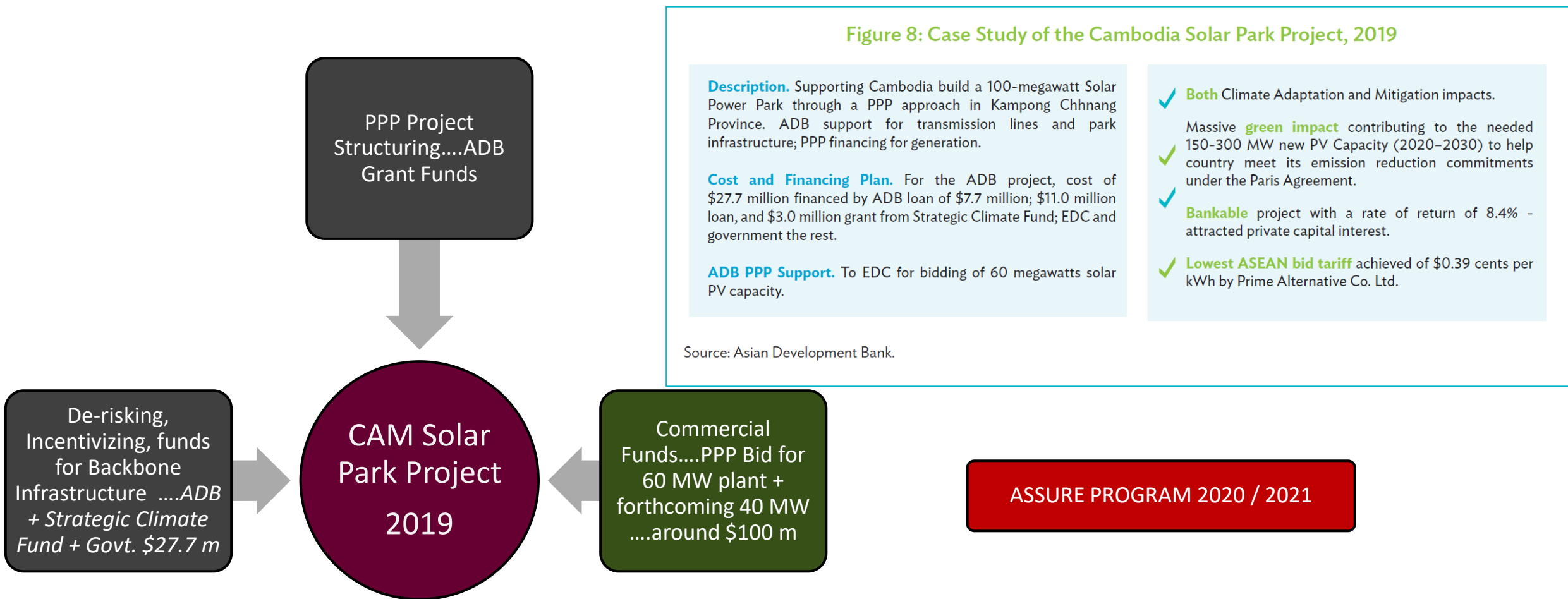
Operations Plan 2019-2021 October 2019

This is a preliminary draft prepared for information only for the 2nd/2019 Board of Directors Meeting of the ASEAN Infrastructure Fund, Paris, 1 November

Green Finance Approaches: Numerous Possible...but must be aligned with “1 to 3” principle



Emerging Examples: Demonstration Projects Leading to Programs



Emerging Examples: ASEAN Catalytic Green Finance Facility (ACGF) – Regional Derisking



- Launched in 2019, the ACGF pilots the Oceans Financing Initiative in Southeast Asia.
- **13 partners** and project financing commitments of **\$1.4 billion**.
- **Only regionally owned** green finance vehicle
- Combines innovative financial structuring with funding for de-risking projects to enhance bankability and attract private capital.
- Pipeline of **17 green projects** and helping Indonesia and Cambodia to develop blended **marine financing vehicles**.
- **Green Recovery Window** under development.

- A separate concessional (IFF) financing window for CAM, LAO, MYA

Emerging Examples: ASEAN Catalytic Green Finance Facility (ACGF) – Regional Derisking



Project Eligibility: Projects supported must

- **Be “Green”** ...per the ACGF Green Framework
- **Be “Bankable”** ACGF team will help structure
- **Have a roadmap for private capital flow...** ACGF will help structure
- **Have a sovereign guarantee** for ACGF Funds.

ACGF Funds Aim to Leverage each \$1 of public funds to attract at least \$3 of commercial funds to projects

Investment Principles and Eligibility Criteria

<https://www.adb.org/documents/acgf-investment-principles-eligibility-criteria>

ACGF Funds aims to Leverage each \$1 of public funds to attract at least \$3 of commercial funds to projects

2 Step Loan Pricing (ACGF Funds)

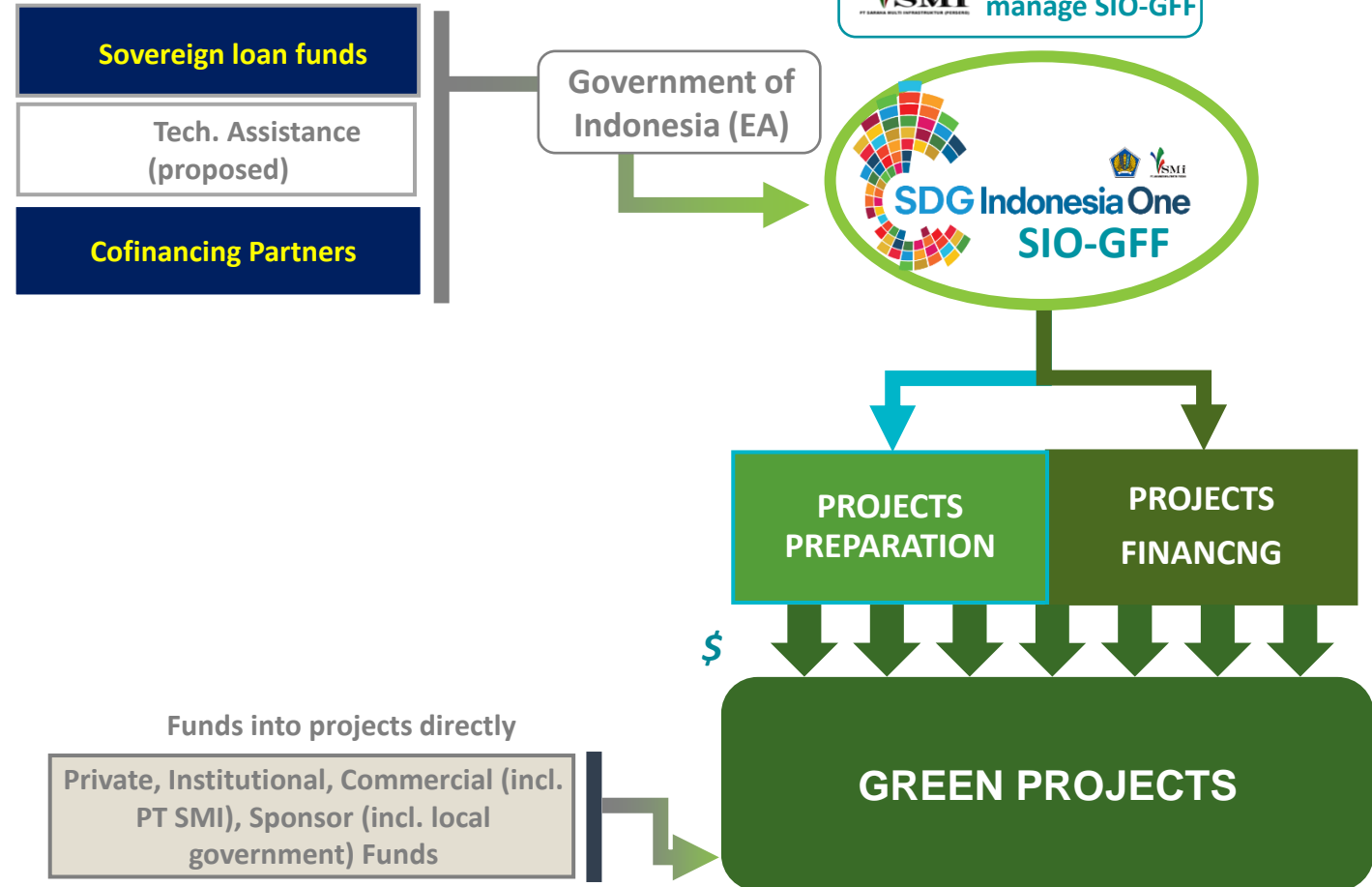
**6m \$ LIBOR
for first 7 years**

**6m \$ LIBOR + 140bps
from year 8-20**

(Cofinancing from ACGF Partners can lower blended rate)

Emerging Examples: National De-risking Facilities (FIs)....SDG INDONESIA ONE GFF

One of the First SDG Focused De-risking And Enabling Facilities



Aim is for at least 3 x multiple or \$2.4 billion of projects

Emerging Concepts: Blue Credits; Green Securitisation...and more

Green Finance Strategies for Post-COVID-19 Economic Recovery in Southeast Asia

2. Oceans Financing and Blue Credits

Pandemics and oceans health. An increasing body of work links climate change, biodiversity loss, and ocean acidification with human health. Pandemics such as COVID-19 seem to be a result of blurring the lines between human livelihoods and the natural environment. A 2012 report noted the emergence of approximately one virus a year from an animal host due to changes in local ecosystems disturbing the balance between pathogens and principal host species, together with increasing urbanization and changes in human behavior.⁸⁰

The oceans, a term used to denote all water bodies, whether seas, lakes, or rivers, are critical as they absorb, together with the forests, around 50% of global carbon dioxide emissions. Rising ocean pollution is reducing their ability to act as carbon sinks, propelling us further toward global warming over the 2 degrees level. With ever warmer ocean currents and the melting of glaciers, there is expected to be an increase in viruses and future pandemics.

Further, with the massive rise in seawater acidity, estimated at 30% since the industrial revolution combined with pollutants such as 8 million tons of plastics ending up in the oceans each year, the threat to the many fishing communities and economies that depend on the oceans cannot be overstated. The oceans economy is equivalent to the seventh largest economy in the world measured by contribution to gross domestic product, with the value of goods and services from coastal and marine environments estimated at about \$2.5 trillion a year, extraction of marine resources worth \$6.9 trillion, and tourism and coastline industries amounting to \$7.8 trillion.⁸¹

The need for governments to specifically focus on reducing pollution and other negative impacts on their water resources is thus urgent. Caring for the oceans should be included in economic recovery strategies. Innovative financing approaches can help in this to scale up the financing available for oceans health projects.

Blue finance challenges. Therefore, there is a need for “blue finance” or “blue capital” to support ocean health projects whether in urban, coastal, or rural areas. Blue finance has gained interest from both conservationists and investors, underlining the connection between ocean protection and finance, given the growing awareness of their economic value (footnote 81).

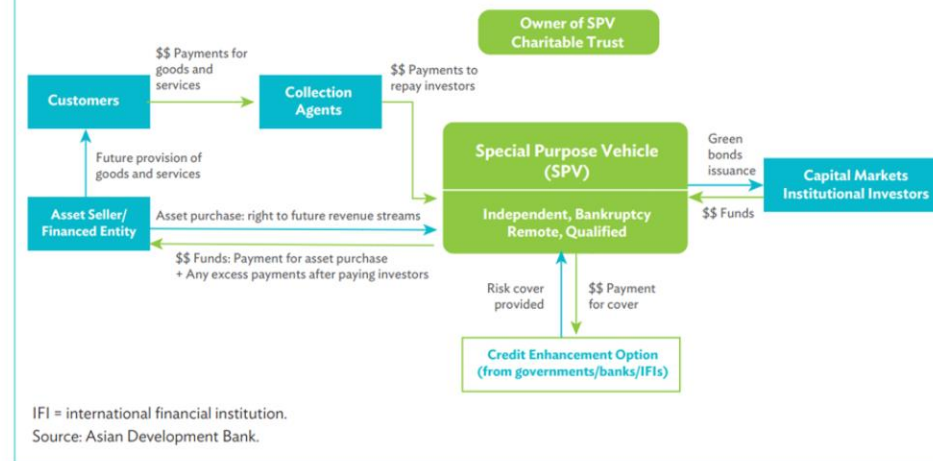
However, a lack of blue economy projects has been the major constraint, not a lack of capital or investor interest. A survey by Credit Suisse and Responsible Investor covering 328 respondents from 34 countries, analyzed factors such as interest, barriers, and opportunities in the blue economy and listed the lack of investment grade projects, internal expertise, and visibility as key barriers to mainstreaming blue finance (Figure 14).⁸²

In developing Asia especially, many blue economy projects are constrained by low tariff and revenue levels due to affordability considerations, or are pure cost projects with no revenue streams at all. Other risk factors from high cost technology needs in sectors such as plastic waste management, the environment and land acquisition have deterred private capital sources from these sectors leading to a growing demand-supply gap in needed infrastructure.

The blue credits mechanism. One mechanism that could be developed by countries in their green recovery strategies post-COVID-19, is to create a mechanism of “blue credits,” to specifically address the issue of a lack of

Green Finance Concepts to Stimulate Post-COVID-19 Recovery

Figure 11: Future Flow Securitization



Box 4: Future Flow Securitization for the Airline Industry—An Illustration

Taking the example of the airline industry, affected by losses from flight disruptions and loss of ticket sales, while its high costs—lease payments for aircrafts, buildings and infrastructure, and operational costs—continue, would require

- short-term emergency funding to repay immediate operational costs to avoid defaulting and thus bankruptcy and
- long-term bridge financing until it can operate normally and generate enough revenues to refinance itself.

Assuming the airline can expect revenues from ticket sales, and sub-leasing its services to other smaller airlines, plus indirect revenues from onboard sales of goods, it could raise funds on the back of its anticipated future earnings. These could be denominated in dollars and local currency.

A special purpose vehicle (SPV) would need to be established for the transaction, with the airline company selling a portion of its revenues to the SPV under a revenue sharing sale agreement. This asset would be bought from proceeds of a bond issuance to capital market securitization investors backed by its right to receive the existing and future airline revenues.

Under the terms of the bond, there would be a grace period equal to the transition period for payment of principal and coupon, thereby allowing the airline time to recover. Green criteria such as reducing the airlines carbon footprint on the ground and in the air through fewer short haul flights, reduced long haul flights, use of greener fuel, and green infrastructure policies, would be a prerequisite for inclusion in the structure.

More is needed: Green Finance Strategies for Recovery Publication



- This publication **suggests green finance mechanisms that could be used by countries in ASEAN** but also wider afield to develop and accelerate green recovery strategies.
- The paper provides both examples of green finance mechanisms - such as **de-risking pooled facilities and green bonds** – as well as innovative concepts – such as **green securitization and COVID-19 recovery bonds**; that could be used by governments in their green finance strategies.
- The overall point of this mechanisms is to **leverage public funds to catalyse private capital to the largest extent possible**.

The background of the slide features a photograph of several white wind turbines in a field, with a clear blue sky and some light clouds. A thick, diagonal green stripe runs from the top right towards the center. The right side of the slide is a solid teal color.

Thank You

www.adb.org/acgf