

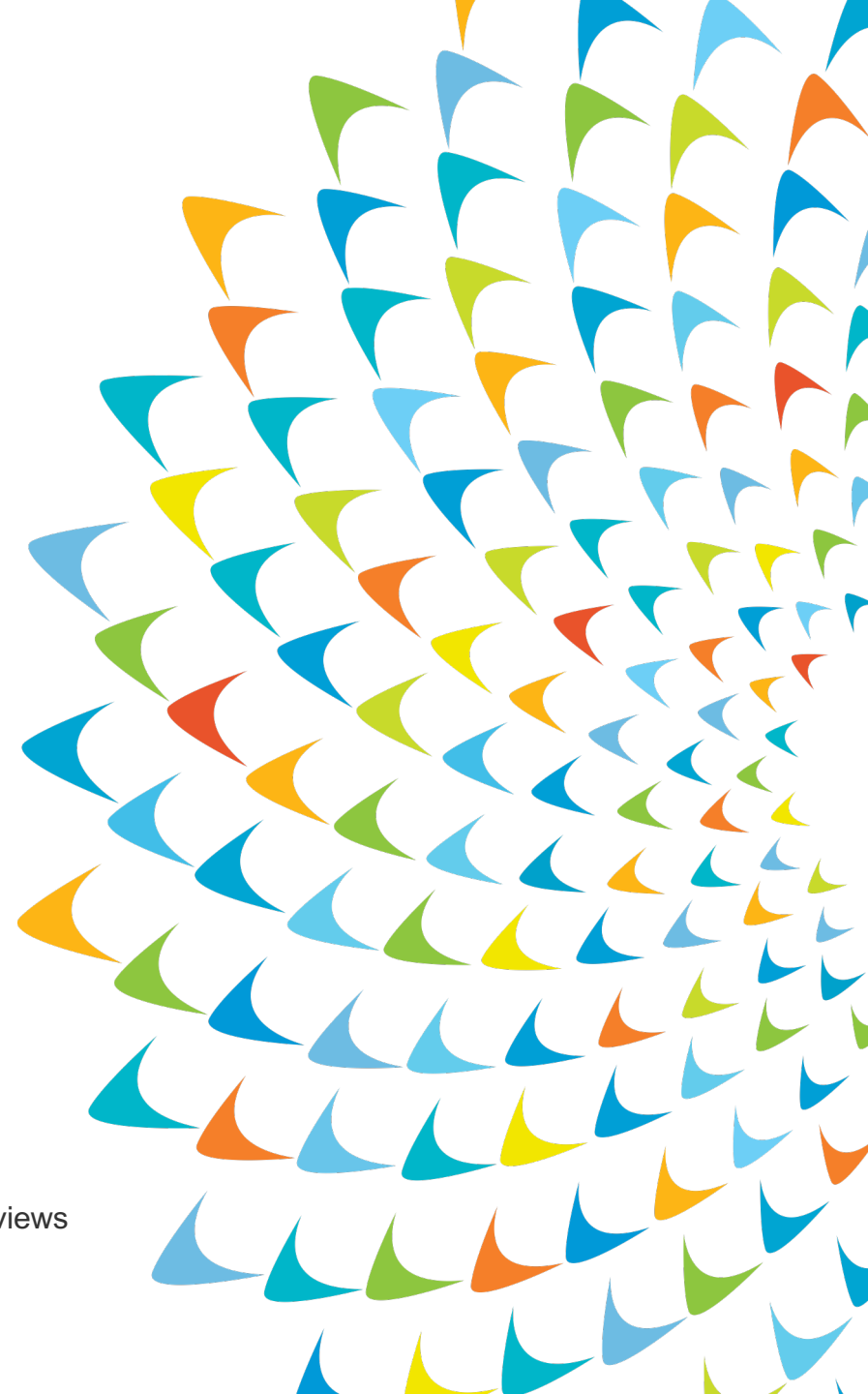


Catalyzing private capital for energy transition in Asia

Importance of Blended Finance
Towards the Transition to Net-zero

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*Disclaimer: The views expressed in this presentation are those of the authors and do not necessarily reflect the views and policies of the Asian Development Bank (ADB) or its Board of Governors or the governments they represent.



Outline

Background

Challenges to Transition Finance

Role of Blended Finance in Mitigating Barriers to Transition Finance

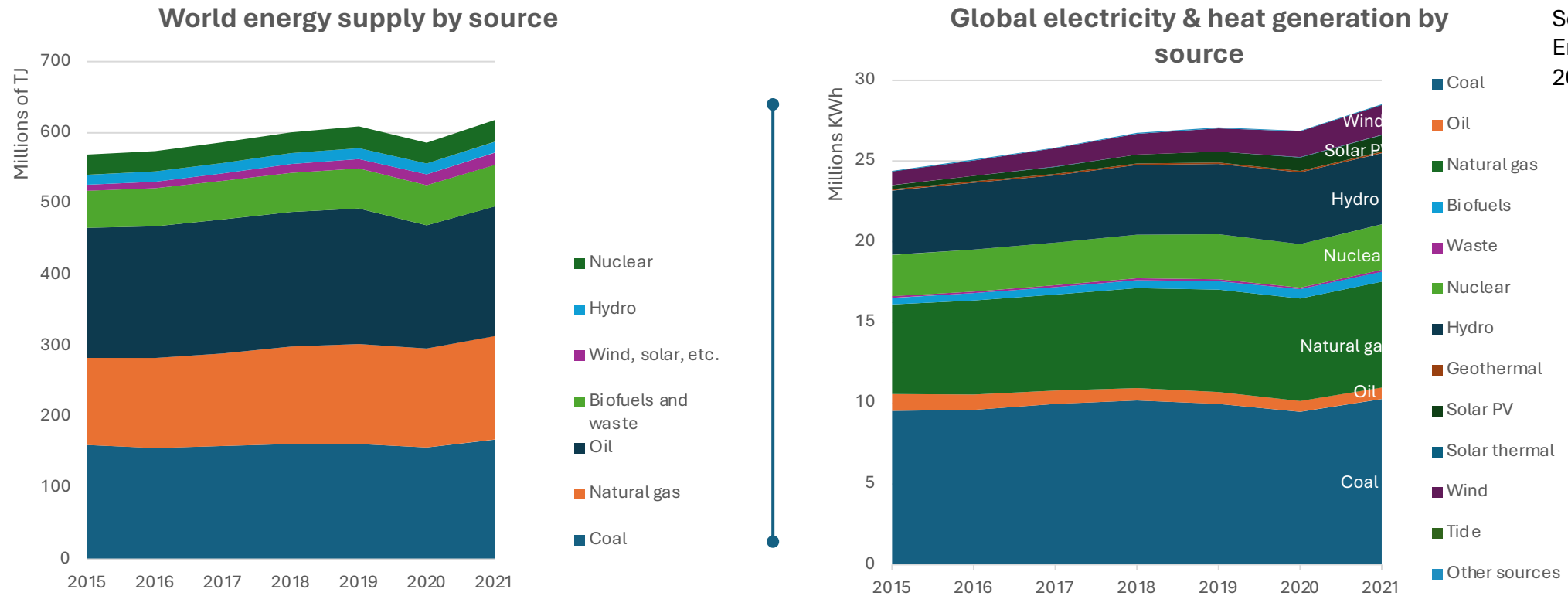
Blended Finance and Bankability of Transition Finance

Successful Cases on the Use of Blended Finance for Transition Activities

Key Considerations Moving Forward

1. Background

Our green energy transition since 2015 has been quite unimpressive



- Overall energy supply has not grown since 2015 the Paris Agreement, however, the energy mix has changed only marginally.
- If we look at our dual goals of decarbonizing electricity & electrifying the economy, again the change has been minor.
 - In 2015, 67% of electricity was generated by fossil fuels globally, in 2023, the share has shrunk to 61%
- On the positive side, solar and wind show the most rapid growth. Globally, we need 1,000 GW of renewable energy per year globally, until 2030 (International Renewable Energy Agency)

It's not all doom and gloom: technology is available...

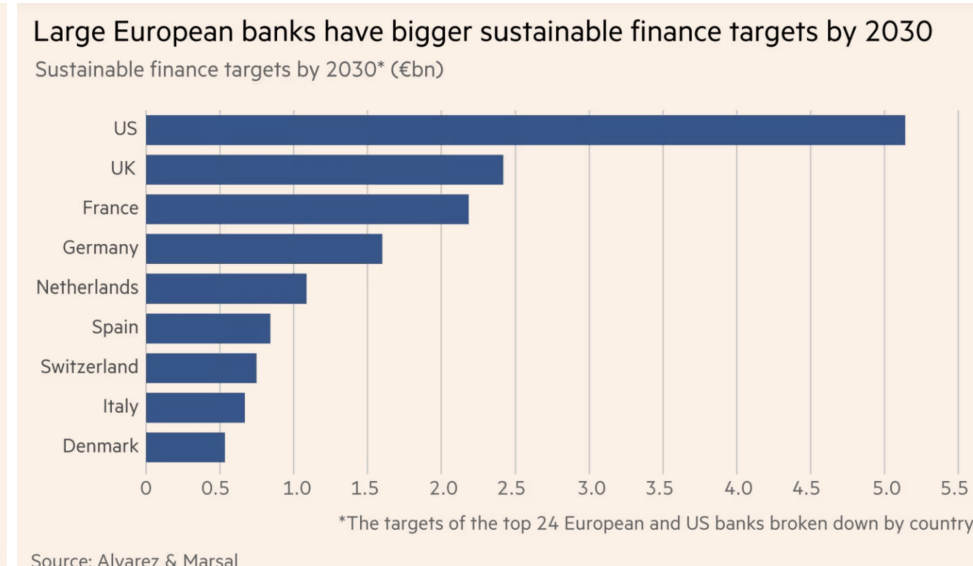
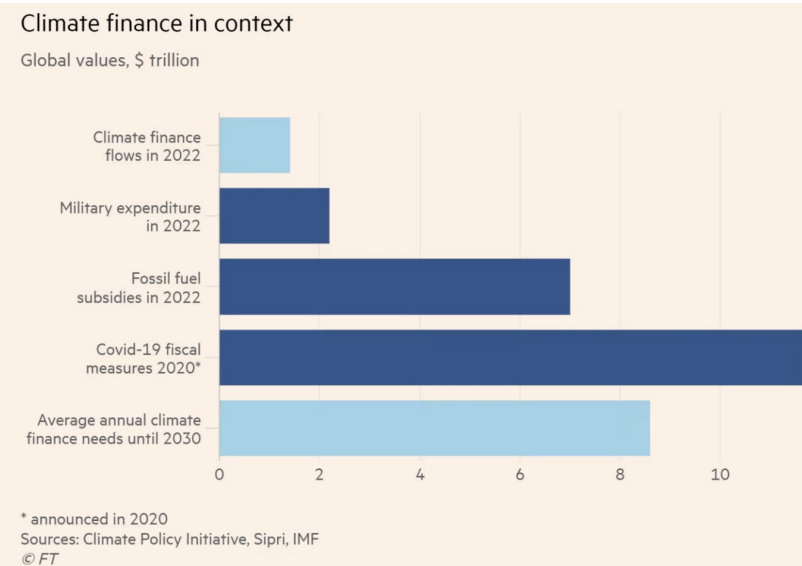
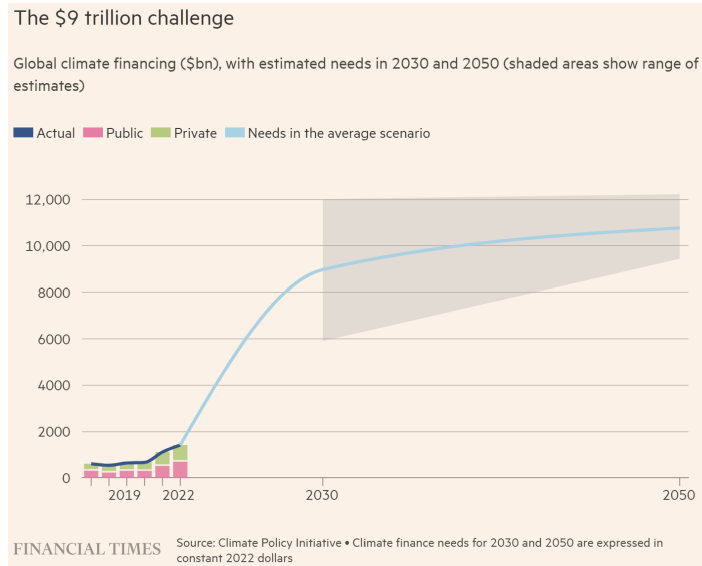
We need to speed up the implementation

- Technological development in solar PV, wind turbines and battery technologies has been **rapid**
- Increasing focus on grid modernization and storage technologies
- The total cost of renewable energy with storage and grids is quite similar to today's fossil-fuel based systems + it less local pollution and can be implemented almost anywhere
- Opportunities for high energy intensive industries to be moving to where the sun is, which creates new economic opportunities (aluminum, steel, data centers, hydrogen)
- Increasing awareness around the need to impose carbon taxation, introduce subsidies for green technologies and mandatory renewable energy quotas
- Investors and large corporates, as they estimate the cost of climate change on their operations, remain motivated in emissions reduction

Stronger policy action,
international
collaboration and
increased investment
is required to move
faster

Let's focus on finance...

How much are we talking about?



Estimating the per annum cost of transition finance is complex and depends on several factors, including the scope of sectors involved, the level of ambition in emissions reductions, geographic considerations, and the specific technologies or strategies employed

The amount required for transitioning away from fossil fuels, making buildings energy efficient, investing in climate resilient infrastructure and the restoration of natural environment is estimated to cost around **USD 5.9-12r by 2030**

T24 European and US banks have set out sustainable finance targets that amount to EUR 15tr by 2030 – one issue that needs to be addressed is the risk perception of emerging markets in the assessment that global investors

While global climate change is a global issue, the spending has been heavily concentrated in high-income countries and China

2. Specialized financial instruments: Transition Finance

Transition Finance could help mobilize/ target capital for energy transition

Key barriers to transition finance



Lack of a clear definition of transition activities



Lack of disclosure framework



Lack of financial instruments that provide incentives



Lack of successful demonstration/case projects

90% of green bond issuance relates to climate transition

2% of sustainability and green bond issuance issued by hard-to-abate sectors

< 0.4% of sustainable bond market with *climate transition label*

Importance of disclosures in transition finance

ASEAN

Credibility of transitioning entity:

Climate ambition

- Current state assessment
- Transition pathway
- Transition targets

Ability to deliver transition plan

- Implementation strategy
- Disclosure
- Independent verification
- Just transition considerations

ICMA

Additional disclosures for hard-to-abate sectors:

1. The issuer's climate transition plan and governance
2. The environmental materiality of the business model
3. The science-based nature of the climate transition plan and targets
4. Transparency in implementation

3. Attracting climate (transition) funds to emerging markets in Asia

Attracting funds to emerging markets requires innovative financial structures, high regulatory quality & predictability

How is emerging Asia different?

Lower-income countries have less fiscal space and ability to borrow

Majority of energy demand increase stems from Asia, understandably

Energy production in Asia relies heavily on coal, understandably

The macroeconomic and regulatory risks as perceived by investors, make climate projects in emerging markets not feasible without public support or concessional finance

Objectives for financial structures

Mitigate economic & regulatory risks

Enhance returns to green investors

Objectives for government policies

Favorable investment environment

Renewable energy markets development

Long-term and stable national energy plans

4. Mitigating the barriers to Transition Finance in emerging Asia

Blended Finance Structures: mitigating investment risks; positive impact for financial ecosystem for net-zero investments

Mechanism/ Structures	Role
Catalytic Funds	Provide risk tolerant capital that can decrease the cost of capital or mitigate risks, and revenue attractiveness.
Guarantees and insurance	Enhances the security of investments either through loan or performance guarantees.
Grants	Non-capital investments that increase the likelihood of successful transactions and facilitate financial closure.
Technical Assistance	Includes assistance in project design, formulation, capacity building and legal & regulatory aspects

Importance of blended finance instruments

Instruments	Role
Guarantee	As a form of credit enhancement, they strengthen the creditworthiness of the investment, given a promise by the guarantor to complete performance in the event of default.
Insurance	Insurance provides protection through the promise of compensation for specified loss or damage in return for payment of a specified premium.
Hedging	Currency hedging reduces the exposure to the movement of foreign currency exchange rates, one of the key risks in emerging markets.
Junior / subordinated capital	Subordinated debt or junior equity protects senior investors by taking first losses on the value of the security i.e. if something goes wrong, the most junior / subordinated tranche will be paid out last.
Securitization	The process of transforming a pool of illiquid assets into tradable financial instruments (securities).
Results-based incentives	Instruments that tie a portion of payments to achievement, e.g. in social impact bonds and performance-based contracts.
Contractual mechanisms	Agreement between producers and buyers to purchase or sell portions of future production (e.g. power purchase agreements (PPAs) in the energy sector).
Grants	Capital which is paid in without any expected repayment or compensation over a fixed period of time. It could include money for technical assistance or project preparation to bring a project to bankability.

5. Successful ADB use cases for blended finance in Transition Activities

DFI Principles for the Use of Blended Finance

Common principles were adopted by development organizations to ensure best practice

- 1. Rationale for Using Blended Concessional Finance:** DFI support for the private sector should make a contribution that is beyond what is available, or that is otherwise absent from the market, and should not crowd out the private sector. Blended concessional finance should address market failures.
- 2. Crowding-in and Minimum Concessionality:** DFI support for the private sector should, to the extent possible, contribute to catalyzing market development and the mobilization of private sector resources and minimize the use of concessional resources.
- 3. Commercial Sustainability:** DFI support for the private sector and the impact achieved by each operation should aim to be sustainable. DFI support must contribute towards the commercial viability of clients. Level of concessionality in a sector should be revisited over time.
- 4. Reinforcing Markets:** DFI support for the private sector should be structured to effectively and efficiently address market failures and minimize the risk of disrupting or unduly distorting markets or crowding out private finance, including new entrants.
- 5. Promoting High Standards:** DFI private sector operations should seek to promote adherence to high standards of conduct in their clients, including in the areas of corporate governance, environmental impact, social inclusion, transparency, integrity, and disclosure.



Successful use of blended finance

Energy Transition Mechanism (ETM)

Entity	ADB
Transition finance key area	Managed phase-out of coal
Blended finance instrument	Equity/Investment Fund
Project description	The program utilizes concessional and commercial capital from various public and private sources to incentivize the early retirement or repurposing of coal-fired power plants and other carbon-intensive power generation (e.g., heavy fuel oil) while also unleashing new investments in clean energy, grid modernization, and energy storage.
Financing details	<i>\$576 million mobilized financing as of October 2023</i>

Successful uses of blended finance

Mongolia: Financing MSMEs and Promoting Green Lending Activities

Entity	Bogd Bank
Transition finance key area	Energy Efficiency of Micro, Small and Medium-Sized Enterprises (MSMEs)
Blended Finance Instrument	Loan
Project description	The blended finance is designed to support Bogd Bank to launch new green finance products to the underserved MSME segment in a nascent market. More attractive financing is required to incentivize MSME's purchase of energy-efficient equipment, which will in turn help develop the bank's green loan product line when MSMEs' demand for energy efficiency finance is established and sustained.
Financing details	\$15 million loan, including \$14 million from ADB and \$1 million concessional finance

Successful cases of blended finance

Kyrgyz Republic: Kompanion Bank Supporting Micro and Small Entrepreneurs

Entity	Kompanion Bank
Transition finance key area	Support of Micro, Small and Medium-Sized Enterprises (MSMEs)
Blended Finance Instrument	Loan
Project description	The project includes a blended finance component to overcome bankability hurdles to support a project that would not proceed solely on a commercial basis. Partial credit guarantee from ADB Private Sector Window fund enabled to improve risk profile of the transaction and decrease ADB's cost recovery loan margin to address access to finance and affordability constraints.
Financing details	\$5 million OCR loan and \$2.3 million credit guarantee from ADB Private Sector Window fund

CASE STUDY: Green loan, blended finance & TA

Project: Green Affordable Housing For Women

Client: IIFL Home Finance Limited

ADB Financing: \$58m loan from ADB's ordinary capital resources (OCR); \$10m concessional finance from Canadian Climate Fund for the Private Sector in Asia Fund (CFPS); Technical Assistance of \$1m from the Urban Climate Change Resilience Trust Fund (UCCRTF)

Currency: Indian Rupee **Tenor:** 8 yrs ADB loan; 9 yrs CFPS

Use of Proceeds: ADB's financing will be used to provide mortgage finance to women borrowers in lower income households, 20% of which towards financing mortgages for green-certified homes. The CFPS will be on-lent to developers for the construction of green certified affordable housing units

Total Project Cost: \$ 93.7m

ADB Additionality:

- Provide increased supply of climate-resilient green affordable housing in India.
- Provide access to finance for low-income women, and longer-tenor local currency (INR) debt to fund the high demand for mortgages in low-income households
- The TA will help overcome key identified obstacles to building the ecosystem for green certified affordable housing in India



Key features:

- IIFLHF is a pioneering Indian housing finance company, with a strategy to increase the supply and demand for green-certified homes in the affordable housing segment.
- IIFLHF encourages women to be borrowers or co-borrowers for housing finance and is one of the top facilitators in India of the government's Credit Linked Subsidy Scheme program (CLSS), which mandates that at least one female family member be a registered owner of the property for which the loan is secured.

Expected development impact:

- Access to housing finance for women, low-income borrowers
- Supply of climate-resilient green affordable housing for low income categories

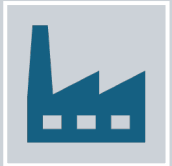
6. Key considerations moving forward

Key considerations moving forward



Priorities for policymakers are ***transition taxonomy*** and ***enhanced climate disclosure framework***.

DMC's and Corporate transition plans
IFRS climate disclosure



Greater focus on policies that aid in the transition of ***hard-to-abate sectors such as coal, oil & gas, maritime, steel, etc.***

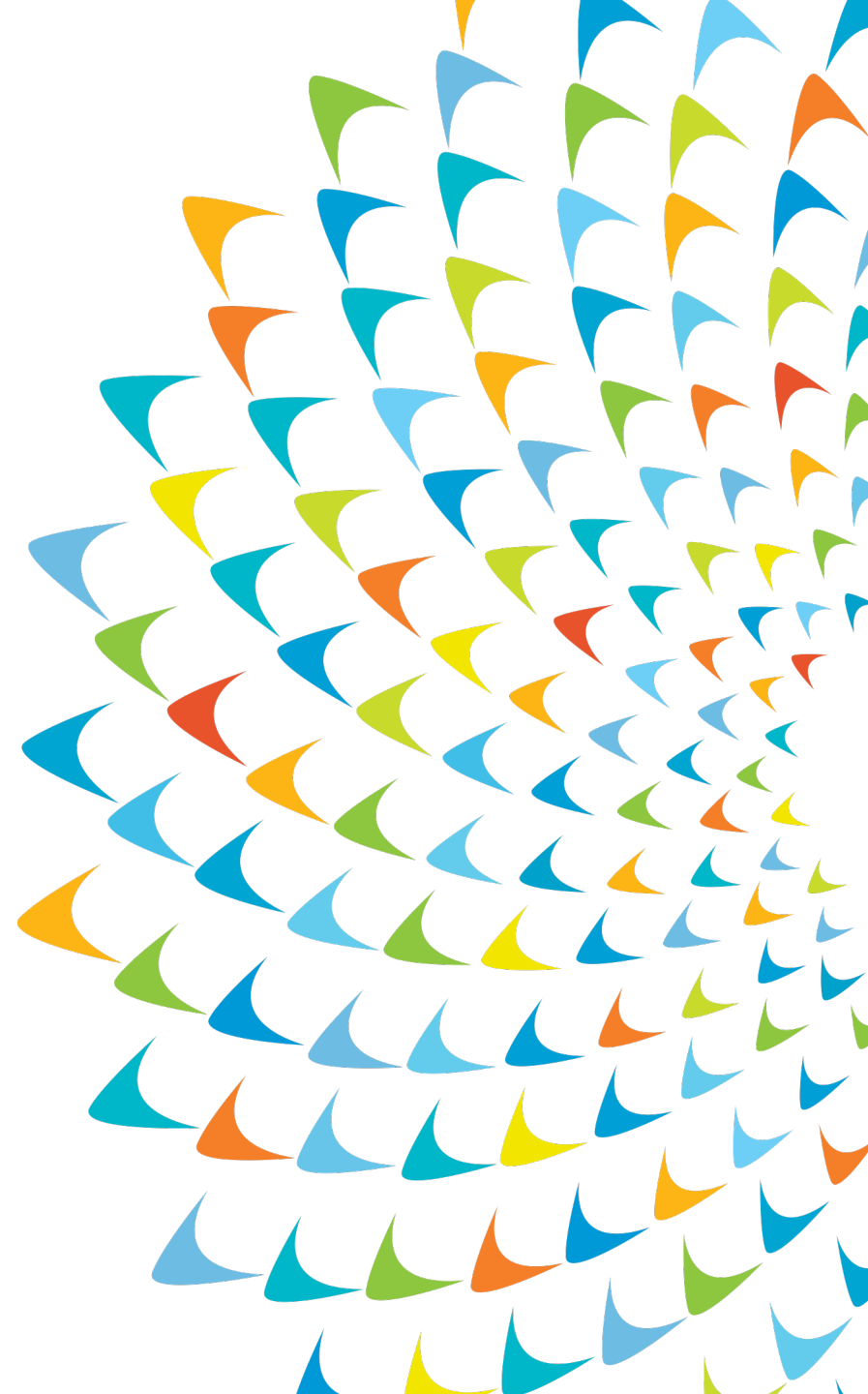
Carbon market development
Capacity building of local stakeholders



Develop and share ***use cases*** of ***bankable transition finance projects***.



Thank you!



Policy tools and directions that support markets creation & transition

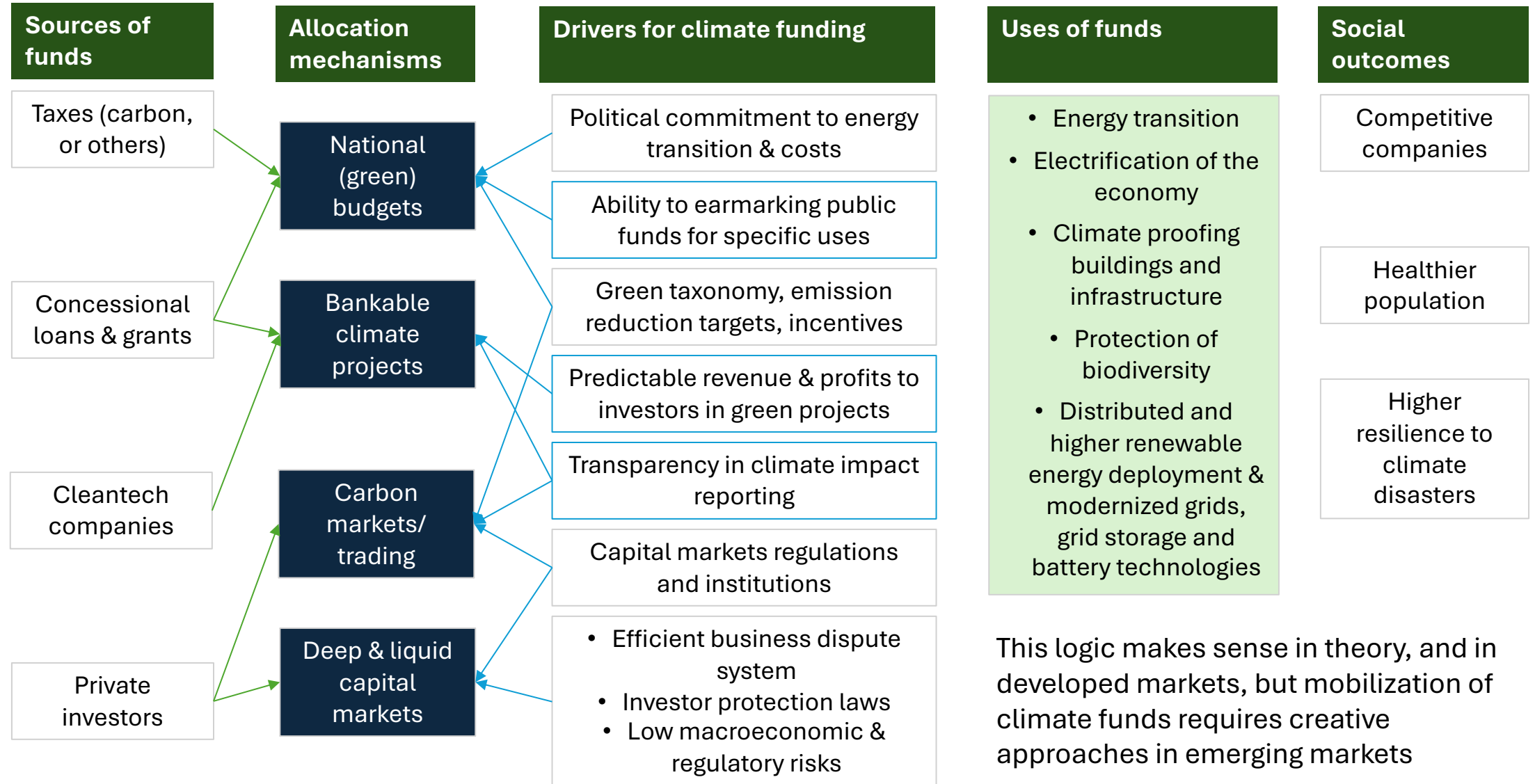
Consistent, National Energy Plans & Targets	Reduction in fossil fuel subsidies	Energy market liberalization	Tax incentives
<p>Clear, long-term national energy plans, sectoral roadmaps with specific renewable energy targets and commitment to energy transition. provide direction and confidence for investors.</p>	<p>Gradual transfer of subsidies from fossil fuel to renewable energy generators. This requires grid readiness, grid storage or battery systems for stable end user services</p>	<p>Allows multiple producers to sell directly to consumers to increase competition, innovation, and drive investment</p>	<p>Tax credits, deductions, exemptions for renewable projects can reduce financial burden on investors (e.g. investment tax credits or accelerated depreciation)</p>
Renewable energy mandates	Feed-in Tariffs & Power Purchase Agreements:	Carbon Pricing Mechanisms	Grid access and grid development
<p>Renewable Portfolio Standards or Renewable Energy Certificates require utilities to source a certain percentage of their energy from renewables. This creates guaranteed demand for renewables.</p>	<p>FiTs offer long-term contracts to renewable energy producers at fixed prices, ensuring stable revenue streams. PPAs are similar but often apply to projects.</p>	<p>Carbon taxes or cap-and-trade systems increases the cost of carbon-intensive energy, making renewable energy projects more competitive. This encourages investment in low-carbon technologies</p>	<p>Allow renewable energy projects faster access to the grid, while ensuring grid modernization (transmission lines, smart grids, grid storage to accommodate variable energy supply).</p>

Carbon markets – key considerations

In 2021, the global transaction value reached USD 1.1bn and fell to USD 723m in 2023. In 2001, McKinsey predicted that carbon markets would be worth USD 50bn by 2030

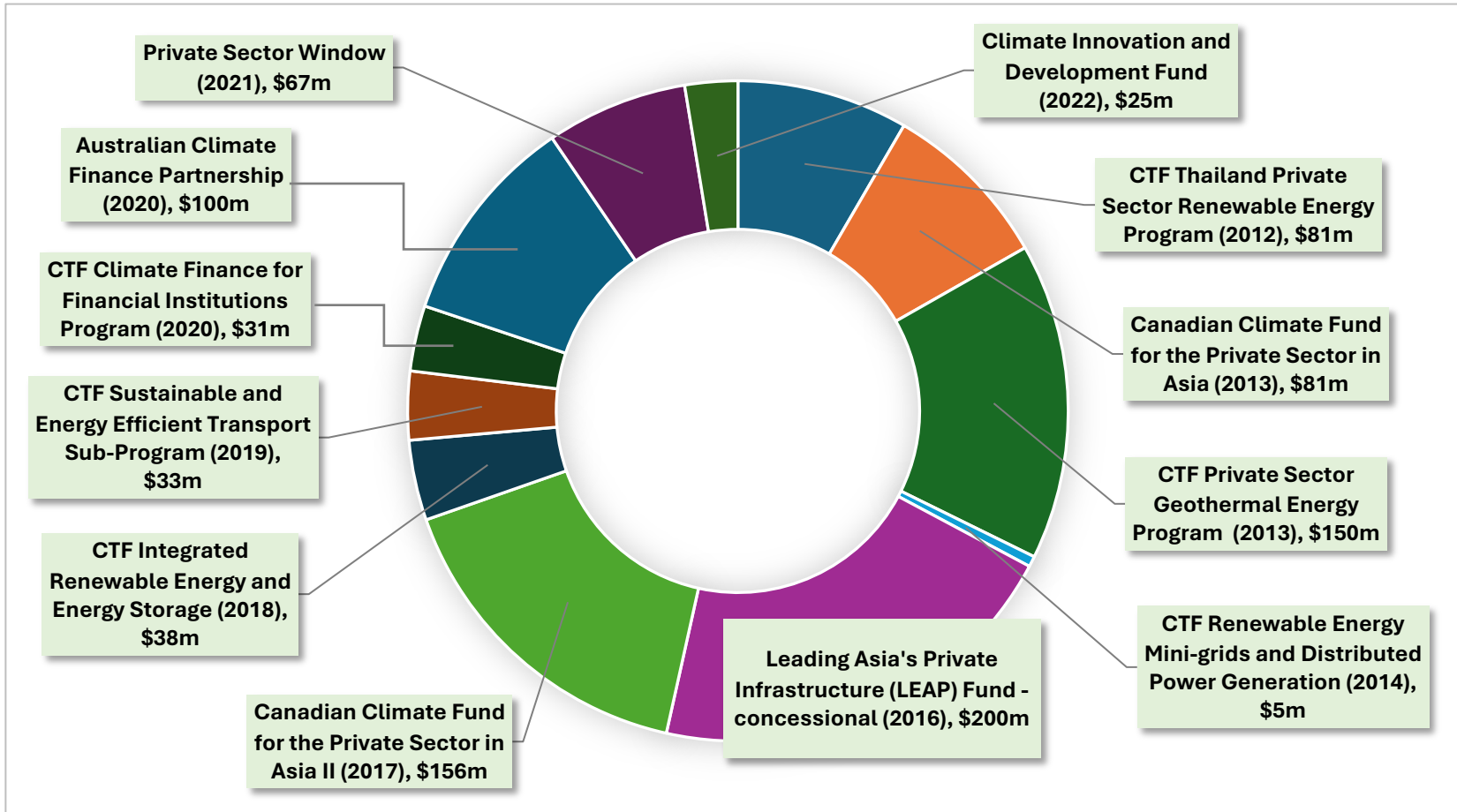
<i>Challenges</i>	Data	Market integrity	Investor reputation	Int & gov regs
Project identification	For determining current & future emissions, permanent or temporary	Centralized and transparent carbon credit registries for double counting	Design of carbon projects in line with investor goals Additional ESG related co-benefits	Local communities' involvement in projects Voluntary and compliance-based carbon markets
Certification of carbon reductions & issuance of carbon credits	tCO2 equivalents avoided or removed	Certification standards/ reputable verification Regional/ global harmonization of standards	Balancing own value chain emission reduction with offsets/ limits on offsets/ R&D requirements	Simplification of certification and trading costs/ processes Carbon trading as part of broader env policy
Choice of carbon markets for selling/ buying credits		Variety of carbon-related financial products (bonds, ETFs, ESG indices, corporate carbon strategies, indices, derivatives) Fixed prices vs auctioned prices Market volatility		Price stability mechanisms Price of fossil fuels/ level of subsidies
Use of revenue from carbon sales	Use of sensors/ AI technologies	Regular audits	Regular audits: high quality, actual information about the use of funds and climate impact	Carbon leakage in credit issuing country (larger geographic/ sectoral scope of projects)

Sources, uses and drivers of climate funding



Blended Finance

The Private Sector Operations Department (PSOD) of the ADB manages **12 funds totaling \$967 million in concessional financing**



New funds

- In addition to these, 2 new funds have been established recently
- CANPA (third Canadian Fund) established in March 2024 - size approx. \$265 million
- LEAP -2 established in Dec 2023 as a successor to LEAP - Non-parallel (concessional) window of upto \$200 million
- \$665 million in total concessional funds is available for deployment

Blended Finance and Transition Financing

- Important is that ADB needs to step up deploying of more significant sums of concessional capital in the hard to abate industrial sector – utility scale renewables has been the mainstay.
- ADB is currently pursuing transactions involving early retirement of coal-fired power plants - One such example is the 660-megawatt Cirebon-1 CFPP in Indonesia
- The transport sector has witnessed good deal flow and ADB has also deployed concessional capital. Some of the approved transactions are
 - [Viet Nam: VinFast Electric Mobility Green Loan Project](#)
 - [India: GreenCell Electric Bus Financing Project](#)