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Transition finance critical for S-E Asia to achieve net-zero goals: panel

Amount needed will be in excess of US$50b over the next few years

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SOUTH-EAST Asia could potentially play a leading role in the global race to achieve net-zero emissions, but much will depend on whether the region can raise capital estimated at over US$50 billion to fund the green transition, said experts.

Speakers at the recent Economist Impact Sustainability Week Asia conference held in Bangkok stressed that "transition finance" is set to gain momentum.

While there is no agreed figure on just how much is needed to finance this transition, industry experts, academics and business leaders say that the amount will be in excess of US$50 billion over the next few years.

Hao Liang, co-director of the Singapore Green Finance Centre, noted that while there has been much debate about green finance, transition finance is more relevant to South-east Asia given that many economies have yet to fully adopt clean energy and wean themselves off fossil fuels.

The Green Finance Centre is part of the Singapore Management University's Lee Kong Chian School of Business.

"Green finance is flawed because investors and banks will only fund projects or businesses that are already green. But since many businesses in the region are still considered brown, there is a greater need for transition finance to help them become green," said Liang.

Coal mine in East Kalimantan, Indonesia. While there has been much debate about green finance, transition finance is more relevant to South-east Asia given that many economies have yet to fully adopt clean energy and wean themselves off fossil fuels. PHOTO: BLOOMBERG

"For example, we cannot remove the palm oil sector from the Indonesian economy. We cannot allow this sector to die a natural death given the huge impact it has on the economy and on providing jobs and income to millions of Indonesians. Therefore, the need to finance brown companies is more urgent given that it must make commercial sense for both the lender and borrower."

Liang also added that the idea of transition finance is to align green goals to profit, given that no company will embark on this journey at the expense of profitability and commercial viability.

It was pointed out at the panel that investors around the world have poured more than US$1 trillion into ESG (environmental, social and governance) funds in the past two years.

Driving greater corporate action requires finance – in the form of green bonds, loans, environmental risk assessments and insurance – to protect investment in new green projects.

Liang said that while much needs to be done to convince critics who argue that transition finance basically amounts to greenwashing, governments have to provide guidelines and taxonomy to verify the process as this aspect is missing in less developed economies.

"There needs to be a partnership between academia and industry to fully realise the potential for this emerging industry," he said. "South-east Asia is the best region to leverage on such emerging technologies and industries given its myriad problems which require innovative solutions."

Atul Jhavar, managing director of investment banking at Barclays, said that there has been a "dramatic shift" in terms of investor interest in ESG funds, with 70 per cent of new funds having an ESG overlay.

Despite the challenges facing the region in meeting sustainability goals, there is tremendous opportunity for transition finance in Asia.

"In the last 18 to 24 months, the interest has moved beyond the large fund managers to hedge funds and family offices," he said.

"Asia is a few years behind Europe from a regulatory perspective, but it is growing fast. You can't force people to be more sustainable, so the economics have to work and the solutions have to be commercially viable."

Robert Nicholls, the general manager of programmes and projects at Musim Mas, said that his company – one of the largest producers of palm oil in Indonesia – has been working with over one million small-scale farmers for over a decade to help reduce their carbon footprint.

He added that the industry as a whole has made a huge shift towards more sustainable production with a focus on certification.

"If we do not operate in a more environmentally friendly way, we have no future. Independent farmers are playing a bigger role as we work with them to ensure that there is no deforestation, no exploitation and no planting on peat land," he said.

"There is a huge spotlight on agriculture and deforestation in our region. If we do not address this issue, it will be at our own peril."