Green and Climate Finance Options to Support the Post COVID-19 Pandemic Recovery and Climate Action



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About this Report

This report is a joint publication by the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) and the Global Green Growth Institute (GGGI). ESCAP and GGGI are working together through research, policy assistance, and support for innovative financing solutions targeted at climate action and the achievement of net-zero emissions by 2050. Together we believe that countries' nationally determined contributions need to be drastically enhanced to achieve carbon neutrality; and pledges need to be accommodated by policy action and financing to support investment in a green future.

ESCAP and GGGI are pleased to launch this joint publication, which examines critical policy gaps and barriers to climate finance. The report presents a range of financial instruments and mechanisms to address these critical constraints, including project finance, funds and facilities, thematic bonds, carbon pricing and debt for climate swaps. Our findings, highlight the utility, scalability, governance, and related monitoring issues to enable these pathways to sustainability to function effectively.

About ESCAP

The United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) is the most inclusive intergovernmental platform in the Asia-Pacific region. The Commission promotes cooperation among its 53 member States and 9 associate members in pursuit of solutions to sustainable development challenges. ESCAP is one of the five regional commissions of the United Nations.

The ESCAP secretariat supports inclusive, resilient and sustainable development in the region by generating action-oriented knowledge, and by providing technical assistance and capacity-building services in support of national development objectives, regional agreements and the implementation of the 2030 Agenda for Sustainable Development.

About GGGI

The Global Green Growth Institute (GGGI) was established as an international intergovernmental organization in 2012 at the Rio+20 United Nations Conference on Sustainable Development. Its vision is "a low-carbon, resilient world of strong, inclusive, and sustainable growth" and its mission "to support Members in the transformation of their economies into a green growth economic model". GGGI does this through technical assistance to: reduce greenhouse gas emissions in line with the Paris Agreement; create green jobs; increase access to sustainable services (such as clean affordable energy, sustainable waste management); improve air quality; sustain natural capital for adequate supply of ecosystem services; and enhance adaptation to climate change.

Executive Summary

Most of the policy measures introduced in 2020 and 2021 as a response to the socioeconomic crises induced by the COVID-19 pandemic focused on addressing health concerns and a speedy economic recovery. Considerably less attention has been paid to combating climate change and preventing environmental degradation, for which many governments in the Asia-Pacific region lack the needed financial resources. There are, however, various options to mobilize green and climate finance to address climate change, recover from the COVID-19 pandemic, and achieve a wider range of environmental and sustainable development objectives. Enhancing the availability of green and climate financing and developing clear, coherent, and supportive policies are crucial for all economies in the region to recover swiftly and resume growth in a resilient and sustainable manner.

This report examines critical policy gaps and barriers to climate finance, such as constrained fiscal space, weak institutional capacities to implement Nationally Determined Contributions (NDCs), policy and regulatory gaps, and the lack of investment-ready projects. To enable green growth and sustainable development in the region, these barriers need to be overcome in line with each country's long-term strategic development vision and broad legal framework, as well as international commitments to reduce greenhouse gas emissions through initiatives such as the NDCs.

The report also discusses a range of financial instruments and mechanisms, including project finance, funds and facilities, thematic bonds, carbon pricing, and debt for climate swaps, and highlights their utility, scalability, governance, and related monitoring issues. Implementing these instruments and mechanisms can help overcome existing challenges to climate change finance and unlock the growing private sector demand for green and climate investment opportunities. The report also explains how assessment tools can be developed and used as part of the planning processes to address policy gaps and assess the readiness of investment projects. It underscores the critical role that blended and concessional finance can play in enhancing the effectiveness of climate finance instruments in the region, particularly for the small island developing States (SIDS) and the least developed countries (LDCs) in the region.

The report outlines several case studies that illustrate how different options and instruments are being used to structure actual investments, including a municipal solid waste to energy project in Viet Nam and a sovereign green bond issuance in Fiji. The market for green bonds is expanding rapidly, with considerable interest from global institutional investors. Although this market still represents a small percentage of the total bond market, its fast growth offers a significant financing option for many countries in the region.

The report also highlights emerging post COVID-19 green and climate finance trends, including regulatory frameworks like the European Union's Carbon Border Adjustment Mechanism (CBAM), and carbon financing structures such as securitized Internationally Transferred Mitigation Outcomes (ITMO). The report also briefly examines the impact of new and emerging technologies, including the pivot to green fuels such as green hydrogen and Carbon Capture and Storage (CCS). However, given the lack of a clear policy framework in many countries and competition among investors for new technologies, uncertainty remains as to their potential impact on climate finance post COVID-19.

In this context, the report discusses the status of climate risk disclosure and reporting, as well as the growing number of reporting frameworks that can help investors internalize climate risks when making investment decisions. Effective climate risk disclosure enables all stakeholders to better understand the opportunities and risks of climate change, allowing investments to be more effectively allocated to fund climate solutions and avoid growing threats to the stability of the global financial system posed by the dramatic ecological upheaval.

Finally, the report draws attention to the need to balance competing policy choices and financing options and highlights how successful outcomes are determined by a complex mix of regulatory and financing arrangements in different sectors that support low carbon and sustainable development.

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