

# CLIMATE FINANCE ACCESS AND MOBILIZATION STRATEGY FOR THE MEMBER STATES OF THE ASSOCIATION OF SOUTHEAST ASIAN NATIONS

2024-2030





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# Abbreviations

ACCC	ASEAN Centre for Climate Change
ACMF	ASEAN Capital Markets Forum
ADB	Asian Development Bank
AF	Adaptation Fund
AiIB	Asian Infrastructure Investment Bank
AIRM	ASEAN Insurance Regulators Meeting
AMS	ASEAN Member States
ASCCR	ASEAN State of Climate Change Report
ASEAN	Association of Southeast Asian Nations
ATB	ASEAN Taxonomy Board
AWGCC	ASEAN Working Group on Climate Change
CLMV	Cambodia, the Lao People’s Democratic Republic, Myanmar and Viet Nam
ESG	Environmental, Social and Governance
GCF	Green Climate Fund
GEF	Global Environment Facility
GHG	Greenhouse Gas

IAI & NDG	Initiative for ASEAN Integration & Narrowing Development Gap
M&E	Monitoring and Evaluation
MoI	Means of Implementation
MRV	Measurement, Reporting and Verification
NAPs	National Adaptation Plans
NBF	Needs-Based Finance
NDCs	Nationally Determined Contributions
ODA	Official Development Assistance
OECD DAC	Organisation for Economic Co-operation and Development - Development Assistance Committee
SEACEN	Southeast Asian Central Banks Research and Training Centre
SLC	Senior Level Committee
WB	World Bank
WC-CMD	Working Committee on Capital Market Development

# Foreword

Climate change is one of the most pressing challenges of our time, profoundly affecting communities and ecosystems worldwide. Southeast Asia is especially vulnerable, grappling with rising sea levels, extreme weather events, and significant biodiversity loss. Addressing these urgent issues necessitates innovative solutions to support our member states and communities in both adapting to and mitigating the impacts of climate change.

The Association of Southeast Asian Nations (ASEAN) has shown steadfast commitment to confronting climate change through multisectoral dialogue and collaboration with key partners across agriculture, forestry, energy, transport, disaster management, and finance, among others. Our leaders have reaffirmed their dedication to achieving global climate targets, as articulated in the ASEAN Joint Statements on Climate Change presented at the United Nations Framework Convention on Climate Change (UNFCCC) Conference of the Parties (COPs). These statements underscore the crucial role of mobilizing climate finance to enable transformative and accelerated climate action in the region.

In this context, we are pleased to introduce the ASEAN Climate Finance Access and Mobilisation Strategy for the Member States of the Association of Southeast Asian Nations. Developed collaboratively by Brunei Darussalam, the Philippines, and the ASEAN Secretariat, in close consultation with the ASEAN Working Group on Climate Change (AWGCC) and with the support from the UNFCCC Regional Collaboration Centre (RCC) under the Needs-based Climate Finance Project, this Strategy serves as a comprehensive framework to enhance access to funding, foster partnerships, and promote sustainable investment. It will be important to implement the upcoming ASEAN strategies, including the Post-2025 ASEAN Strategic Plans and the ASEAN Climate Strategy and Action Plan.

Spanning from 2024 to 2030, the Strategy encompasses six strategic areas, ranging from developing project pipelines, promoting diversification and innovation, increasing access to climate finance, strengthening policy cohesion and harmonization, fostering capacity building, to ensuring transparency and integrity. It identifies opportunities for attracting climate investments and technology transfer, as well as for replicating and expanding best practices in climate adaptation and mitigation across ASEAN Member States. Seizing these opportunities could lead to positive transformative impacts.

Achieving carbon neutrality is a formidable challenge that demands extensive planning and collaboration both within and beyond ASEAN. Support from, and close coordination with relevant sectoral bodies and partners, including international and regional organizations focused on climate and finance, will be essential for the successful implementation of this strategy.

I hope this Strategy fosters cross-sectoral and cross-border collaboration to unlock and mobilize the financial resources needed for a sustainable future. Together, we can transform our shared aspirations into tangible results, ensuring that ASEAN not only addresses the climate crisis but also exemplifies sustainable growth and environmental stewardship.



**Dr. Kao Kim Hourn**

Secretary-General of ASEAN

# I. Introduction

## A. Background

1. The Needs-based Climate Finance (NBF) project was established in response to the request of the Conference of the Parties at its twenty-third session and reiterated at its twenty-sixth session that the secretariat, in collaboration with the operating entities of the Financial Mechanism, United Nations agencies and bilateral, regional and other multilateral channels, explore ways and means to assist developing country Parties in assessing their needs and priorities in a country-driven manner, including their technological and capacity-building needs, and in translating climate finance needs into action.<sup>1</sup>

2. The project supports the implementation of the Climate Financing and Market Programme (core theme 6) of the Association of Southeast Asian Nations (ASEAN) Working Group on Climate Change (AWGCC) Action Plan and aims to fulfil the mandate stipulated at the 10th meeting of the AWGCC.<sup>2</sup>

3. This strategy thus aims to align itself with or support relevant ASEAN initiatives and visions such as the ASEAN Climate Vision 2050 as described in the ASEAN State of Climate Change Report (ASCCR), the ASEAN Carbon Neutrality Strategy, and the forthcoming ASEAN Climate Change Strategic Action Plan (ACCSAP), the ASEAN Taxonomy for Sustainable Finance,<sup>3</sup> ASEAN Green Bonds, ASEAN Sustainability Bonds and the forthcoming post-2025 ASEAN Socio-cultural Community (ASCC) Strategic Plan, post-2025 ASEAN Strategic Plan on Environment (ASPEN) and ASEAN Green Map. Activities such as capacity-building and training are also designed with a regional perspective. In addition, countries and national actors will also be engaged.

4. In accordance with the AWGCC Action Plan, this strategy also aims to promote or support current initiatives for a enhancing a common understanding of the optimal institutional arrangements and enabling environment for accessing multilateral funds and mobilizing private sector finance. It also aims to encourage bilateral and multilateral donors, and public and private finance providers to engage in sustainable finance which is incremental or additional to official development assistance (ODA) or support for developing countries and which takes account environmental, social and governance (ESG) considerations when pursuing finance or investment decisions, which in turn leads to sustainable economic projects and activities. The delivery of climate finance with ESG considerations should not detract from new and additional funding for climate actions, which represents the new and increasing



costs of developing countries' necessary technological transformation, adaptation safeguards against actual and projected impacts and unavoidable incremental loss and damage from intensifying climate hazards. This is also planned to be done through knowledge-sharing and active regional discussions.

## B. Regional context

5. Member States of ASEAN, established in 1967, comprise Brunei Darussalam, Cambodia, Indonesia, the Lao People's Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Viet Nam. They collectively make up the third largest economy in Asia and the seventh in the world.

6. The region is also one of the most at-risk in the world to the impacts of climate change due to a variety of factors, which include poverty and high dependency of the national economy on sectors directly affected by climate change. Climate change is already resulting in an increase in the frequency of heatwaves, heavy precipitation, sea level rise and increasing intensity of floods, tropical cyclones and droughts in all ASEAN member States (AMS).<sup>4</sup>

1 Long-term finance decisions: 14/CP.28, 13/CP.27, 4/CP.26, 6/CP.23.

2 10th meeting of the AWGCC, 28 August 2019, Singapore.

3 ASEAN Taxonomy for Sustainable Finance. 2021.

4 IPCC: Climate Change 2022: Impacts, Adaptation and Vulnerability.

7. At the same time, greenhouse gas (GHG) emissions in the region have been increasing due to energy-related CO<sub>2</sub> emissions and GHG emissions from agriculture and land use, land use change and forestry sectors, which are the region's main economic drivers. Diversification away from these sectors may help to reduce GHG emissions.<sup>5</sup>

### C. Climate finance flows and needs

8. AMS comprise diverse countries but are united in the need to facilitate a credible and just transition for the region, while ensuring economic development and poverty alleviation. All AMS nationally determined contributions (NDCs) contain an adaptation component and some loss and damage, demonstrating the importance of the vast quantity of financing needed for the region.

9. Accessing and mobilizing climate finance (including just transition) is a priority for all AMS and most countries require means of implementation (Moi) and support for NDCs and national adaptation plans (NAPs), especially on the nexus and complementarity of climate change adaptation and mitigation objectives. The amount of climate finance needed for this by the region is estimated at USD 422.16 billion by 2030.<sup>6</sup> However, most of the funding needs expressed so far are for mitigation (USD 293.01 billion), followed by adaptation (USD 129.15 billion).

10. Current finance flows into the region are estimated to be between USD 3.2 and 6 billion a year. This indicates that there is a large gap in financing needs and current financing flows.<sup>7</sup>

11. Between 2013 and 2017, 60% of this finance was directed to climate mitigation projects. Most adaptation projects were funded by grants for disaster risk reduction, water and sanitation projects, as well as for the agriculture, forestry and land use sectors. Energy and transport predominated climate mitigation funding.

12. Based on the Technical Assessment of Climate Finance in Southeast Asia,<sup>8</sup> a study developed by AMS, the priority project development sectors for AMS currently include:

- (a) Mitigation:
  - (i) Energy;
  - (ii) Transport;
  - (iii) Forestry and land use;
- (b) Adaptation:
  - (i) Water supply and sanitation;
  - (ii) Public health;
  - (iii) Biodiversity, forestry and watershed management;
  - (iv) Food security (agriculture, livestock and fisheries);
  - (v) Coastal zone protection and marine resources.

13. However, there were challenges identified in the mobilization of and access to available climate finance, which include limited knowledge about sources of funding, lack of needs assessment and inability to meet climate- and sustainability-related requirements imposed by public financiers and private sector investors. Awareness-raising, capacity-building and technical support to help AMS and ASEAN as a region to access climate funds are needed to address these identified challenges. Furthermore, the establishment of a regional coordinating mechanism for accessing climate finance is also necessary to harmonize the climate finance related efforts of AMS. Lastly, comprehensive mapping of funding opportunities both internationally and domestically for each AMS could be useful to improve access to the finance needed to build regional capacity and the necessary infrastructure for mitigation and adaptation.

5 ASEAN State of Climate Change Report. 2021.

6 As determined from NDCs.

7 UNFCCC: Technical Assessment of Climate Finance in South-east Asia. 2022.

8 See footnote 6 above.

## II. Strategic framework

14. The ASEAN Climate Finance Access and Mobilization Strategy is informed by the outcomes of the Technical Assessment of Climate Finance in Southeast Asia.

### A. Goal

15. The goal of the ASEAN Climate Finance Access and Mobilization Strategy is to ensure that climate finance can be effectively accessed, mobilized and scaled up to contribute to achieving the climate goals of AMS in a collaborative manner and in accordance with Article 9 of the Paris Agreement.

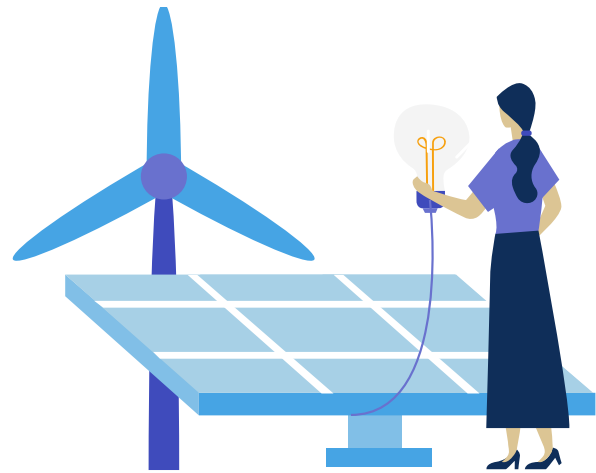
### B. Objectives

16. The objectives are to ensure access to scaled-up predictable climate finance from developed countries consistent with Article 9 of the Paris Agreement to provide opportunities for attracting climate investments and technology transfer and to replicate and expand best practices in climate change adaptation and mitigation in AMS through:

(a) Accessing funding at scale: finance is available globally and in the region. However, it often does not flow to the areas that need it most and at the scale required. The strategy therefore focuses on areas that have been identified as requiring major support;

(b) Collaborative efforts to enable a conducive environment: the region needs to further send positive signals to bilateral and multilateral donors and private finance providers that have the capability to provide climate finance at scale;

(c) Accelerating transition: the urgency of tackling climate change in the region is undeniable. Each country in the region has a role to play to speed up a transition towards a low-carbon and climate-resilient economy. By setting long-term priorities and collaborating effectively on regional initiatives, ASEAN can enhance regulatory certainty for investors, encouraging the crowding-in of private sector investments to support the region's transition. Policy tools relevant for climate change adaptation, mitigation, and loss and damage associated with the adverse effects of climate change can also generate significant revenues that can thereafter be used to support investments and technology transfer aimed at achieving regional and national objectives. Policies aimed at increasing adaptive capacity, such as climate-resilient infrastructure and enhanced climate risk and vulnerability assessment, will make public and private investments resilient to climate change impacts. Aside from these, mitigation policies such as carbon pricing can generate additional funds for interested AMS to further pursue climate mitigation activities;



(d) Tailored support: in a varied and complex landscape with a multitude of funders and beneficiaries, the strategy provides clarity on the areas of capacity-building, technology development and transfer, and enabling environment that require most support. It can provide clarity to climate finance contributors, promote sharing of experience and expertise between countries, provide mutual encouragement and promote a collective understanding. It can also strengthen country-driven approaches for articulating climate finance needs and establish a series of actions to address country-specific gaps in accessing and mobilizing financial support, including support for the development of national climate finance strategies in each country of the region;

(e) A whole-of-nation approach: climate change is a cross-cutting issue and to effectively tackle it, strong coordination and alignment are required, both in country and between neighbouring countries. The strategy contributes to creating an alignment of priorities, thereby reducing trade-offs and maximizing synergies, while reducing duplicative efforts. Resourcing the strategy can foster dialogue between and among relevant ministries to align fiscal and financial policies with a sustainable development pathway, accelerating the implementation of countries' domestic efforts to manage the risks and impacts of climate and environmental change;

(f) Planning and budgeting: identifying priority areas and gaps will facilitate the targeting of policy areas of major intervention needs and the allocation of finance towards such areas. Planning a long-term vision for fiscal budgets and investments may have a significant impact on better policy alignment and coherence. The strategy also aims to help governments to consider budgeting processes and fiscal incentives in a more strategic and climate-oriented manner, including considerations on how to mobilize resources, point out areas of action that are a priority for domestic budgetary support and facilitate



the identification of synergies between adaptation and mitigation measures and fiscal revenues. It can also strengthen the integration of relevant national climate change strategies and frameworks, which will in turn provide a positive signal to private investors.

### C. Key principles

17. The strategy will be guided by the following principles:

- (a) **Collaboration:** the strategy is designed to leverage the collaboration among AMS towards strengthening climate change adaptation and mitigation and building resilience, including by enhancing access to climate finance in the region to support transformative actions;
- (b) **Country ownership:** the strategy is demand-led and responsive to country needs, given that needs and priorities have been identified through an assessment of each country's ambitions and vulnerabilities;
- (c) **Flexibility:** the strategy is a guiding framework which can be adapted to changing circumstances and priorities. This is particularly crucial at a time of recovery from the coronavirus disease 2019 (COVID-19) pandemic;
- (d) **International support:** cooperation between the international public and private sectors through grants, technical assistance, potential sources of funding, including innovative sources, and blended finance will be crucial to meet climate and just transition financing needs of AMS.

### D. Expected impacts of the strategy

18. The expected impacts of the strategy are in alignment with the overarching goal of mobilizing and accessing climate finance, which are to:

- (a) Increase adaptation action, resulting in a decrease in system vulnerability;
- (b) Reduce and avoid GHG emissions through abatement or an increase in carbon stocks;
- (c) Enhance support to address loss and damage associated with the adverse effects of climate change in the region;
- (d) Improve capacity and capability to coordinate climate action across the ASEAN region, access and mobilize climate finance at scale, and direct flows to investment opportunities;
- (e) Enhance support towards preserving or restoring biodiversity;
- (f) Provide support towards the creation, implementation or strengthening of circular economic practices that contribute to a reduction in GHG emissions;
- (g) Enhance capital flows towards investments for mitigation measures to reduce GHG emissions.



# III. Strategic areas of collaborative action

19. The ASEAN Climate Finance Access and Mobilization Strategy is intended to cover the period 2024–2030 and comprises six strategic areas, each with corresponding activities and milestones, as described in the figure below:

## Overview of Strategic Areas of Collaborative Action



## A. Strategic area I: supporting the development of project pipelines

### 1. Action 1: Project pipeline development

#### (a) Rationale:

(a) Many of the needs identified by countries require grant or concessional sources of funding. Improvements in access to both grants and concessional sources of climate finance can help to scale up the mobilization of private sources of finance from domestic, regional and international sources;

(b) To ensure that climate finance is directed towards the most pressing needs of the region, addressing the mitigation, adaptation, and loss and damage needs associated with the adverse effects of climate change that are specific to the ASEAN region, detailed needs assessments will be required for each priority sector and

subsector, as defined in the Technical Assessment of Climate Finance in Southeast Asia. These specific needs will then need to be translated into concrete projects/programmes and matched with the appropriate available financing resources.

#### (b) Activities:

(a) Conduct detailed needs assessments for the priority sectors, including an assessment of technology and capacity-building needs and climate-related disaster risks, to articulate the scope and type of financing support and technology transfer requirements, where feasible;

(b) Devise project pipeline development approaches which ensure that stakeholder priorities, and national needs and priorities, based on the best available climate science, are reflected in the selection and/or screening of priority projects;

- (c) Assess existing project ideas/concept notes and collaborate with both public and private stakeholders to support their development into potential climate project investments through project preparation and documentation;
- (d) Identify potential new project ideas/concept notes through, but not limited to, focus group discussions, sectoral dialogues, workshops, surveys and calls for project proposals that are open to both the public and private sectors;
- (e) Identify the various funding windows that would apply to AMS and match the best available financial instrument and sources of financing to the specific projects and programmes;
- (f) Devise monitoring procedures and develop measures for determining successful outcomes to encourage effective allocation of resources for successful implementation of project ideas/concept notes.

**(c) Deliverables:**

- (a) Completion of a detailed needs assessment for the priority sectors at the regional and/or national level with an approximation of financing and support required;
- (b) Development of a regional project pipeline, in alignment with other ASEAN initiatives such as the Master Plan on ASEAN Connectivity 2025;
- (c) Consolidation of information on the various climate funds and funding windows that would apply to AMS and their procedures for access and criteria for eligibility.

## **2. Action 2: Capacity-building to support pipeline development**

**(a) Rationale:**

20. Given the complexity of identifying and preparing bankable projects for priority mitigation and adaptation sectors that can bring transformational change, support may be required towards improving project development capacity, as well as for maximizing the use of available preparatory and assistance facilities.

**(b) Activities:**

- (a) Facilitate, with the support of project partners, hands-on training programmes to support the development of capacity to prepare project and programme proposals for priority sectors, including on how to structure a proposal to mobilize financing from relevant sectors and institutions;

- (b) Promote the use of standardized project finance documentation templates, such as those available online from Infrastructure Asia, to streamline the project development process in the region;

- (c) Identify sources for grants to support capacity-building in project preparation and documentation;

- (d) Schedule periodic discussions within the AWGCC, and the ASEAN Centre for Climate Change (ACCC) when it has been established, on scientific research and to exchange knowledge on best practices and lessons learned in order to improve the enabling conditions for access to climate finance, including for the private sector;

- (e) Identify and encourage project partners to liaise with public and private finance providers and other relevant investors, including by organizing regional programming dialogues targeted at AMS to support them in building their capacities to respond to and mobilize financial resources and/or to access support for the development and transfer of technologies, tools and resources at the country level in order to support context-specific implementation, where possible;

- (f) Utilize the flexibility of funds directed towards or provided for adaptation and mitigation efforts such as the Green Climate Fund (GCF), which provides support for capacity-building in pipeline development, as well as for identifying and maximizing the use of project preparation support facilities or grants that are available to AMS.

**(c) Deliverables:**

- (a) Deliver regional and/or national training programmes focused on climate project development for AMS;
- (b) Provide support to facilitate access to capacity-building, readiness support and other preparation support facilities for the purpose of regional and/or national pipeline development;
- (c) Schedule periodic discussions within the AWGCC and the ACCC.

## B. Strategic area II: diversification and innovation

### 1. Action 1 Continue to develop innovative blended finance instruments and asset classes to access large-scale financing for just transition, adaptation, mitigation, and loss and damage

#### (a) Rationale:

21. Between 2000 and 2019, around 10% of global climate finance flows mobilized by developed countries for developing countries went to ASEAN countries,<sup>9</sup> based on data published by the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD DAC). Development finance projects where climate solutions for mitigation or adaptation are the principal objective of the project averaged approximately USD 3.2 billion a year between 2013 and 2017. Taking account of other projects that had climate as part of their objectives, flows averaged up to USD 6 billion a year in the region.

22. International climate funds such as the GCF, the Global Environment Facility (GEF) and the Adaptation Fund (AF) have been key finance providers, alongside multilateral and bilateral institutions, primarily the Asian Development Bank (ADB), the World Bank (WB) and the Asian Infrastructure Investment Bank (AIIB), as well as China, the European Union, Germany, Japan and the Republic of Korea, among multiple sources.

23. Domestic public finance can be a major source of finance to support climate actions owing to the impact that public expenditures, procurement, guarantees, insurance and subsidies can have on incentivizing the roll-out of climate technologies and services.

24. However, using the State budget typically presents various difficulties: a required approval from Parliament; the requested finance should not be based on earmarked budget funding and limited to annual cycles of proposal-to-disbursement. Requirements for financing to be compliant with Islamic finance are also elements that need to be considered when accessing and diversifying finance instruments.

25. The use of non-traditional financing mechanisms, which can include the use of blended and innovative blended finance instruments, with the strategic use of scarce public finance as concessionary capital to catalyse private sector investment, is crucial to meet the mitigation and adaptation needs of AMS, as well as to finance green climate and environmentally friendly economic activities and projects within AMS.

26. Climate-aligned financial products and asset classes such as green and transition bonds and, beyond that, innovations in underlying business models, often driven by a new generation of digital technologies including fintech, big data, artificial intelligence and the internet of things, also establish new and aligned market opportunities.

27. Public financing and related policy actions for sustainable development also need to be increased through fiscal policies.

28. At its twenty-seventh session, the Conference of the Parties adopted a decision to establish new funding arrangements, including a fund for assisting developing countries that are particularly vulnerable to the adverse effects of climate change, in responding to loss and damage.<sup>10</sup>

#### (b) Activities:

(a) Facilitate the promotion of fiscal innovation, implementing a range of sustainable fiscal policy options but avoiding further impacts on the economy and on poverty alleviation efforts, especially considering the recovery from the COVID-19 pandemic;

(b) Intensify engagement with development finance institutions, multilateral development banks and bilateral agencies to leverage their instruments and expertise;

(c) Facilitate the development of guidance on how financial institutions, including loss and damage funds, may work with public sector institutions, multilateral development banks and bilateral agencies to explore blended approaches to existing financing structures;

(d) Promote the use of and coordinate policies and peer-to-peer learning between the more developed AMS and Cambodia, the Lao People's Democratic Republic, Myanmar and Viet Nam (CLMV) on innovative financial instruments, such as green and sustainable loans and bonds, sustainability-linked bonds, green stock indices, mutual funds and guarantees, as well as the ASEAN Disaster Risk Financing and Insurance;

<sup>9</sup> ISEAS: 2022. *Climate Finance in Southeast Asia: Trends and Opportunities*.

<sup>10</sup> Decision 1/CP.28, page 2-18.

(e) Facilitate climate alignment of capital markets such as through supporting green, sustainable and transition bond standards for markets, development of sustainable indices and environmental assessment and rating financial products and services;

(f) Facilitate climate alignment of the banking sector through building and disseminating the business case and advisory support for climate finance;

(g) Facilitate climate alignment of institutional investors working at the national level to raise awareness and through leveraging existing platforms for sustainable institutional investors;

(h) Support, where appropriate, the inclusion of Islamic finance elements for activities related to diversification or innovation of financial instruments for sustainable financing, such as Shariah-compliant financing and sukuk.

**(c) Deliverables:**

(a) Development of a range of guidance documents and policies, such as the ASEAN Green Deal, to support the growth of sustainable finance in the region, including best practices in mobilizing climate and transition finance through blended approaches;

(b) Leveraging of existing or creation of new data repositories that can provide guidance documents and policies on best practices in mobilizing climate and transition finance through blended approaches to support sustainable finance;

(c) Creation of regional and/or national facilities such as special-purpose vehicles, dedicated funds, and/or financing hubs or new instruments to mobilize blended finance in collaboration with multilateral development banks, bilateral agencies, development finance institutions and philanthropic organizations;

(d) Instruments such as green and transition bonds are available in most AMS, supported by a baseline inventory of instruments already issued by AMS;

(e) Increased percentage of climate- and environment-aligned private sector investment in most AMS.

## 2. Action 2: Mobilization of private sector finance and alternative financing

**(a) Rationale:**

29. At present, ASEAN has made considerable progress in developing frameworks to facilitate the mobilization of sustainable finance from the private sector towards the region. The ASEAN Capital Markets Forum (ACMF) has published the ASEAN Sustainability Bond Standards, which provide guidance on the issuance of ASEAN Sustainability Bonds. Furthermore, the ASEAN Taxonomy Board (ATB)

has published version 2 of the ASEAN Taxonomy for Sustainable Finance. The taxonomy, which is meant to be a living document, is intended to be a multi-tiered overarching guide and common language used to identify and classify sustainable projects and economic activities in the ASEAN region. It is designed to be an inclusive and credible classification system for sustainable activities to enable orderly transition and fostering of sustainable finance from the private sector.

30. However, to date, private sector investment in climate projects is limited as a proportion of total investment in the region and is insufficient to meet ASEAN just transition needs. The absence of or need for further financial incentives and more robust regulatory frameworks, as well as capacity deficiencies to address climate change challenges, hinders enabling conditions for more private sector investors to participate in development activities.

31. Mobilizing the financial resources of the private sector and institutional investors is key to meeting the need for climate financing in ASEAN: a shift of just 5% of Asian institutional investors' allocation of funding in favour of climate-related activities would create an additional annual flow of USD 8 to 10 billion per year.

32. Other areas of interest include the increasing role of institutional and philanthropic investors, and the progress in developing carbon markets and results-based financing.

33. AMS have also acknowledged the importance of carbon pricing in incentivizing private sector investment in climate projects. Most AMS have some type of carbon pricing mechanism in place. Several AMS Governments, including Brunei Darussalam, Cambodia, Indonesia, the Lao People's Democratic Republic, Malaysia, the Philippines, Thailand and Viet Nam, are in the early stages of setting up national programmes or frameworks in relation to compliance and voluntary carbon markets and carbon pricing. On the development of carbon markets at the ASEAN level, there is also a joint initiative between the ASEAN Working Committee on Capital Market Development (WC-CMD) and the ACMF to develop a voluntary carbon market. As at the 38th ACMF Chairs' meeting in March 2023, this work is still in the study phase.

**(b) Activities:**

(a) Identify barriers and obstacles to scaling up financing for sustainable finance investments from the private sector in ASEAN;

(b) Convene regional dialogues between AMS and private sector participants, including banking sectors to promote financing for sustainable finance, and philanthropic organizations to exchange views on mobilizing private sector investments and on the funding mechanism for loss and damage and transition in ASEAN; and, where relevant and appropriate, establish regional forums to develop and establish partnerships to scale up climate actions in ASEAN. Regional dialogues and events may be conducted in hybrid format to ensure universal participation of AMS;

(c) Enhance the progress as well as the alignment of carbon pricing/carbon credit in AMS while keeping track of the further development of Article 6 of the Paris Agreement;

(d) Advance the work on developing regional and/or national carbon markets, establishing carbon market linkages, as well as other carbon pricing instruments, based on past and ongoing initiatives in the region, including by:

(i) Facilitating the improvement of the carbon market/pricing ecosystem, including by building and aligning measurement, reporting and verification (MRV) standards/systems and conducting relevant capacity-building activities, including establishing a knowledge-sharing platform on MRV in complementarity with past and ongoing initiatives in the region;

(ii) Exploring options for establishing regional carbon market schemes based on past and ongoing initiatives in the region.

**(c) Deliverables:**

(a) Barriers and opportunities for private sector financing in ASEAN are identified and regional approaches for mobilizing private sector finance are mapped out;

(b) Regional dialogues and private sector forums are conducted in hybrid format to mobilize finance and to establish partnerships;

(c) A draft proposal on a loss and damage funding mechanism and instruments for AMS is initiated.

## C. Strategic area III: facilitating access to climate finance

### 1. Action 1: Enhancing inclusive access to international public funding

**(a) Rationale:**

34. A variety of funds and programmes are operational in the ASEAN region, indicating good progress in accessing and mobilizing climate finance. Asia is in fact a priority for many funds, as there are multiple opportunities from large economies that require a high volume of funding.

35. Finance from multilateral organizations such as the GCF has been widely accessed by international accredited entities, such as the WB, the ADB, the United Nations Development Programme and other United Nations agencies. However, there is a strong need to enhance the capability of these multilateral organizations, national implementing entities, and subnational implementing entities where relevant, to facilitate and provide access to finance directly, quickly and in an affordable manner. Increased capacity in this direction allows for increased country ownership, more accelerated progress of action to address mitigation and adaptation needs and related initiatives, as well as more equitable and sustainable solutions.

36. A whole-of-society approach, rather than a whole-of-government approach, can also be undertaken to ensure that grassroots-level climate interventions implemented through civil society organizations, non-State stakeholders, including but not limited to Indigenous Peoples, persons with a disability, youth, academic/research institutions, and/or subnational and local governments, community-based organizations and the private sector are aligned with national needs and priorities, and can access the appropriate financing.

**(b) Activities:**

(a) Identify and nominate potential national (for AMS without national direct access entities) and/or regional entities to bilateral and multilateral entities that have the capacity to deliver projects/programmes in line with regional priorities and programmes;

(b) For member States with nominated entities in the accreditation pipeline: with the support of project partners and representatives of bilateral and multilateral entities, avail readiness support to strengthen the capacities of potential direct access entities from the region through institutional gap analysis of applicants against the fiduciary standards, safeguards and compliance policies of bilateral and multilateral entities and the provision of structured trainings to address the gaps;

(c) Support the ability of direct access and regional entities to develop bankable project proposals, pipelines and country programmes that combine funding from international and domestic funds and have safeguards mainstreamed at the project level, including through peer-to-peer learning networks at the ASEAN regional level;

(d) Draw wider attention to the existence of climate financing facilities and incubators such as the GEF Small Grant Programme and others that can be tapped into by non-governmental institutions in the country, including small and medium-sized enterprises, non-State stakeholders and local governments, and facilitate access as needed;

(e) AMS to maximize the existing readiness/capacity-building-related funding facilities to further facilitate access to climate finance through innovative capacity-building activities, for example, those related to the private sector, policy gaps, subsectoral and subnational needs;

(f) Collect information on best practices on climate financing management in the region and compile the information through a comprehensive report published regularly.

(c) Deliverables:

(a) ASEAN accredited direct access entities to climate change funds to have at least one project approved by a climate fund by 2030;

(b) Peer-to-peer learning exchange and establishment of a network between direct/regional access entities in ASEAN, starting in 2030.

## D. Strategic area IV: cohesion and harmonization of policy

### 1. Action 1: Continue to progress relevant alignment initiatives related to climate finance in the ASEAN region

(a) *Rationale:*

37. Each AMS has put in place policies and directives on climate change to achieve their NDC.

38. At the ASEAN level, there is ongoing work to develop the ASEAN Green Map, which will serve as an overarching framework to guide the development of a sustainable finance ecosystem in ASEAN, taking into account initiatives by other sectoral bodies of the ASEAN Finance Integration Process and other relevant initiatives such as the ASEAN Framework for Circular Economy and the ASEAN Strategy for Carbon Neutrality.

(b) *Activities:*

(a) Assess current efforts across the region in climate finance related policies and databases and explore avenues for coordination to reduce duplicative efforts and foster a cohesive agenda across the region;

(b) Foster collaboration among AMS to promote sustainable finance in the region, including through supporting the development of a regional taxonomy for sustainable finance such as the ASEAN Taxonomy for Sustainable Finance;

(c) Establish a regional platform under the AWGCC or ASEAN that can ensure data-, information- and knowledge-sharing and technology development and transfer across ASEAN bodies, dialogue partners, communities of practice, networks, groups of scientists/academics, local and subnational governments, as well as civil society organizations and the private sector on climate finance.

(c) *Deliverables:*

(a) Support efforts to align initiatives related to sustainable finance such as the development of the ASEAN Green Map and the ASEAN Climate Vision 2050;

(b) An ASEAN-focused regional platform for climate finance related knowledge exchange is created by 2026.

## E. Strategic area V: capacity-building and enabling environment

### 1. Action 1: Build capacity and address barriers to propel access to climate finance

(a) *Rationale:*

39. Capacity gaps and lack of training are hindering stakeholders, including financial institutions and policymakers, from fully grasping opportunities arising from the climate transition.



40. Based on the Initiative for ASEAN Integration & Narrowing Development Gap (IAI & NDG), the IAI Work Plan IV (2021–2025) has laid down the measures and actions through which the more developed AMS – supported by ASEAN partners and international organizations – provide the necessary support and technical assistance to Cambodia, the Lao People’s Democratic Republic, Myanmar and Viet Nam (CLMV) to narrow their capacity gap.

41. Financiers often lack understanding of the environmental implications of the economic activities that they invest in, while economic actors (capital seekers) are limited in their understanding of the risk factors (e.g. credit, country, counterparty) that underpin financing and investment decisions. These challenges can hinder the successful matching of projects and capital, constraining the volume of finance that can be mobilized for investment in mitigation and adaptation action.

42. The overall needs are varied across sectors, countries, and themes, but common capacity-building needs have been identified.

43. The action points below are directly derived from the document entitled Technical Assessment of Climate Finance in Southeast Asia, which serves as an annex to this strategy document.

**(b) Activities:**

- (a) Conduct a structured training course or module and peer-to-peer learning between more advanced AMS and the CLMV AMS or leverage available capacity-building carried out by relevant workstreams such as the Workstream on Capacity-Building carried out by the ASEAN Senior Level Committee (SLC) Taskforce on Sustainable Finance and under the ASEAN Learning Roadmap for Sustainable Finance rolled out in 2021, to provide continuous training to public officials and staff in financial institutions in AMS on the topic of sustainable finance;
- (b) Enhance planning capacity and institutional governance tools to promote public and private sector action on climate change mitigation and adaptation;
- (c) Monitor and evaluate procedures, costs and benefits (environmental, economic and social) and overall climate governance;
- (d) Develop integrated national climate finance strategies (planning) that correspond to NDCs;
- (e) Provide technical assistance in developing regional and national sustainable financing road map(s).

**(c) Deliverables:**

- (a) Trainings are conducted and technical assistance for narrowing the capacity gap between more advanced AMS and the CLMV AMS provided across common needs such as on green banking, climate finance, as well as planning and institutional governance related to climate change;
- (b) Leveraging of existing or creation of new data repositories that provide material for capacity-building to support efforts to propel access to climate finance;
- (c) Barriers are addressed through enabling policies and strategies, such as integrated national climate finance strategies that correspond to NDCs and the development of green banking law.

## F. Strategic area VI: transparency and integrity

### 1. Action 1: Strengthen current practices across the region in measurement, reporting and verification (MRV) and monitoring and evaluation (M&E) systems including in developing consistent systems for NDC implementation

**(a) Rationale:**

- 44. Transparency and accountability, by facilitating the effective flow of information, tracking and reporting, are necessary to assess change in financial sector investment patterns.
- 45. At the national and subnational levels, MRV and M&E systems are a crucial aspect of NDC implementation to identify sources and flows of finance and ensure that they are directed to the intended beneficiaries.
- 46. The performance of climate finance analysed from the data sets provided by the MRV and M&E systems of AMS can lead to potential improvement of climate finance flows in the region.
- 47. Given the reporting requirements mandated by the Paris Agreement, countries need to ensure the consistency of climate finance for MRV & M&E systems.

**(b) Activities:**

- (a) Mapping of existing policies and best practices related to MRV and M&E systems in ASEAN and encouraging cross-learning of methodologies;
- (b) For countries without an MRV system, in line with national priorities, establish government-led nationwide annual climate finance MRV as part of the national budget system (e.g. through budget tagging and other methods) across AMS and ensure that these reports are publicly available;



(c) Provide assistance to AMS to develop consistent MRV and M&E systems based on national circumstances.

**(c) Deliverables:**

(a) AMS to implement an MRV/M&E system to track climate finance received in the light of the NDC goals in accordance with Article 13 of the Paris Agreement, such as through budget tagging, with publicly available periodic reports where possible;

(b) Establish measures to ensure the consistency of MRV and M&E systems across AMS, aligned with the methodologies under Article 13 of the Paris Agreement and the enhanced transparency framework.

**2. Action 2: Further initiatives to develop voluntary, consistent environment-related financial risk disclosures for use by financial institutions and corporations in providing relevant information to investors, lenders, insurers and other stakeholders**

**(a) Rationale:**

48. Corporate governance guidelines in AMS are generally well structured and cover the key pillars of good corporate governance. There is also notable progress in the harmonization of climate and sustainable finance regulations and guidelines; at the ASEAN level, the publication of the ASEAN Taxonomy for Sustainable Finance and its version 2 aims to address the need for harmonized disclosure standards for environment- and climate-related financing. At the international level, the International Financial Reporting Standards (IFRS) released the IFRS Sustainability Disclosure Standards in June 2023, which can provide a common language for sustainable finance for AMS. However, at the national level, some countries have no existing regulations or industry guidelines at all. Currently, Singapore has set out expectations for financial institutions to make climate-related disclosures, Indonesian authorities are providing sector-level guidelines and issuing regulations on sustainable finance and Malaysia will set out initiatives for mandatory climate-related financial disclosures by financial institutions.

49. The unequal progress is also due to there being a need for clarity and clear definitions over what can be considered “green”, “sustainable” or “transition” economic activities in AMS. This need can be partially addressed by having a green or sustainable finance taxonomy. A science-based definition of which investments are “green”, “sustainable” and “transition”, which is interoperable with other international taxonomy standards, could strengthen investor confidence on the credibility of economic activities in the region. Without this, the search costs for investors,

banks and companies looking to invest will continue to be high, and internal budgeting, accounting and performance measurement functions will struggle to allocate capital towards green/climate projects and assets.

50. The availability of market-relevant environmental information can enhance the ability of financial institutions in making investment decisions. Many financial institutions around the world, through organizations such as the Glasgow Financial Alliance for Net Zero, have committed to the goal of net zero by 2050 and are taking steps to align their financing activities with this target.

51. As identified above, it is necessary to strengthen the ability to track green financial flows, and to link flows to market behaviour, characteristics and architectures, to enable sustainability performance metrics to be embedded in assessments of financial system performance.

**(b) Activities:**

(a) Develop or further refine AMS national green or sustainable finance taxonomy, in the light of the recently published version 2 of the ASEAN Taxonomy for Sustainable Finance, and facilitate comparability and interoperability of these taxonomies across AMS;

(b) Stocktake efforts and current practices at the national and regional level on climate-related financial disclosures and corporate GHG accounting;

(c) Explore initiatives to foster transparency and alignment of climate-related disclosure standards within the region with international developments such as the recommendations of the Task Force on Climate-related Financial Disclosures and the International Sustainability Standards Board to facilitate better monitoring of how financial companies incorporate ESG factors into their investment decisions.

**(c) Deliverables:**

(a) All AMS to establish or adopt a green or sustainable finance taxonomy in line with relevant ASEAN taxonomy or disclosure standards to facilitate sustainable finance transition in their domestic economies;

(b) Alignment of regional climate and/or sustainability disclosure standards with international developments such as the Task Force on Climate-related Financial Disclosures recommendations, the IFRS Sustainability Disclosure Standards and the International Sustainability Standards Board.

## IV. Institutional arrangements and governance

52. Each AMS has established institutions, working groups, or similar organizations to coordinate climate change actions. Most are established as a juridical entity that cuts across different ministries and agencies, and can include a variety of non-governmental stakeholders as well.

53. At the ASEAN level, the AWGCC has been established under the ASEAN Senior Officials on Environment (ASOEN) and ASEAN Ministerial Meeting on Environment (AMME) to enhance regional cooperation on climate action. Owing to the cross-sectoral nature of climate change issues, climate change is also addressed by other relevant working groups / sectoral bodies in the environment sector (such as environmentally sustainable cities, water resources management and nature conservation and biodiversity), finance sectors and beyond (such as agriculture and forestry, energy, transport, science and technology, and finance integration).

54. The ASEAN Climate Finance Access and Mobilization Strategy is expected to be implemented by AWGCC under the guidance of ASOEN and AMME, with the support of the ASEAN Secretariat, in coordination with other relevant working groups / sectoral bodies. Support from and close coordination with relevant ASEAN sectoral bodies and partners, including international/regional organizations engaged in climate and finance issues, are key in supporting the implementation of the strategy. Relevant ASEAN sectoral bodies may include, but are not limited to:

- (a) The ASEAN Senior Officials Meeting on Energy;
- (b) The ASEAN Senior Officials on Forestry;
- (c) The Senior Officials Meeting of the ASEAN Ministers on Agriculture and Forestry;
- (d) The ASEAN Senior Officials Meeting on Rural Development and Poverty Eradication;
- (e) The ASEAN Senior Transport Officials Meeting;
- (f) The ASEAN Commission on the Promotion and Protection of the Rights of Women and Children;
- (g) The ASEAN Committee on Disaster Management;
- (h) The ASEAN Committee on Women;
- (i) The ASEAN Finance and Central Bank Deputies Working Group Meeting (AFCDM-WG);
- (j) The ASEAN Connectivity Coordinating Committee;
- (k) The ASEAN Task Force on Peatlands;
- (l) The ASEAN Intergovernmental Commission on Human Rights;
- (m) The ASEAN Task Force on Carbon Neutrality<sup>11</sup>



55. Other relevant organizations may include, but are not limited to, the ADB; the Asia-Pacific Economic Cooperation; the Asia Pacific Partnership; the ASEAN Capital Markets Forum (ACMF); the ASEAN Working Committee on Capital Market Development (WC-CMD); the ASEAN Senior Level Committee on Financial Integration (SLC); the ASEAN Insurance Regulators Meeting (AIRM); the ASEAN Taxonomy Board (ATB); the South East Asian Central Banks (SEACEN) Research and Training Centre; the South Asian Association for Regional Cooperation; the United Nations Economic and Social Commission for Asia and the Pacific; the UNFCCC Regional Collaboration Centre for Asia and the Pacific, and the United Nations Resident Coordinator Offices.

<sup>11</sup> Forthcoming as of date of publication

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