UN Trade and Development (UNCTAD)

Webinar on inclusive economic diversification and energy transition

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Inclusive Diversification and Energy Transition

By

Suba Sivakumaran
Chief of Section
Financing for Development Section
Macroeconomic Policy and Financing for Development Division
United Nations Economic and Social Commission for Asia and the Pacific (ESCAP)

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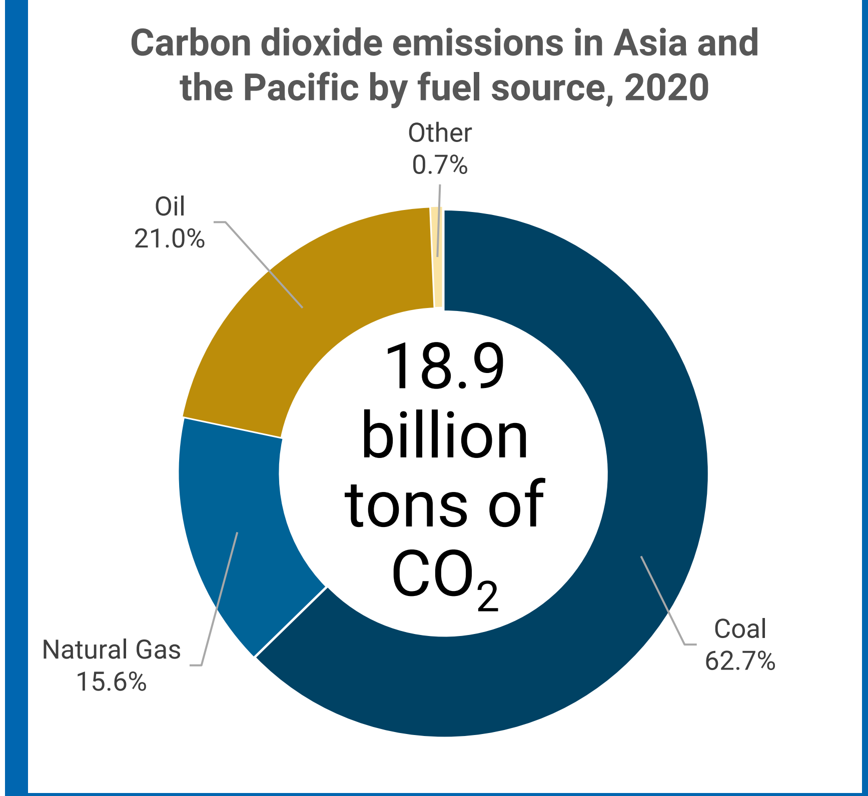
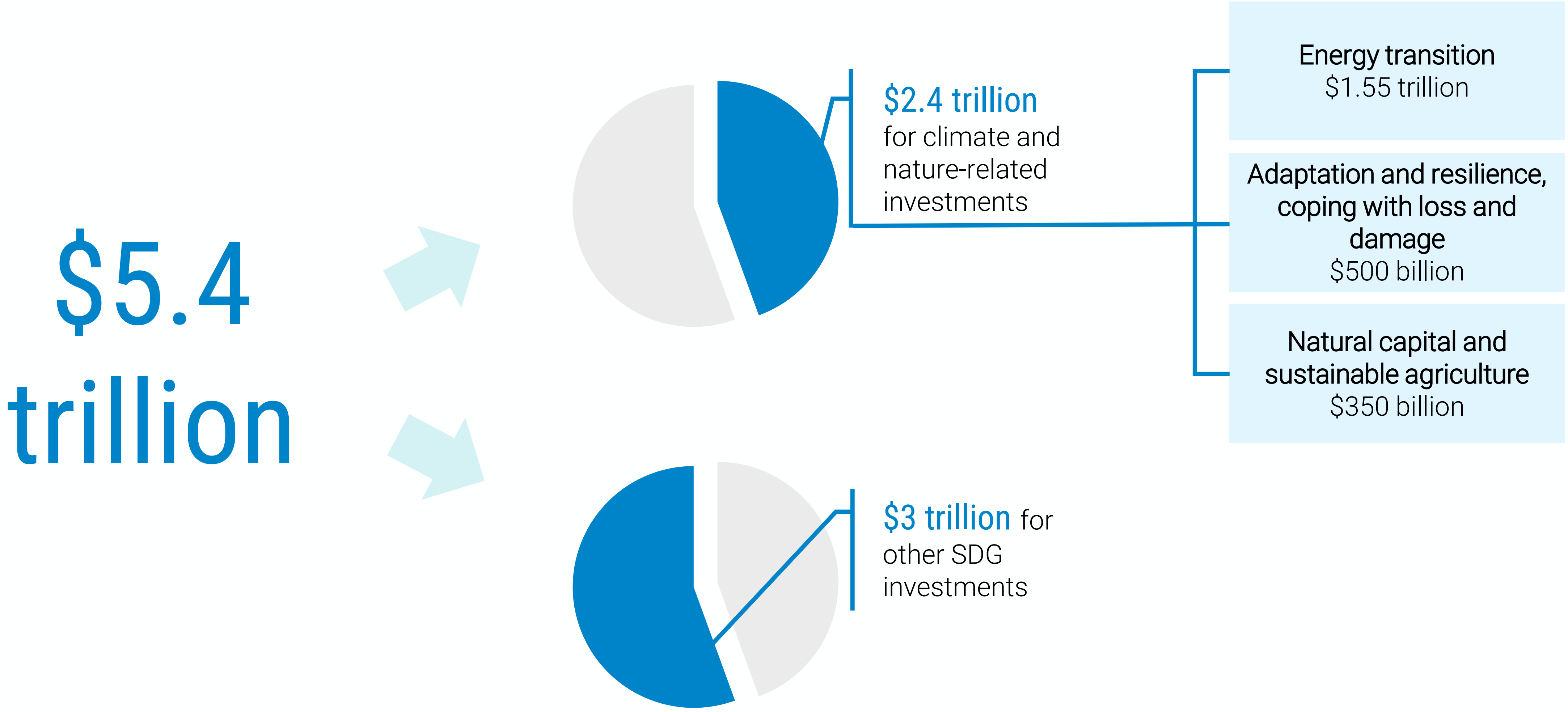
The Urgency of the Required Energy Transition in Asia and the Pacific



Source: ESCAP calculations based on IEA

- In 2020, the Asia-Pacific region released 18.9 billion tons of CO2 emissions from fuel combustion, reaching its highest-ever global share of energy-related emissions – 59.8 per cent.
- The region's continued reliance on coal is the primary driver for such high carbon output. In 2020, coal accounted for 62.7 per cent of the region's energy-related emissions.
- The share of renewable energy in the power system in South-East Asia alone will need to rise from 2 per cent in 2020 to 18 per cent by 2030 (IEA).

Total investment needs to achieve SDGs per year by 2030 in EMDEs excluding China



Source: ESCAP based on G20 Independent Expert Group Report

Note: Totals may not add due to rounding.

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Financing the common goals

- Lack of adequate financial resources is one of the main challenges facing Asia-Pacific countries in effectively pursuing common and related goals of the Agenda 2030 for Sustainable Development, the Paris Agreement and the Kunming-Montreal Global Biodiversity Framework.
- Not surprisingly, financing strategies that meet such common goals are increasingly being requested, defined and implemented by countries around the world.
- Financing pathways to achieving national commitments in these 'triple agenda' are unique to each country. A mix of domestic, international (including ODA), public and private financial resources are required for each country to meet its national priorities and ambitions.

Selected examples of common goals of the triple agenda

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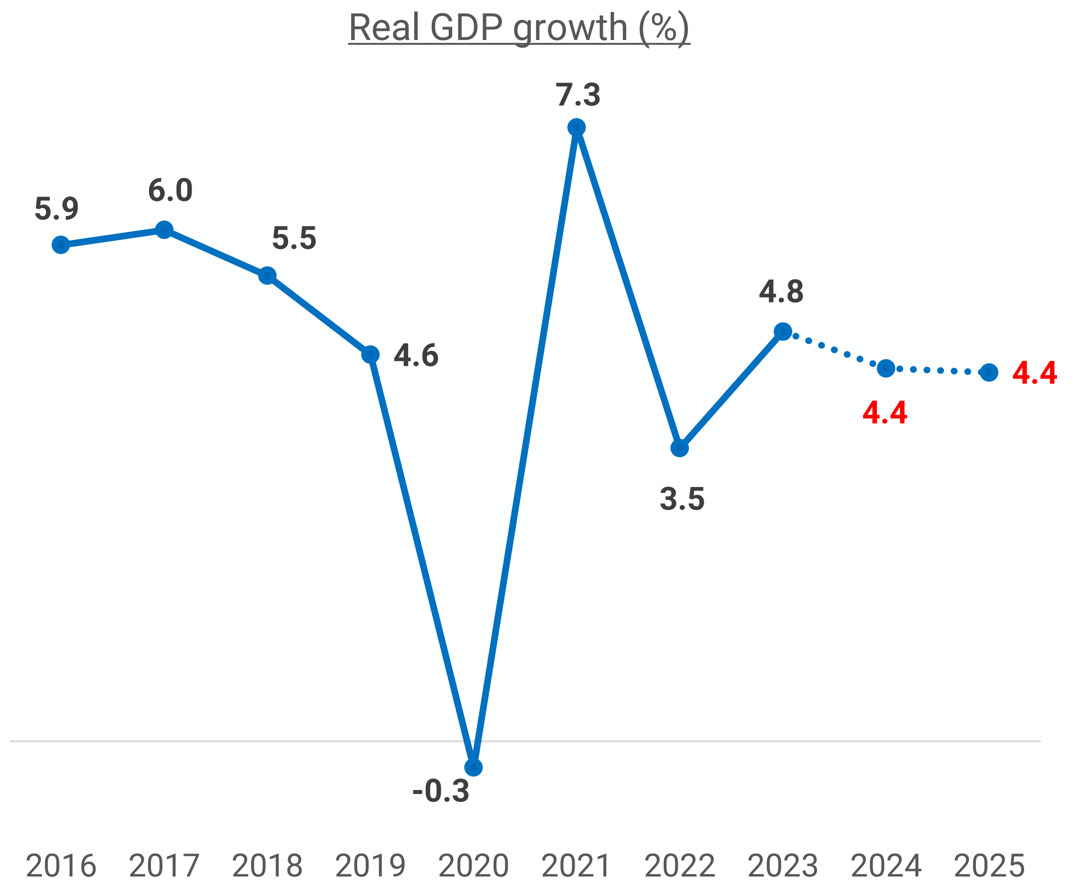
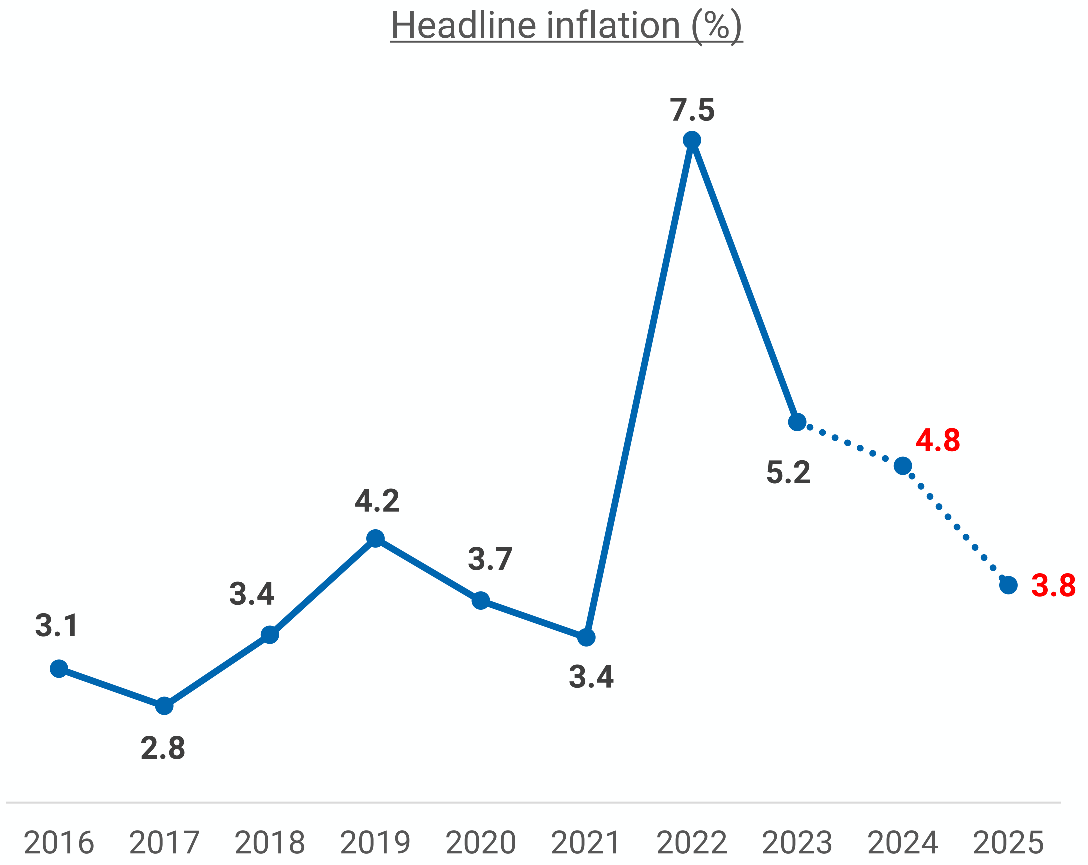
Steady, yet below-trend GDP growth and declining, yet relatively high inflation





Source: ESCAP estimates and projections as of February 2024.

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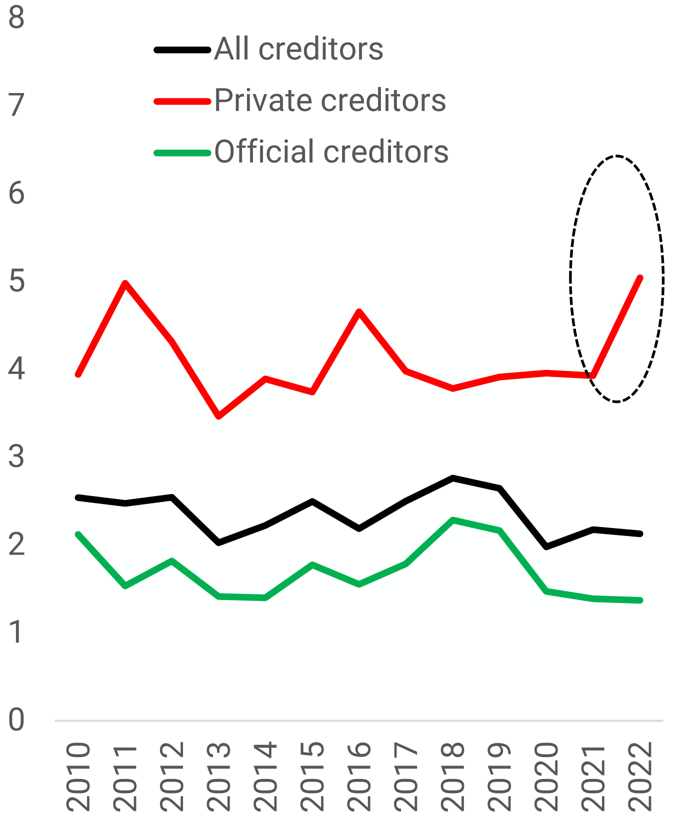
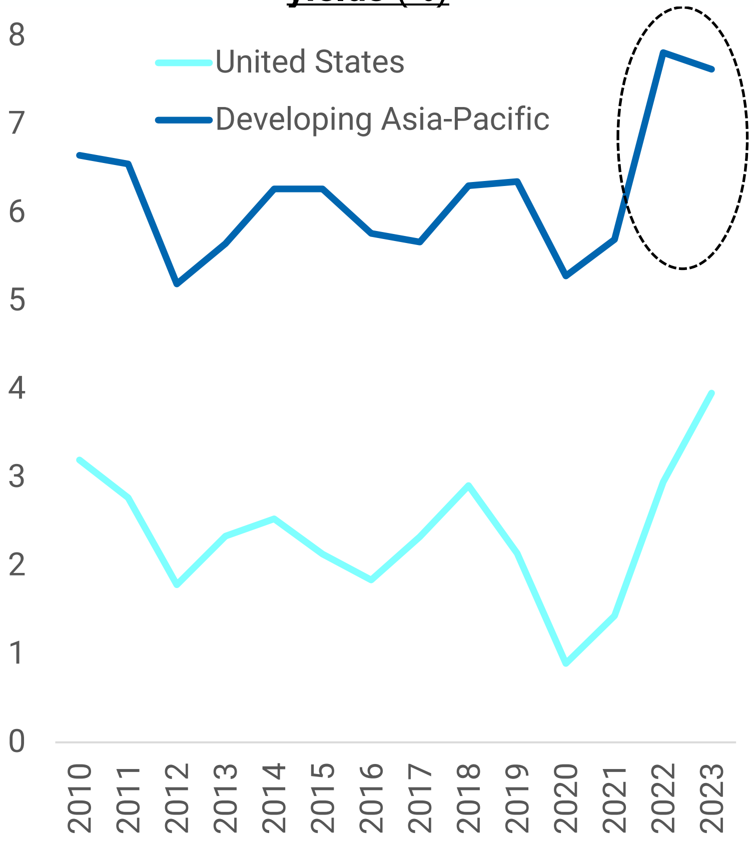
Government borrowing costs in Asia-Pacific are rising, with shorter loan maturity

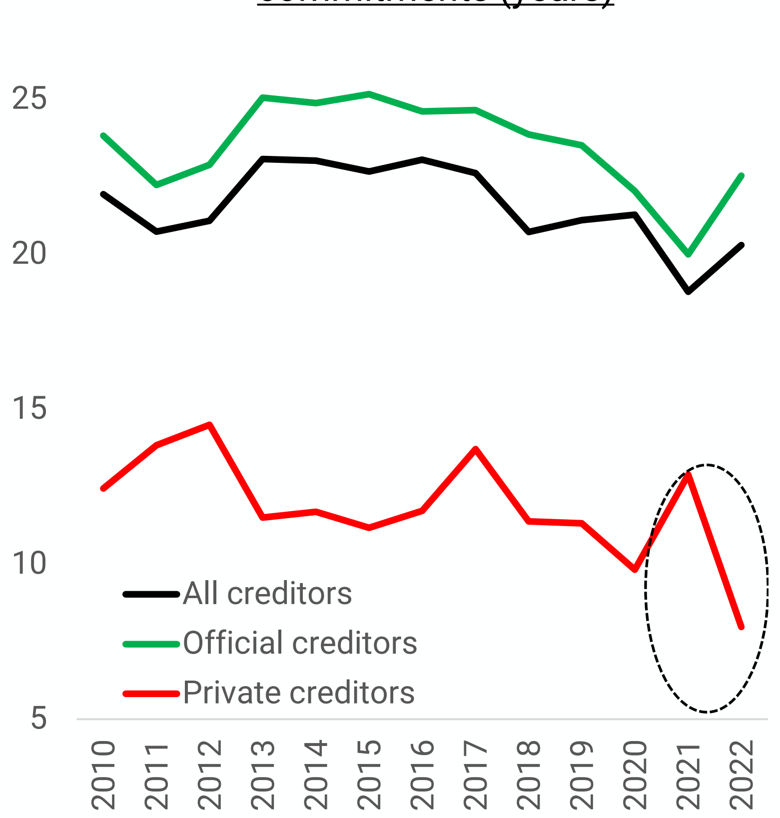
Average **interest** on new external debt commitments (%)



Average local-currency **sovereign bond yields** (%)



Average **maturity** on new external debt commitments (years)



Source: ESCAP, based on World Development Indicators database and Bloomberg.

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What are the co-benefits of financing the energy transition in Asia and the Pacific?

Improved Air Quality
Reduces burden of disease and reduces health expenditure

Improved Water Quality
E.g. Phasing out coal increases availability and quality of water

Preventing the collapse of nature
Transitioning from coal/fossil fuels to wind and solar prevents global biodiversity loss and degradation

Improving fuel poverty
Increases access to affordable and clean energy driving local economic development

Reduction in energy imports
Reduced economic susceptibility to fluctuations in energy prices and dollar risk.

Multiplier effect on growth
Estimated multipliers associated with spending on renewables (1.1-1.5) are larger than the estimated multiplier of spending on fossil fuel energy investment (0.5-0.6) (IMF Working Paper 2021)

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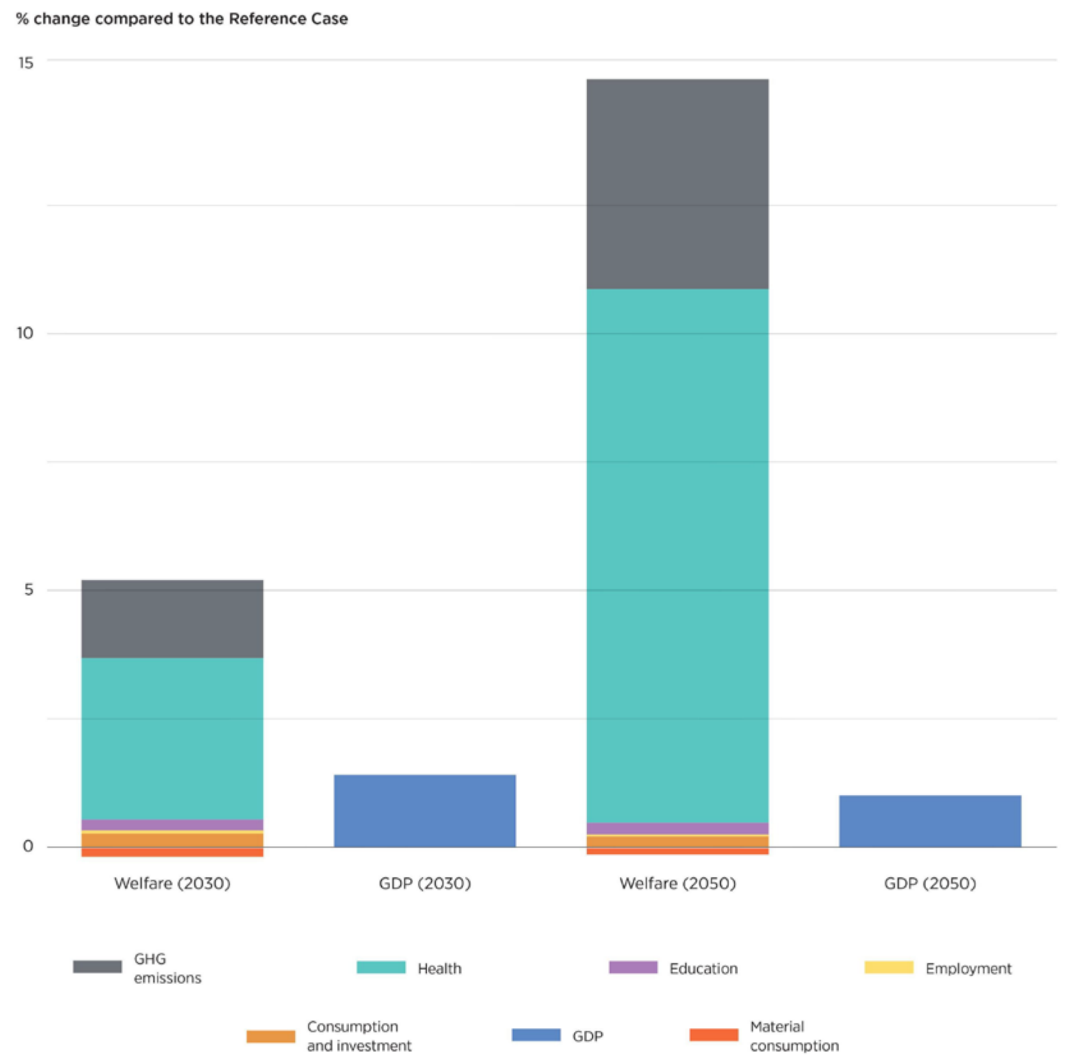
Both GDP and SDGs beyond SDG 7 and 13 could improve as a result of the energy transition

- An orderly, planned transition with policy and regulatory coherence
- An explicit effort to include the just aspects of the energy transition
- The recognition that developing countries face a higher proportionate burden of capital investment as well as technology and technical assistance needs
- Financing solutions that actually create the necessary co-benefits requires political buy-in and highly appropriate, context-specific finance

The energy transition generates significant increases in global welfare.

Global welfare indicators and GDP – the REmap Case compared to the Reference Case, 2030-2050.



Source: IRENA

Both the volume and composition of financing the energy transition needs to change in the region

- Need to approximately double the financing of energy in the region: The regional annual energy 'financing gap' is estimated to be around USD 0.8 trillion by 2030 (ESCAP, forthcoming 2023). In 2022, Asia-Pacific economies invested nearly $1.2 trillion in the energy sector, and investments in clean energy now comprise two –thirds of energy investment. Meeting Goal 7 targets and aligning economies with net zero emissions requires annual energy investment to grow to 2.2 to 2.4 trillion, with 90% of this in clean energy.
- Need to shift the sectoral composition of such energy financing: Nearly 15% of investment is in coal-related sectors for which Asia and the Pacific account for 90% of the world's spending. Coal financing is also on the rise in the region.
- Need to shift the geographical destinations of such energy financing: Much of the progress in clean energy investment has also been concentrated in a few markets such as India and China.
- The latter requires an increased need for concessional finance: Annual need for concessional finance to attract private investment at the scale required for the energy transition in emerging and developing economies outside China (IEA): USD 80 billion to USD 100 billion

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Ten Principles for Action to Bridge the Sustainable Finance Gap in Asia and the Pacific (I)

Governments and Regulators

New climate finance partnerships between governments, regulators, MDBs and private finance will guide action.

Effective NDC financing strategies, led by authorities with clear mandates, with interim targets and clear resource mobilization plans.

Policy coherence and coordination across key government ministries such as finance, energy, transport, and environment to reduce the costs of financing.

Clear, decisive and long-term signals from regulators regarding incorporating climate risk, introducing sustainability standards and incentivizing sustainable financing.

Investment in the capacities of financial personnel on assessing climate risk, innovate green financial instruments, and supervise the transition path.

Investment in sectoral and project-based financial data.

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Ten Principles for Action to Bridge the Sustainable Finance Gap in Asia and the Pacific (II)

Private Finance – Asian and Pacific Investors

- **Commit to net zero pledges** for 2050 with credible transition pathways including 2030 goals.
- **Increase local-currency participation,** especially in energy transition projects, as well as green technologies and other net-zero investments.
- **Expand and accelerate the provision of concessional financing** by multilateral development banks, bilateral development financial institutions and public development banks to de-risk projects to be co-financed by private finance.
- **Collaborate and engage in early-stage advising of project preparation** in more challenging markets, including in the financing of new green technologies.

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Thank you

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