

## Commitment, Capital, and Capabilities for Asia's Net Zero Journey

Ravi Menon, Chair, GFANZ Asia-Pacific Advisory Board

Thank you for joining us today at the GFANZ Asia-Pacific Summit.

Thank you, Mary, for your opening remarks, and thanks to our colleagues at GFANZ HQ for the excellent collaboration.

And of course, thank you Bloomberg for your generous hospitality today.

Part of the mission of GFANZ is to support the flow of finance that is necessary to achieve net-zero emissions by 2050. Let me state three salient facts that inform everything that the GFANZ APAC Network does.

***First, the world cannot achieve net-zero by 2050 without a successful transition in Asia.***

- Asia accounts for half of global greenhouse gas emissions.
- Asian economies are growing rapidly. Energy demand in Asia is

expected to increase by two-and-a-half times by 2050, on the back of urbanisation, industrialisation, and provision of electricity to rural villages.

- How to achieve economic growth and social development while reducing the burning of fossil fuels?

***Second, to reach net-zero, it is more important to green the economy than to simply grow the green economy.*** What do I mean?

- Growing the green economy – by investing in green technologies and renewable energy - is important. But such pure green activities make up less than 10% of the global economy.
- Non-green activities – in manufacturing, building and construction, aviation, maritime, agriculture and fisheries - make up the bulk of any economy.
- To decisively reduce emissions, we need transition strategies that progressively reduce the carbon footprint across all economic sectors.

***Three, the world, and Asia in particular, need transition finance not just green finance.***

- The global financial industry has made good progress in harnessing green finance. There is no shortage of stories of financing wind farms and solar panels, including in emerging markets and developing countries.
- Where the industry needs to do better is in transition finance – to provide the funding support for activities that are not so green, to become greener – the production of steel, cement, ammonia, and so on.
- Asia has a higher weight of such high carbon-emitting sectors.

In short, as Mary puts it, finance needs to go where the emissions are and help to bring down those emissions rather than stay away from high-emitting sectors and hope that they will decarbonise on their own.

***Finance must be an agent of change - to progressively green the brown sectors of the economy.***

GFANZ APAC is committed to help make finance a key enabler for an effective and just transition in Asia towards net-zero by 2050. We will do this through:

- engaging policymakers;
- building capacity among financial institutions;
- providing voluntary guidance on credible transition strategies;
- and
- promoting a sound environment for transition finance

Let me start with engaging policymakers in the region.

***GFANZ APAC has launched a Southeast Asia public policy***

***programme.*** Over the next two years, we will engage financial regulators in Malaysia, Thailand, Vietnam, and Indonesia on designing net-zero aligned climate policies for their financial sectors.

We have two specific objectives:

- First, to help regulators actively support transition planning by their regulated financial institutions.
- Second, to bring together financial institutions which have committed to net-zero to engage regulators on policies that can help to accelerate financial flows to green and transition projects.

Next, building capacity. It is not enough that financial institutions make a commitment to net-zero or decarbonisation. They need to build up capabilities to make the transition.

***GFANZ APAC will step up in-country capacity building activities on net-zero transition planning.*** This will include providing voluntary guidance on key components of transition planning, showcasing good transition plans, and sharing effective financing for transition projects. We will facilitate dialogue between regulators and financial institutions to discuss net-zero challenges and necessary solutions.

We have started capacity building outreach in China and will step up

these efforts through the setting up of the Hong Kong Chapter. As we enter GFANZ APAC's third year, we will start our engagements in India.

Third, providing voluntary guidance on credible transition strategies.

***GFANZ APAC launched last year practical, voluntary guidance for individual financial institutions choosing to assess and support the financing of coal phaseout transactions.*** I spoke at length about this at last year's APAC Summit, so let me briefly summarise the key elements of that work and the follow-up actions we have taken since the launch of the final report at COP28.

Why is tackling coal so important? Many have asked if we should not start with easier transition programmes.

The answer is simple: ***the world will not reach net-zero without addressing Asia' transition from coal to clean.***

- Coal-fired power plants account for about a third of Asia's greenhouse gas emissions.
- These plants are young, and more are being built to keep up with Asia's rising energy demand.
- If these coal plants are left to operate as planned, they will exhaust two-thirds of the carbon budget that we have remaining to keep the rise in global temperatures to within 1.5 degree Celsius.

Let me emphasise: ***it is not about divesting away from coal, it is about investing in the early phase-out of coal.***

- It is about investing in renewable energy to replace the coal plants that are being decommissioned early so that communities continue to have access to electricity.

- It is about investing in energy storage and grid infrastructure to deal with the variability of renewable energy and lower its cost
- It is about ensuring that jobs are cushioned through the transition. There are some 6.7 million people employed across the coal value chain in Asia.
- But we need to ensure that financing the early phase-out of coal is credible and consistent with net-zero goals.

***GFANZ APAC has outlined a three-step process for ensuring that the managed phaseout of coal is climate credible, economically viable, and socially inclusive.***

- The first step is to develop credible plans for coal phaseout at various levels to address risks such as emissions leakage and moral hazard.
- The second step is to implement measures like science-based pathways, supporting access to clean energy, and assessing socio-economic impacts.
- The third step is to provide transparency and accountability for coal phaseout plans.

***We are now further considering the coal phase-out voluntary guidance within the context of specific markets in Asia.*** We have launched a research study of the Japanese coal market with a view to modelling the cost of decommissioning Japan's coal plants before the end of their economic life.

Finally, promoting a sound environment for transition financing. Transition financing is not easy. What makes sense for the climate may not make sense commercially; and if it doesn't make commercial sense, private capital will not flow to transition projects.

***Making the economics of transition finance work requires two key ingredients: blended finance and carbon credits.***

***Blended finance will help to reduce the cost of capital for managed coal phaseout and renewable energy development.***

- One, it leverages concessional capital from the public and philanthropic sectors to crowd in multiples of private commercial capital.
- Two, it brings together technical assistance and institutional support to reduce project risk.

***Carbon credits will help to enhance the economic viability of transition projects.***

- The Asian Development Bank and the Monetary Authority of Singapore will be exploring how transition credits can be used for the retirement of a coal plant in Mindanao under the ADB's Energy Transition Mechanism in the Philippines.
- GFANZ is joining MAS' TRACTION initiative to support integrity carbon credits.

Let me conclude.

Asia's transition to net-zero will be not easy. But it is essential if the world is to avoid catastrophic climate change.

We can achieve an effective and energy transition in Asia by coming together and drawing on individual commitments, capital, and capabilities. GFANZ APAC will do all it can to help bring us together.