ASIA SOCIETY POLICY INSTITUTE

REPORT

Progress & Priorities for Asia's Climate Finance en Route to COP28

GETTING ASIA TO NET ZERO

A High-level Policy Commission Convened by the Asia Society Policy Institute

GETTING ASIA TO NET ZERO: PROGRESS & PRIORITIES FOR ASIA'S CLIMATE FINANCE EN ROUTE TO COP28

A REPORT ON BEHALF OF THE HIGH-LEVEL POLICY COMMISSION ON GETTING ASIA TO NET ZERO

CONVENED BY THE ASIA SOCIETY POLICY INSTITUTE AS SECRETARIAT

ASIA SOCIETY POLICY INSTITUTE

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GETTING ASIA TO NET ZERO

The High-level Policy Commission on Getting Asia to Net Zero aims to urgently accelerate Asia's transition to net zero emissions while ensuring that the region thrives and prospers through this transition. Through research, analysis and engagement, the commission's diverse set of recognized Asian leaders seek to advance a powerful, coherent, and Paris-aligned regional vision for net zero emissions in Asia. The Asia Society Policy Institute serves as the commission's secretariat. For more information and a list of commissioners, visit: AsiaSociety.org/NetZero

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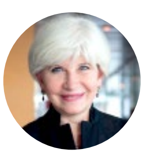

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FOREWORD

The Asian region is warming faster than the global average, making it comparatively vulnerable to the effects of climate change. These impacts are already taking a toll: the estimated economic damages of the more than 80 weather-, climate-, and water-related disasters in Asia in 2022 totaled more than $36 billion (WMO 2023).

At the same time, Asia remains a disproportionate contributor to global greenhouse gas emissions, with its annual emissions now accounting for more than half of the global total. The growth in Asia's emissions has been largely driven by a handful of large, fossil fuel–reliant emerging economies that have yet to peak their emissions. Asia's overall share of annual global emissions thus continues to grow, especially as other regions further decrease their emissions.

On the bright side, Asia's climate ambition has seen significant progress in recent years. According to a previous report from ASPI's High-level Policy Commission on Getting Asia to Net Zero, more than three-quarters of Asia's emissions are now covered by net zero targets that are enshrined into official Long-Term Strategies (LTS) under the Paris Agreement. More than half of the 44 Asian economies with such targets have signed them into law or policy documents (ASPI 2023a). Many of these economies recognize that greater climate action can deliver economic benefits, as previous research from ASPI's Commission has also shown (ASPI 2023b).

Still, the UN's 2022 Emissions Gap Report finds that implementation of current pledges globally will place the world on track for a 2.4°–2.6°C temperature rise by the end of the century. This is far from the Paris Agreement's goal to limit global warming to well below 2°C, preferably 1.5°C (UNEP 2022b).

To close this remaining climate mitigation gap, it will be critical to ensure adequate finance for countries to effectively implement more ambitious emissions reduction targets. Providing countries with the confidence that the necessary finance exists in a form that countries can access could help unlock greater climate ambition at the levels the world needs to meet the Paris targets. This is especially important for developing countries, which were promised financial support from developed countries under the terms of the Paris Agreement.

The recent increase in ambition levels has prompted more analysis to understand projected climate finance needs. The world will need to mobilize $1 trillion per year in climate finance flows to emerging markets and developing countries apart from China by 2030, according to a 2022 study from the Independent High-Level Expert Group on Climate Finance (Grantham Research Institute on Climate Change and the Environment 2022). Additional finance will need to come from private and public domestic sources in these countries. Regarding Asia, research from ASPI's Commission finds that around $70 trillion could be required for the region to achieve net zero emissions by 2050.

However, just increasing finance flows will not be enough — significant barriers to accessing finance must also be addressed. These include unsustainable debt, especially in countries disproportionately impacted by the COVID-19 pandemic, as well as ongoing challenges that exacerbate risk, such as political instability and macroeconomic uncertainty — not to mention the worsening impacts of climate change itself.

Attention to these issues has given rise to a global movement to reform the international financial architecture to make it "fit for purpose" to jointly address climate change and other related global challenges. This includes reforming existing institutions, tapping into new and innovative sources of finance, and leveraging the institutional value of the UN's climate change body and other multilateral fora to advance climate finance progress.

For this movement to achieve success, it will be critical to address Asia's unique climate finance needs. From a climate and finance perspective, Asia exhibits significant diversity — with donor countries, major emerging economies, and least developed and highly vulnerable states including small island developing states all playing unique roles in shaping the region's future.

Articulating a shared vision for Asia's climate finance needs — and what needs to be done to adequately address them — will create a foundation to ensure that Asia is not left behind. Doing so could also endow the region with a greater sense of agency and enable regional actors to leverage Asia's interconnectedness as a strength for greater climate action and prosperity.

The 28th UN Climate Conference (COP28) at the end of 2023 will be hosted by the United Arab Emirates (UAE) in Dubai on behalf of the UN's Asia-Pacific Group. Considering the above, this paper aims to put forth a vision for what could happen at COP28 and in the following months to ensure that Asia's climate finance needs are adequately addressed, especially as momentum continues building to implement reforms and expand climate finance. Meeting Asia's needs could help unlock the much-needed ambition levels to set the world on track as countries look to update their Nationally Determined Contributions (NDCs) in 2025 with targets out to 2035 and even 2040.

Lack of finance should not be a barrier to Asia's climate action. Instead, sufficient finance could be the key to unlocking the "course correction" needed for Asia to help the world meet the Paris Agreement's goals — and for ensuring a more sustainable, livable, and interconnected region and world.

LIST OF FIGURES

ACRONYMS

ADB	Asian Development Bank
AIIB	Asian Infrastructure Investment Bank
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
BRICS	Brazil, Russia, India, China, and South Africa
COP27	27th United Nations Climate Change Conference (2022)
COP28	28th United Nations Climate Change Conference (2023)
GDP	Gross domestic product
G20	Group of Twenty
GHG	Greenhouse gas
GIFP	Green Investment and Finance Partnership
GST	Global Stocktake
IPCC	Intergovernmental Panel on Climate Change
JETP	Just Energy Transition Partnership
LTS	Long-Term Strategy
MCDF	Multilateral Cooperation Center for Development Finance
MDB	Multilateral development bank
MIGA	Multilateral Investment Guarantee Agency
NCQG	New Collective Quantified Goal
NDB	New Development Bank
NDC	Nationally Determined Contribution
OECD	Organization for Economic Co-operation and Development
Quad	The Quadrilateral Security Dialogue
SDG	Sustainable Development Goals
SDR	Special Drawing Right
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change
V20	The Vulnerable Twenty Group

MAKING FINANCE WORK FOR ASIA'S CLIMATE AND DEVELOPMENT NEEDS

Tension exists between the urgent need to increase global climate ambition to the levels needed to achieve the Paris Agreement's goals and the financial resources that will be required to implement such targets. This has led to a "chicken-or-egg" conundrum in which countries are reluctant to make ambitious pledges unless they are confident that they can secure the finance needed to implement such targets. This is especially the case for developing and emerging economies.

Lack of finance is not the only factor inhibiting ambition raising. But assembling the required climate finance will be foundational to implementing current climate targets and further raising ambition.

The Paris Agreement states that support should be provided to developing countries to implement their climate commitments, including financial resources for mitigation and adaptation. This framing implies that developing countries are capable of contributing their fair share to the Paris Agreement's mitigation goals — but they may need external help to do so.

For instance, developing countries have persistently cited a lack of access to adequate levels of finance as a key barrier to raising ambition to the levels required to achieve net zero emissions by mid-century and limit global warming to 1.5°C, per the Paris Agreement's goals. This includes the repeated failure of developed countries to mobilize $100 billion per year in climate finance for developing countries by 2025. Meanwhile, the COVID-19 pandemic, unsustainable debt, and climate change itself have complicated the amount of finance that will be needed and countries' ability to access it.

In the wake of the COVID-19 pandemic, a new movement began taking shape to reform the global financial architecture to better address the multiple concurrent crises the world was facing. Many of these problems had started before the pandemic, such as unsustainable debt and the rising cost of living. The movement gained momentum, however, as more and more countries struggled to cope with how unpredictable factors, such as the pandemic and the worsening impacts of climate change, were compounding these challenges.

The series of platforms put forth — anchored by Barbados Prime Minister Mia Mottley's Bridgetown Initiative — seeks to reform existing financial institutions to jointly address the world's multiple crises in tandem. A slew of additional proposals has critiqued, affirmed, and built upon the recommendations put forth, while weighing in on prioritization and next steps for concretizing progress.

The bottom-up nature of this movement has galvanized a wealth of innovative ideas. It has also amplified the importance of tangible early wins, even if comparatively minor, to ensure that the window of opportunity in 2023 can lock momentum into existing processes. Enshrining these wins into key documents and platforms, along with next steps, has helped solidify consensus and grow high-level political imperatives for reform.

A major focus of the movement has been a call for inclusivity — namely, solidarity between the Global North and the Global South. "The pandemic has taught us that national solutions to global problems do not work," declared Prime Minister Mottley in Glasgow at COP26 in November 2021, as she implored developed countries to stand together with the world's most vulnerable nations. This includes addressing the oft-ignored needs of vulnerable middle-income countries that are overlooked in efforts to help those most at risk.

Some regions have been more vocal — such as Africa, which has advanced a relatively unified perspective on climate finance, and regional bodies such as the African Union have helped elevate key demands. The Africa Climate Summit held in September 2023 further drove momentum toward addressing Africa's needs. However, a coherent and unified vision for Asia's climate finance needs has largely been missing.

To be truly inclusive, it will be critical to address Asia's needs. The Asian region is home to more than half of the world's population, many of whom are particularly vulnerable to climate change impacts. Asia's overall share of global emissions also continues to grow, in large part because a number of Asia's emerging economies have yet to peak their emissions. Yet many Asian countries still struggle to access the vast sums of finance that will be needed to decarbonize on pace while meeting related development goals, including expanding access to electricity and guaranteeing energy security.

Asia is often recognized for its high concentration of heavily industrialized emerging economies. Yet, it is also home to highly developed donor nations, major fossil fuel exporters, climate-vulnerable members of groupings like the V20, and small island developing states. While addressing such a wide variety of interests poses a challenge, doing so will be vital for the success of any reform measures.

This paper aims to shed light on Asia's unique climate-related challenges and opportunities in the context of global financial architecture reform. Drawing on the findings of research commissioned by the High-level Policy Commission on Getting Asia to Net Zero and other sources, it identifies concrete and actionable recommendations for priority actions to assemble the finance required to get Asia to net zero, while ensuring that the region prospers and thrives throughout this transition.

Recent analysis from the Commission shows that taking more ambitious climate action and reducing emissions sooner could enhance the region's economic and social development. Hitting net zero emissions by 2050 could increase the Asia-Pacific's gross domestic product by up to 6.3% above projected levels and generate as many as 36.5 million additional jobs by the 2030s. The same pathway could also lead to energy cost savings of $270 billion for local households and improve the region's trade balance by as much as $827 billion, largely due to a reduction in fossil fuel dependence.

However, vast amounts of investment — around $70 trillion — could be required to decarbonize the region by 2050. More international financing could help minimize negative impacts on households that result if domestic carbon pricing and taxation are the primary means of raising revenue.

At the 28th UN Climate Conference (COP28) this year, Asian players have a unique opportunity to elevate the critical nexus of climate change and development finance. The first Global Stocktake, which is set to reach its conclusion at COP28, will assess the global state of progress and remaining gaps to achieving the Paris Agreement's goals. COP28 will take place in the United Arab Emirates (UAE) on behalf of the Asia-Pacific Group and could build on progress spearheaded over the past two years by Asian G20 hosts Indonesia in 2022 and India in 2023, as well as Japan's G7 presidency in 2023. Making tangible progress to reform the global financial architecture to better address the multiple concurrent crises facing Asian countries and the world could be the impetus needed to unlock greater climate ambition.

ASSEMBLING THE FINANCE TO GET ASIA TO NET ZERO

Understanding the state of climate finance in Asia is an essential background for framing Asia's future climate and development priorities. This section aims to provide a foundation for assessing which actions could deliver the greatest impact in fulfilling Asia's climate finance requirements. Analyzing estimates of Asia's climate finance needs and current financial flows to Asia can help identify critical remaining gaps that reforms and new initiatives could address.

CONCEPTUALIZING "CLIMATE FINANCE"

The UN's climate change body defines *climate finance* as "local, national or transnational financing — drawn from public, private and alternative sources of financing — that seeks to support mitigation and adaptation actions that will address climate change" (UNFCCC 2023). *Mitigation* aims to reduce emissions and stem the pace of climate change, while *adaptation* intends to moderate potential damages from climate change. Moreover, there is an implied relationship between the two: faster progress on the mitigation side may reduce the projected costs of adaptation, since more climate impacts would be avoided.

Beyond mitigation and adaptation, finance could also be put toward *loss and damage*. While there is no official definition of loss and damage under the United Nations Framework Convention on Climate Change (UNFCCC), the term typically refers to climate impacts that go beyond what adaptation can address, such as cultural losses and loss of property and human lives (WRI 2022). Developed countries agreed at COP27 in 2022 to establish a fund for addressing loss and damage in particularly vulnerable nations as part of a suite of funding arrangements. Operationalizing the fund by COP28 is a stated priority of many, including the UAE COP28 presidency.

Apart from the end uses of climate finance for mitigation, adaptation, and/or loss and damage, climate finance can also be categorized based on its source (e.g. private, public, blended); financial instrument (e.g. grants, loans, guarantees); and channel of flows (e.g. bilateral, multilateral). Figure 1 clarifies key terms in relation to these different categorization typologies.

Within the UNFCCC, climate finance is typically approached through the lens of intercountry transfers, primarily from developed countries to developing countries. Developed countries are obligated to provide financial resources to developing countries to help them implement their climate commitments. The Paris Agreement goes one step beyond this to also encourage voluntary contributions by other Parties. However, domestic sources of finance will also play an important role, including in developing countries. Domestic finance encompasses sources such as revenue raised via taxes and fees, including from carbon pricing, and private capital.

FIGURE 1 KEY CLIMATE FINANCE TERMS

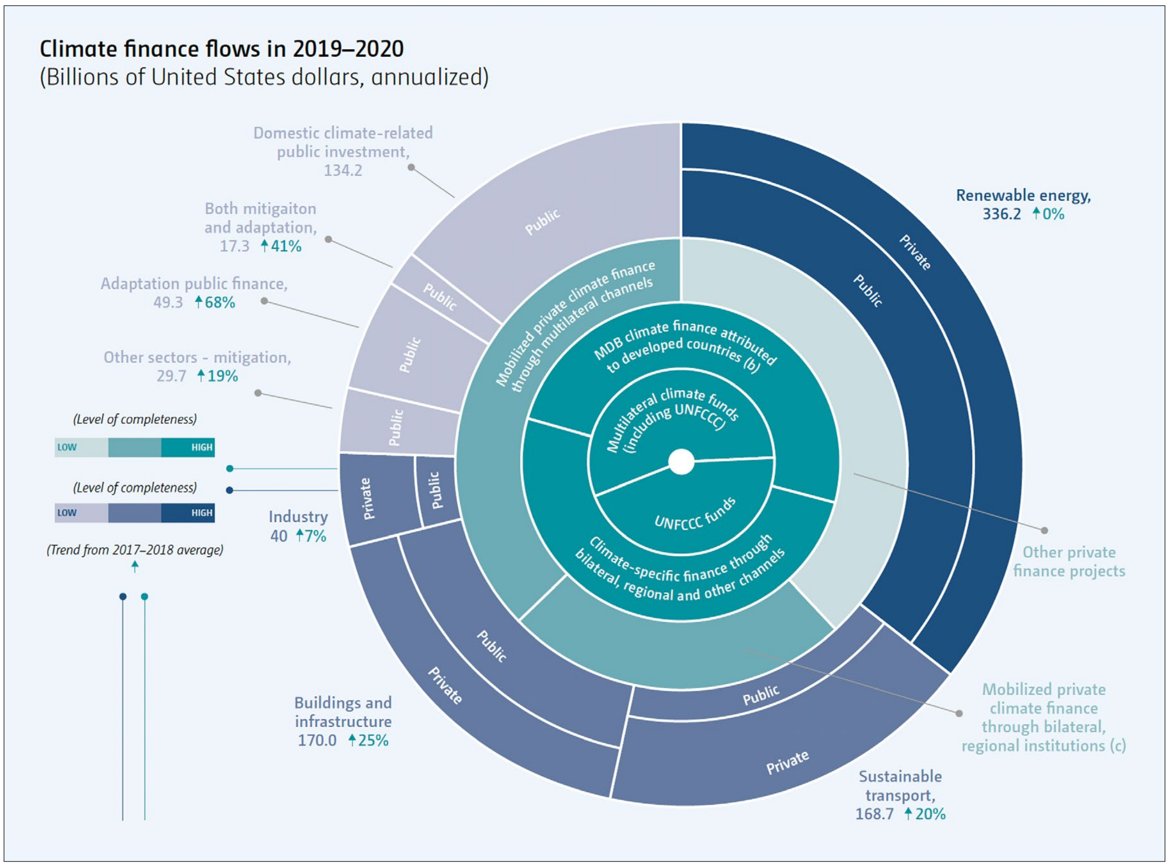
SOURCE	**Public Finance**	Provided by governments and public institutions. Public finance can have a greater risk appetite, since it does not necessarily need to yield a profit.
	Private Finance	Provided by private actors, such as commercial banks, institutional investors, or corporations. Private finance can mobilize large amounts of capital and innovation but are driven by profit motives and can be more risk averse.
	Blended Finance	Combines public and private sources of financing, usually with the aim of leveraging private finance for public good. Blended finance can use various mechanisms, such as cofinancing, risk sharing, or results-based payments, to align the interests and incentives of public and private actors.
FINANCIAL INSTRUMENT	**Grants**	Non-repayable funds usually provided by public sources or philanthropic organizations. They are often used for adaptation projects that have high social and environmental benefits but low financial returns.
	Loans	Repayable funds provided by public or private sources. Loans can have concessional terms (such as low interest rates or long repayment periods) or market-based terms (such as higher interest rates or shorter repayment periods). Loans are often used for mitigation projects that have positive financial returns but high upfront costs.
	Guarantees	Contingent liabilities that can be provided by public or private sources. Guarantees reduce the risk of default or nonperformance of a project or a company by promising to cover part or all the losses in case of failure. Guarantees are often used to leverage private finance for mitigation projects that face perceived high risks or barriers.
CHANNEL	**Bilateral Finance**	Provided directly from one country to other countries. Most bilateral financial flows are coordinated by countries' bilateral development cooperation agencies, such as bilateral aid agencies and development banks. In some cases, bilateral finance can be tailored to recipient countries' specific needs. It may also be more shaped by the political and strategic interests of individual donor countries as compared to multilateral finance.
	Multilateral Finance	Provided through institutions that are governed by multiple countries, such as multilateral development banks and multilateral climate funds. Pooling resources into institutions can give recipient countries a greater say over how finance is used, provide economies of scale and draw greater technical expertise, although multilateral institutions may face challenges in coordination and governance due to their diverse membership.

Concessionality is influenced by the source of finance. Public institutions have leeway to provide more generous terms, whereas private finance is generally non-concessional as it is driven by profit-related motives. However, blended finance arrangements can unlock non-concessional resources by using instruments such as guarantees to mitigate risk.

Financing arrangements that encompass a mix of finance types have also risen in prominence. As developed countries and multilateral development banks have struggled to produce adequate public finance to meet climate finance needs, they have turned to structures that leverage public finance to unlock high levels of private finance in tandem. A prominent example is the Just Energy Transition Partnership (JETP) model, whereby a group of developed countries commit a sum of public finance that is intended to be matched by a roughly equal sum in private finance committed by a range of private investment banks and institutions.

One commonly used framework for describing climate finance flows in relation to the different categories raised is the "onion diagram" included in the biennial assessments of climate finance flows prepared by the UNFCCC Standing Committee on Finance (see Figure 2). Regardless of how finance is defined or delivered, however, the ultimate priority should be assembling adequate finance to meet the climate change–related needs — and doing so in the manner that best enhances economic and social livelihoods.

FIGURE 2 "ONION DIAGRAM" OF CLIMATE FINANCE FLOWS



Source: UNFCCC (2022).

FACTORS INFLUENCING ASIA'S CLIMATE FINANCE NEEDS

A number of distinct characteristics shape Asia's climate finance needs compared to those of other global regions.

From a mitigation perspective, Asia accounts for more than half of the world's emissions. It is home to a large concentration of highly industrialized emerging markets, such as China, India, Indonesia, and Vietnam. Many of these countries rapidly built out fossil fuel–intensive power sectors in recent decades to fuel their growth in manufacturing and power their expanding cities. Hence, with many fossil emissions sources, especially coal, still in the early stages of their life cycles, a key challenge is prompting early retirement of coal and other fossil fuel energy plants. While this could impose financial losses, if combined with accelerated deployment of clean sources of energy, it could also increase economic growth and create net savings due to reduced fuel costs and other efficiencies. Similar challenges plague the industrial sector, especially hard-to-abate industries such as steel and cement. Moreover, many industries are powered by captive fossil fuel energy sources that are located on-site and not connected to the grid, further complicating the implementation of the energy transition at scale.

In terms of adaptation needs, Asia's population — which accounts for more than half of the world's total — is particularly exposed to potential impacts. Even in a middle-of-the-road scenario where the world warms 2.0°C by 2050, the Asian economy stands to potentially lose 14.9% of its GDP by the same date. The countries in the Association of Southeast Asian Nations (ASEAN) are even more exposed and could lose as much as 17.0% of GDP (Swiss Re 2021). This means that lack of mitigation at pace may drastically complicate the landscape for adaptation finance needs. The presence of major emitters and fossil fuel exporters alongside climate-vulnerable states creates a particular challenge to achieve an appropriate balance between mitigation and adaptation finance.

Beyond this, Asia is relatively diverse compared to other regions, with varying levels of economic development, political systems, and cultural norms. While this presents challenges for multilateral finance reform efforts, it also creates opportunities. For instance, Asia's inclusion of both contributor and recipient countries creates the potential for developing bespoke Asian partnerships. Several development banks focus on the region — such as the Asian Development Bank and the Asia Infrastructure Investment Bank — or have strong regional involvement, for example, the Islamic Development Bank and the New Development Bank.

The rise of platforms for regional cooperation is also notable. While Asia tends to be more fractured in comparison to Africa and Latin America, Asian countries have still come together to form various "mini-lateral" groupings to promote regional economic integration, peace, and security, such as ASEAN, the Asia-Pacific Economic Cooperation (APEC), and the Shanghai Cooperation Organization. Other groupings, such as BRICS (Brazil, Russia, India, China, and South Africa) and the Quad (Australia, India, Japan, and the United States), have notable Asian participation. These coalitions could strengthen cooperation and serve as platforms for addressing climate-related finance needs.

ASIA'S PROJECTED CLIMATE FINANCE NEEDS

Comparing estimates of climate finance needs is notoriously tricky given the lack of consistency in methodology, regional scope, time horizon, and other relevant factors. However, Figure 3 makes an attempt to summarize a selection of key existing estimates for climate finance flows to the Asian region.

Asia's cumulative climate finance needs, as reported by recipient countries to the UNFCCC, will reach $11.8 trillion by 2030, requiring an annual investment of $1.3 trillion for the next decade (Oxfam 2022). When China is excluded, Asia will still need $3.2 trillion by 2030, or $372 billion per year. Cumulative investment requirements for aligning Asia's net zero targets with a 1.5°C pathway could be even more substantial. Per modeling from the Commission, in a net zero by 2050 scenario, investment requirements for the Asia-Pacific would total $69 trillion. Even currently announced targets will need $53.1 trillion from now until 2060, with the bulk of this going to China and India as the largest emerging economies (ASPI 2023b).

FIGURE 3 **ESTIMATES OF ASIA'S PROJECTED CLIMATE FINANCE NEEDS**

	MCCOLLUM ET AL. (2018)	OXFAM (2022)[1]	IPCC (2022)	MCKINSEY (2022)[2]	ASPI (2023)[3]	UNEP ADAPTATION (2023)[4]	ADB (2023)[5]
Projected mitigation finance needs (current and announced policies)		$7.9 trillion cumulative by 2030 $0.88 trillion/year			$53.1 trillion cumulative by 2060		$529 billion/year in the energy sector, of which ~$300 billion is for renewables[7]
Projected mitigation finance needs (net zero by 2050)	$0.53–$1.63 trillion annual average 2016–2050 (energy-related investment in a 1.5°C pathway)[6]		Average annual needs (2020–2030): $1-2 trillion *Eastern Asia: $0.61–$1.08 trillion* *Southern Asia: $0.22–$0.44 trillion* *Japan, Australia and New Zealand: $0.1–$0.19 trillion* *South-East Asia and developing Pacific: $0.14–$0.30 trillion*	$3.1 trillion/year on physical assets for energy and land-use systems	$69 trillion cumulative by 2060		$707 billion/year in the energy sector, of which $345 billion/year in renewables ("accelerated net zero scenario")
Projected adaptation finance needs		$3.9 trillion cumulative by 2030 $0.43 trillion/year				$67–$644 billion/year $255 billion/year (median estimate)	

[1] Takes into account 18 countries in Asia.
[2] This includes spending on fossil fuels, so it is strictly a climate finance needs estimate. It also does not include the Middle East since "Middle East and North Africa" is a separate region.
[3] The Asia-Pacific grouping used in this analysis covers India, Indonesia, China, Japan, South Korea, Malaysia, Taiwan, Brunei, Cambodia, Laos, Myanmar, the Philippines, Singapore, Vietnam, Thailand, Australia, and New Zealand.
[4] Excludes Central Asia and the Middle East.
[5] Looks at developing Asia only.
[6] Does not include Middle Eastern Asian countries, which are grouped with Africa in this study.
[7] Estimation based on graph.

What's more, the needs for adaptation finance are rapidly rising. According to estimates by the UN Environment Programme, countries in East Asia and the Pacific and South Asia could require around $255 billion of finance per year by 2030 to adapt to the impacts of climate change (UNEP 2023). This is a substantial rise from previous adaptation finance estimates due to worsening climate impacts along with improvements in estimating needs.

It will be critical for climate finance to be distributed equitably to address the needs of vulnerable populations and ensure a just and sustainable transition to a low-carbon economy.

CURRENT CLIMATE FINANCE FLOWS TO ASIA

Asia has received the most climate finance of any region globally — $603 billion on average in 2021 and 2022 (CPI 2023). Of this, around 60% came from public sources and 40% from private sources.

Between 2016 and 2020, Asia received an annual average of $31.2 billion in climate finance from developed countries (OECD 2022). Public climate finance from developed countries to Asia was split almost evenly between bilateral (47%) and multilateral (53%) channels. Meanwhile, developed countries' annual climate finance commitments to Asia increased from $12 billion in 2013 to $20.5 billion in 2020, representing about a quarter of the global public climate finance in that year (Oxfam 2022).

Most public climate finance from developed countries was provided as loans, which may increase the debt burden of recipient countries and limit their fiscal space for other development priorities. The grant equivalent value of climate finance was only $6.1 billion per year on average between 2013 and 2020. Notably, bilateral providers allocated 70% of their climate finance to Asia through grants, with the remaining provided as concessional loans and other debt instruments. In contrast, the Asian Development Bank, the region's leading multilateral development bank (MDB), provided only 12% of its climate finance in grants, with the remainder provided as loans or other forms of debt (Oxfam 2022).

The bulk of developed countries' climate finance in Asia was allocated toward mitigation objectives, accounting for two-thirds of total financing, with one-third going toward adaptation measures. With significant allocations to mitigation objectives, sectors like energy and transport attracted the most climate finance, reflecting their high emissions levels and potential for low-carbon development. Sectors with high adaptation needs, such as agriculture and water management, have experienced high growth rates in recent years. However, these sectors still receive a relatively low proportion of climate finance, underscoring the need for greater attention to adaptation in the region (Oxfam 2022).

It is difficult to compare projected climate finance needs to actual flows due to the immense variation across studies. However, the Intergovernmental Panel on Climate Change (IPCC) has further analyzed mitigation investments as compared to model-based investment requirements for different global regions under scenarios that limit warming to 2°C or lower. Its estimates for Eastern Asia show a multiplication factor of between 2x and 4x current levels needed to meet the region's climate finance requirements. However, other areas of Asia exhibit an even starker gap: Southeast Asia and the Pacific could need 6x to 12x the amount of current flows, Southern Asia could need 7x to 14x the amount, and the Middle East may need between 14x and 25x current finance levels.

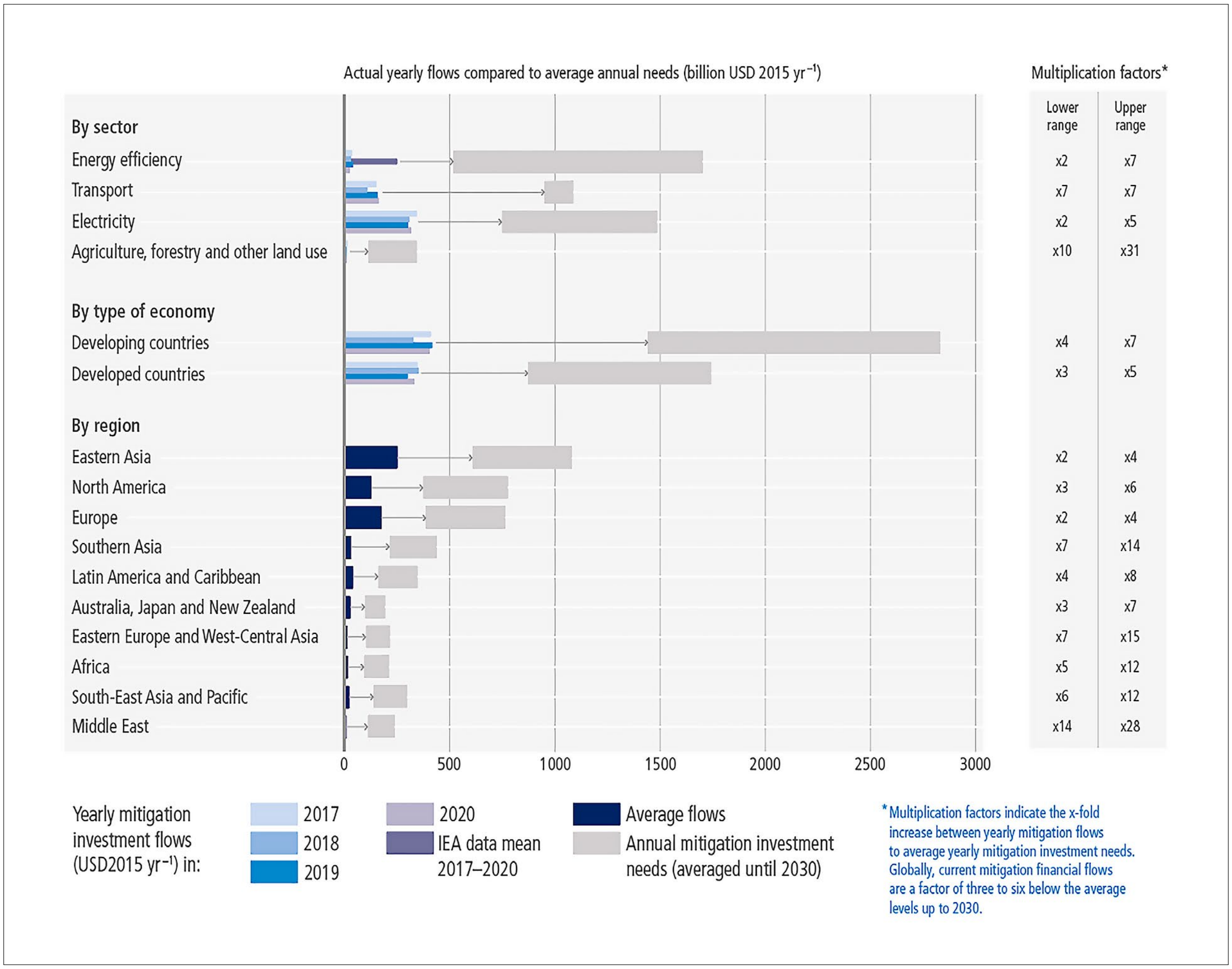
Whatever the scale, there is clearly a need to increase and diversify climate finance flows to Asia, especially to support adaptation actions as well as decarbonization in sectors other than energy and transport. There is also a need to enhance the quality and effectiveness of climate finance — including by increasing the share of grants, improving the alignment with national priorities and plans, strengthening the capacity and participation of local actors, and ensuring transparency and accountability in the delivery and use of funds.

FIGURE 4 ESTIMATES OF CURRENT CLIMATE FINANCE FLOWS TO ASIA

	OXFAM REPORT (2022)[8]	OECD (2022A, 2022B)	CLIMATE POLICY INITIATIVE (2023)	IPCC (2022)
Mitigation finance	2020: $11.7 billion (public finance from developed countries)	Annual average 2016–2020: $22.8 billion (public and mobilized private finance from developed countries)	Annual average 2021/2022: $569 billion (total finance), of which: *East Asia & Pacific: $529 billion* *South Asia: $39 billion*	Annual average 2017–2020: $338 billion (total finance), of which: *Eastern Asia: $252 billion* *Southern Asia: $32 billion* *Japan, Australia, and New Zealand: $29 billion* *Southeast Asia and developing Pacific: $24 billion*
Adaptation finance	2020: $8.7 billion (public finance from developed countries)	Annual average 2016–2020: $6.9 billion (public and mobilized private finance from developed countries)	Annual average 2021/2022: $34.4 billion (total finance), of which: *East Asia & Pacific: $28.6 billion* *South Asia: $5.8 billion*	
Bilateral vs. multilateral	47% vs. 53%			
Share of finance as grants	Annual average 2013-2020: $6.1 billion			

[8] Based on OECD climate finance reporting; takes into account 18 countries in Asia.

FIGURE 5 **COMPARISON OF CLIMATE MITIGATION FINANCE FLOWS VS. NEEDS, 2020–2030**



Source: IPCC (2022).

Note: Figure depicts breakdown of recent average (downstream) mitigation investments and model-based investment requirements for 2020–2030 (US$ billion) in scenarios that likely limit warming to 2°C or lower.

BARRIERS TO ADDRESSING ASIA'S CLIMATE FINANCE NEEDS

The foremost challenge for climate finance is providing sufficient resources to help countries mitigate and adapt to climate change. Addressing a number of related barriers could serve as tools and enablers to make faster and more substantial toward this overarching goal.

First, it is essential that all finance is aligned with the objectives of the Paris Agreement. This means that MDBs, as well as bilateral donors and private investors, when considering their financing frameworks, all need to take into account the need to phase out fossil fuels and other high-carbon activities. This is critical in Asia to avoid a "pollute first, clean up later" development pathway from increasing the costs of the transition, especially by funding new fossil infrastructure which will have to be retired early. Institutions should rechannel resources to renewable energy, energy efficiency, and other green sectors. Climate risks and opportunities should be integrated into all aspects of development planning, budgeting, monitoring, and evaluation.

Another key challenge that requires urgent attention is the debt situation in many developing countries, which has been exacerbated by the pandemic, the energy and food crisis, and other factors. Debt relief and restructuring are essential to free up fiscal space and enable countries to invest in climate action and social protection. One tool to do this is leveraging Special Drawing Rights (SDRs) allocations to provide liquidity and debt relief to vulnerable countries. The World Bank and other multilateral lenders could increase their proportion of grants to low-income countries, especially given their high proportion of loans as compared to grants for developing countries in Asia. Both public and private creditors could include "pause clauses" in debt instruments which would suspend repayments by a borrower country in the event that it was hit by a natural disaster of a pre-determined magnitude, which would free up the affected government's fiscal space for relief and recovery efforts.

Given the limitations of public finance, bridging Asia's climate finance gap at scale will also require countries to mobilize private capital at much greater levels, as public finance alone will not be sufficient. The following are some of the challenges that, if addressed, could help activate greater flows of private capital into low-carbon projects and activities in Asia:

- Clear and consistent policy signals and regulatory frameworks that support the net zero transition and create a level playing field for green investments. Investors require stable policy frameworks to allocate capital toward low-carbon investments, and regulatory uncertainty can hinder the deployment of private capital.
- Standardized and transparent disclosure and reporting mechanisms that enable investors to assess the environmental performance and risks of companies and projects. Investors need to understand the environmental risks and impacts of investments to make informed decisions, and standardized reporting is crucial to enable comparability and benchmarking.
- Adequate financial instruments and mechanisms that can match the risk-return profiles of green investments and provide blended finance solutions that leverage public funds to catalyze private capital. Financial instruments that support low-carbon investments are critical, and innovative financial instruments, such as green bonds and green loans, can help bridge the gap between public and private financing.
- Capacity and awareness among financial institutions, project developers, and policymakers on how to design, implement, and monitor green investments. Capacity-building and awareness-raising efforts are necessary to support the development and implementation of green investment projects.

PROGRESS IN 2023 ON CLIMATE FINANCE AND RELATED REFORMS

2022 saw a surge in political momentum for broad reforms to concurrently address development and climate challenges. After this, 2023 has seen steady drumbeat of progress. The Summit for a New Global Financing Pact held in Paris, France, in June 2023 created a springboard for progress at key events that followed, especially the G20 Summit in India in September and the IMF and World Bank Annual Meetings in October. While monumental changes have yet to be realized, these steps provided incremental benefits. They also set expectations for much greater ambition on climate finance, especially ahead of COP28 in Dubai at the end of the year.

The **Summit for a New Global Financing Pact** elevated expectations for reform of the global financial architecture to concurrently address development and climate challenges. It did this by convening world leaders

— especially those from developing countries and climate-vulnerable regions — in a forum separate from existing multilateral venues and dedicated exclusively to international finance reform. Leaders at the Summit mainstreamed calls for bridge-building between developed and developing countries and elevated the necessity of addressing debt in tandem with climate impacts. They also announced plans to convene an Africa Climate Summit, which took place in early September 2023, to highlight the continent's unique climate change–related needs, especially regarding adequate financing. However, the Summit saw limited commitments of new finance. It also fell short of highlighting how other areas such as trade, land use, and industry intersect with the issues discussed.

At the **G20 Summit in India**, leaders of the world's major economies agreed to a joint statement that, for the first time, put concrete dollar amounts to the level of climate action needed by developing countries. The final G20 Leaders' Declaration recognized the need to rapidly and substantially scale up investment and climate finance from billions to trillions of dollars globally from all sources. Specifically, it noted the need for $5.8–$5.9 trillion in the pre-2030 period for developing countries to implement their NDCs, as well as the need for $4 trillion per year for clean energy technologies by 2030 to reach net zero emissions by 2050. In addition, G20 leaders acknowledged that the 2010 goal of $100 billion is projected to be met for the first time in 2023. They noted they "look forward" to recommendations for operationalizing the new funding arrangements for loss and damage including a fund at COP28; reiterated the call to double adaptation finance; and called on Parties to set an ambitious, transparent, and trackable New Collective Quantified Goal (NCQG) for climate finance in 2024.

Following the New Delhi G20 Summit, finance ministers and central bank governors of the G20 met once more under India's presidency on the sidelines of the **Annual Meetings of the IMF and World Bank** in Marrakesh, Morocco, in October 2023. They issued a communiqué after that meeting that acknowledged the importance of evolving and strengthening MDBs in particular within the context of finance reform. The communiqué emphasized the push to explore means of increasing overall capitalization levels of MDBs while still safeguarding their long-term financial sustainability, marking the first time the G20 acknowledged the possibility of capital increases for MDBs. The ministers and governors also endorsed the 2023 G20 Sustainable Finance Report, including welcoming progress-tracking actions to implement the G20 Sustainable Finance Roadmap, and called for further efforts on transition finance.

The Annual Meetings also saw IMF countries pledge to increase quota contributions by year-end to ensure the IMF can adequately respond to a large-scale crisis, similarly to how it reacted to financial challenges posed by the COVID-19 pandemic. The World Bank's governing body approved its new vision statement to "create a world free of poverty on a livable planet," which acknowledges the role of the World Bank in tackling climate change, and supported other changes that could unlock $100 billion in new lending over a decade, on top of $50 billion from reforms agreed at the 2023 World Bank Spring Meetings. However, consensus remained difficult on many issues, especially as the meetings took place amid the outbreak of a new military conflict in and around the Gaza Strip that will no doubt compound the fallout from other ongoing global challenges.

Several other fora also touched on the centrality of finance to Asia's climate and development needs. The **BRICS Summit** Declaration from August 2023 referenced the need to deliver on the existing commitments to mobilize $100 billion in climate finance and to double adaptation finance, while calling for the NCQG to include "enhanced financial support from developed countries that is additional, grant-based and/or concessional, timely delivered, and adequate to take forward adaptation and mitigation action in a balanced manner." It also called on the shareholders of MDBs and international financial institutions to scale up climate finance and investments to achieve the Sustainable Development Goals (SDGs) related to climate change and make institutional arrangements fit for purpose.

Moreover, at the **Climate Ambition Summit** held as part of the **UN General Assembly** in September 2023, leaders from several countries that are leading on climate action reemphasized key asks around finance, including the need to double adaptation finance by 2025, operationalize the loss and damage fund, and improve access to concessional finance and debt relief, such as maximizing SDR reallocations and canceling debt for low-income countries. At the Beijing-hosted **Third Belt and Road Forum** in October 2023, China announced new commitments of around $100 billion for China's two key policy banks and an additional $11 billion from China's sovereign Silk Road Fund. While this financing is expected to advance green aims, it is not tied to a specific time frame and is also not specifically focused on climate-related needs. Meanwhile, despite a number of challenges, **Just Energy Transition Partnerships** continued moving forward in Indonesia and Vietnam, with Indonesia's draft investment plan released for public comment in November 2023.

Some more specific examples of leadership on climate finance from the Asian region in 2023 include the following:

- **India's leadership as the G20 presidency** and its intentional centering of climate change as a key unifying agenda at the G20 Leaders' Summit helped draw attention to climate finance needs as an opportunity. It also put pressure on developed countries to pursue reforms to unlock the vast number of projected needs, especially by including more clarity around projected climate finance needs in key outcomes documents.
- The **Asian Development Bank (ADB)** announced a new funding guarantee facility — the Innovative Finance Facility for Climate Change in Asia and the Pacific (IF-CAP) — focused on unlocking more finance for climate change. This was the first mechanism of its kind to be put forth by an MDB and could unlock up to $15 billion in new loans. ADB also announced plans to reform its capital management to increase lending by about 40%, which would create an additional $100 billion in funds over the next decade. ADB has actively framed itself as the climate bank of the Asia-Pacific region.
- The **Asian Infrastructure Investment Bank (AIIB)** set ambitious targets to allocate at least half of its annual financing approvals for climate-related projects by 2025. This would triple the bank's climate change lending by 2030, which would total around $7–$8 billion annually by the end of the decade.
- At the **Third Belt and Road Forum** in October, China launched the **Green Investment and Finance Partnership (GIFP)**, a new green project pipeline facility backed by China's development banks and other key Chinese financial and engineering entities that will focus on creating green growth pathways for developing countries. The GIFP also involves Hong Kong stakeholders, which will expand its available capital, including by leveraging a carbon trading arm under the Hong Kong Stock Exchange.

ELEVATING ASIA'S CLIMATE FINANCE PRIORITIES AT COP28 AND BEYOND

Despite the progress on calls for greater and more affordable climate and development finance, there remains a lack of a unified, coherent, and powerful set of asks articulating the needs of the Asian region. This lack of a regional lens toward climate finance needs stands in contrast with other regions. While the diversity of the Asian region may pose a challenge, as this paper has made clear, the Asian region also exhibits a number of unique characteristics that make a strong case for articulating a clearer vision for Asia's climate and development finance needs.

Looking forward to **COP28**, several key issues remain in the spotlight. Developing countries will again be looking for evidence that developed countries will meet the $100 billion per year commitment and are on track to doubling adaptation finance by 2025. Expectations will be high for the loss and damage fund to be operationalized. Beyond this, COP28 may set expectations for aspects of the NCQG to be agreed upon in 2024, including through key signals in the outcomes of the first Global Stocktake, a process to assess progress in achieving the Paris Agreement's goals as well as what more needs to be done. Article 2.1c of the Paris Agreement — which calls for making finance flows consistent with a pathway toward low greenhouse gas emissions and climate-resilient development — may also receive attention as a means of shifting finance flows to drive climate action.

This section outlines key considerations for an Asian vision for climate and development finance priorities at COP28 and the coming year and beyond. The aim is to ensure that Asia's needs are both heard and duly considered in the various ongoing processes to meet the world's climate finance needs, including through existing fora such as the UNFCCC as well as reform processes, especially those focusing on reshaping the Bretton Woods architecture. It is meant as a starting point to elevate Asia's unique position as both a contributor and a solution to the climate crisis, while highlighting Asia's vulnerability to shocks including from climate change, debt, economic challenges, and other ongoing issues that may complicate Asia's efforts to be part of the solution to global climate change.

Asia's needs could be organized into three core priorities: (1) addressing existing debt and preventing future debt, (2) increasing the overall level of financing to jointly address climate and development needs, and (3) ensuring equity and representation of Asia's climate finance needs within key decision-making fora. Within these three buckets, several priorities have already been put forth as part of existing platforms. These platforms could be supplemented and enhanced through Asia-specific actions to ensure that climate finance solutions are tailored to Asia's characteristics. To achieve true solidarity between the Global North and the Global South, and constructively and sustainably address climate-related challenges, it will be critical not to lose sight of Asia's unique needs.

1. ADDRESS THE DEBT CRISIS IN ASIAN ECONOMIES

As of August 2023, at least 22 low-income countries in the UN's Asia-Pacific Group had a significant risk of debt distress or were already in debt distress. To address climate impacts, it will be critical for countries that are currently in debt distress to have the means to receive new financing and prevent climate change impacts from exacerbating existing debt issues. Existing platforms have raised a range of potential solutions to address debt issues as a foundation for improving access to climate finance and making funding flows more sustainable. Key recommendations of existing platforms include the following:

- Provide immediate liquidity support, including by rechanneling at least $100 billion of unused Special Drawing Rights through the IMF and multilateral development banks.
- Restore debt sustainability today and in the long term and support countries in restructuring their debt with long-term low interest rates.
- Normalize "pause clauses" that suspend repayments by a borrower country in the case of a natural disaster or other unprecedented event, such as a pandemic.
- Overhaul the G20 Common Framework for Debt Treatments and develop a new mechanism for debt treatment.
- Explore mechanisms for involving MDBs in debt relief efforts based on their fair share of debt burdens while still preserving their high credit ratings.
- Enhance existing financial safety nets and provide rapid loans through the IMF's emergency windows to support countries in liquidity crisis.
- Sustain the IMF's Poverty Reduction and Growth Trust with additional financing to help low-income countries manage balance of payment challenges.

More tailored actions could further ensure that Asia's needs are met. Some suggestions include the following:

- Rechannel SDRs to Asia-focused banks, especially the Asian Development Bank and the Asia Infrastructure Investment Bank, to provide liquidity to Asian countries experiencing debt crises.
- Given the unique role of China in many countries' bilateral debt situations, develop a series of common criteria that could be applied across similar cases involving both Paris Club creditor nations and China as bilateral lenders. The recent Zambia debt restructuring deal could serve as a springboard for China to lead on developing these criteria.
- Explore a mechanism applicable to key Asian financial markets, such as Hong Kong, Singapore, and Shanghai, that places limits how much private investors are allowed to recoup when governments default on loans. This could, for instance, be modeled after such legislation adopted by New York State.

While the UNFCCC is not a forum equipped to address debt concerns, it can still play a role in spurring greater attention to debt issues in relation to climate finance and spurring progress toward addressing them in tandem. The following are priorities by which COP28 could spur progress on the relationship between debt and climate finance:

- Decision text in the COP28 cover decision and/or the Global Stocktake decision could acknowledge the criticality and progress about international financial architectures reform. This could include a call for a follow-up process to take stock of progress and gaps in addressing the relationship between debt and climate finance to meet countries' needs.
- External, independent initiatives could be launched to supplement an officially mandated process. These could involve participants in the Call to Action on climate resilient debt clauses or the launching of new initiatives such as a Global Expert Review on Debt, Nature and Climate.
- Countries and other stakeholders could announce new packages of finance for debt relief focusing on priority countries for climate action.

2. RAMP UP FINANCING TO JOINTLY ADDRESS ASIA'S CLIMATE AND DEVELOPMENT NEEDS

Beyond debt relief, addressing climate impacts will require dramatically ramping up the overall availability of finance — including by increasing international public finance, de-risking to expand global private finance flows, and unlocking more domestic public and private finance through innovation. Existing platforms have focused on the following actions:

- Dramatically increase official sector development lending, aiming to reach at least $500 billion in annual stimulus for investment in the SDGs, including through a capital increase for the World Bank.
- Mobilize more than $1.5 trillion per year of private sector investment in the green transformation.
- Double adaptation finance.
- Tap into innovative sources of financing to expand resources, such as levies on shipping and air passengers, proceeds of carbon border taxes, fossil fuel taxes, and wealth taxes.

Some areas of Asia, such as Eastern Asia, have been leading in closing the gap between projected climate finance needs and actual flows — but other areas such as South Asia, Southeast Asia, and the Middle East lag significantly behind. The following suggestions could help further ensure Asia's needs are met:

- Support a capital increase at Asia-focused development banks, including ADB, AIIB, and the New Development Bank (NDB), to promote and support the push for a capital increase at the World Bank. Regional lenders such as Japan and China could lead efforts to enact this capital increase, especially for banks in which certain countries have a strong presence (e.g., Japan for ADB, China for AIIB).
- Leverage the expansion of BRICS to grow the overall capital of the NDB and leverage it for tailored lending to major emerging economies.
- Institutionalize a coordination mechanism between bilateral and multilateral funding efforts focused on climate, such as between China's Belt and Road investments and the Partnership for Global Infrastructure and Investment, to ensure that common challenges are being addressed by host country governments to crowd in more projects and finance, especially from private sources. Explore opportunities for cofinancing where feasible to leverage comparative strengths and improve outcomes.
- Scale up mechanisms that support the costs of project preparation, such as the Multilateral Cooperation Center for Development Finance (MCDF), to unlock more cofinancing and speed up project agreement and implementation.
- Improve existing tools for blended finance, such as the Multilateral Investment Guarantee Agency (MIGA), and scale up additional tools to crowd in more private finance.
- Raise additional equity to boost Asian entrepreneurs in strategic sectors and create a conducive business environment for domestic firms with external support from development finance providers.
- Explore mechanisms for phasing down fossil fuel subsidies to free up more domestic finance resources for climate. Establish a working group among Asian countries to share challenges in winding down fossil fuel subsidies and jointly develop solutions.

A number of officially mandated processes at COP28, as well as external actions, could vastly drive greater capital toward climate-related needs. Priorities could include the following:

- The Global Stocktake (GST) decision acknowledges the criticality of delivering climate finance at scale to meet the Paris Agreement's goals and aligning all financial flows with the Paris Agreement, to provide strong signals for the financial targets that will realistically be needed going forward on global, regional, and sectoral levels. The GST should include clear direction on follow-up steps to ensure implementation.

- Key decisions are made around the contours of the NCQG to ensure it will be sufficiently expansive, inclusive, and fit for purpose for addressing the Paris Agreement's goals. Technical issues could be agreed upon, including parameters for the contributor base, transparency arrangements, and access to finance. Clear high-level political signals could help build the case for such outcomes.

- Along with debt relief, countries and other stakeholders could leverage COP28 as a platform for pledging additional new climate finance. This includes pledging to multilateral funds such as the Green Climate Fund (as part of its second replenishment), use of SDRs to finance mitigation and adaptation projects in developing countries, and additional bilateral finance via country platforms. Clear, quantitative pledges — rather than vague commitments to meet goals — could provide much-needed signals on the doubling of adaptation finance and progress toward the $100 billion, which could in turn help unlock greater mitigation ambition as countries develop their next round of NDCs in 2025.

3. ENSURE EQUITY AND REPRESENTATION OF ASIA'S UNIQUE NEEDS

Equity and representation remain key issues for ensuring recipient countries' needs are met through reform processes and new initiatives. While the relative economic clout of several Asian countries means that Asia is represented to a certain extent in key multilateral fora, such as the G20, this representation often still neglects the needs of the most climate-vulnerable regions. The following priorities that have been reflected in existing platforms could help address concerns around equity and representation:

- Transform the governance of international financial institutions to make them more representative, equitable, and inclusive.

- Leverage the Brazilian presidency of the G20 in 2024 to continue efforts by Indonesia and India to center the needs and positions of the developing world, including by addressing macroeconomic consequences of food and energy insecurity, climate change, and debt vulnerabilities; strengthening safety nets; enhancing debt transparency and sustainability; and developing guidelines and best practices for low-income countries.

- Operationalize the loss and damage fund by COP28.

Layering an Asia-specific lens on these priorities could help ensure that Asia's needs are met across the board. Some additional actions could include the following:

- Institutionalize the practice of inviting additional key Asian countries to the G7 and G20, including the leaders of relevant minilateral fora such as ASEAN and Pacific Islands Forum.

- When operationalizing the loss and damage fund, ensure that all Asian countries with needs from loss and damage can access it, starting with the most vulnerable.

- Promote major Asian economies to signal their willingness to support capital increases at MDBs — thus implying an increase in vote shares tied to shareholding — as a way to motivate developed countries to also step up.
- Request the IMF to implement a quota review of Asian countries to increase rechanneling from major Asian economies.
- Provide support to Asian entrepreneurs to create a conducive business environment for domestic firms to thrive.

COP28 could provide critical signals regarding equity and representation for climate finance, especially from the Asian region. Key areas include the following:

- Operationalizing the loss and damage fund, including with commitments to finance it, could fulfill an important demand from climate-vulnerable countries. The fund's governing body should ensure equitable representation, and the fund's policies should prioritize access from the most vulnerable countries, while maintaining the potential for access by other countries with clear needs.
- Early decisions on means for expanding the contributor base for the NCQG could provide important signals on equity, especially from countries that have gained significant wealth in recent decades but are not currently obligated to provide climate finance based on the current UNFCCC architecture.

The UAE's hosting of COP28 on behalf of the UN's Asia-Pacific Group is an opportune moment to make progress toward increasing the availability and accessibility of climate finance to meet Asia's diverse needs. With these requirements projected to range from $1 to $2 trillion per year from now to 2030, there remains a significant gap between current flows, which are in the hundreds of billions at most, and projected needs. Given the interconnected nature of the challenges Asia is facing, adequately addressing Asia's climate finance needs will require a systemic approach that addresses climate and development in tandem with one another. Concrete progress, especially in the areas outlined in this paper, could provide Asian economies with the confidence to increase their climate mitigation ambition and enable a global "course correction" towards the Paris Agreement's stated target to limit global warming to 1.5°C.

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