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ASIAN DEVELOPMENT OUTLOOK 2021

Financing a green and inclusive recovery

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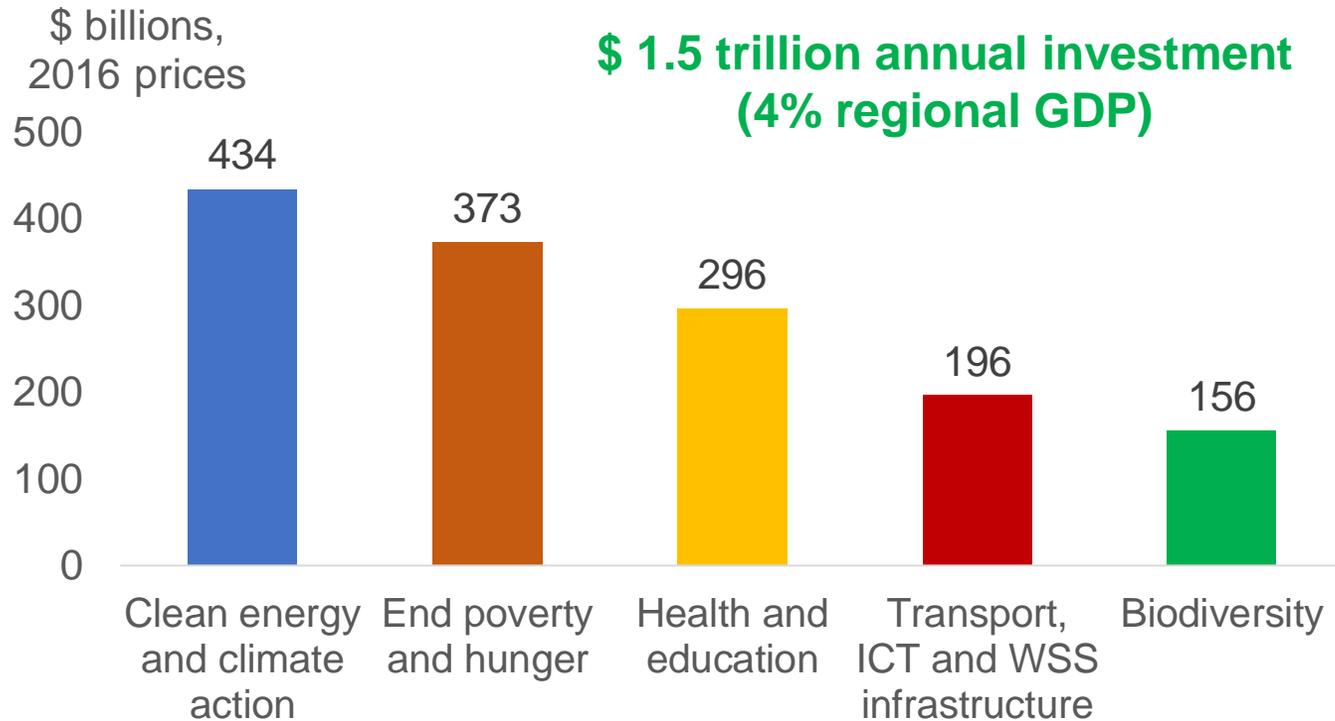
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Building back better requires green and social finance

Asia Pacific region's annual investment requirements, 2016-2030, to meet SDGs (by broad SDG sectoral groupings)



ICT = information, communications and technology, SDG = sustainable development goals, WSS = water, sanitation, and safe water. Source: UNESCAP (2019).

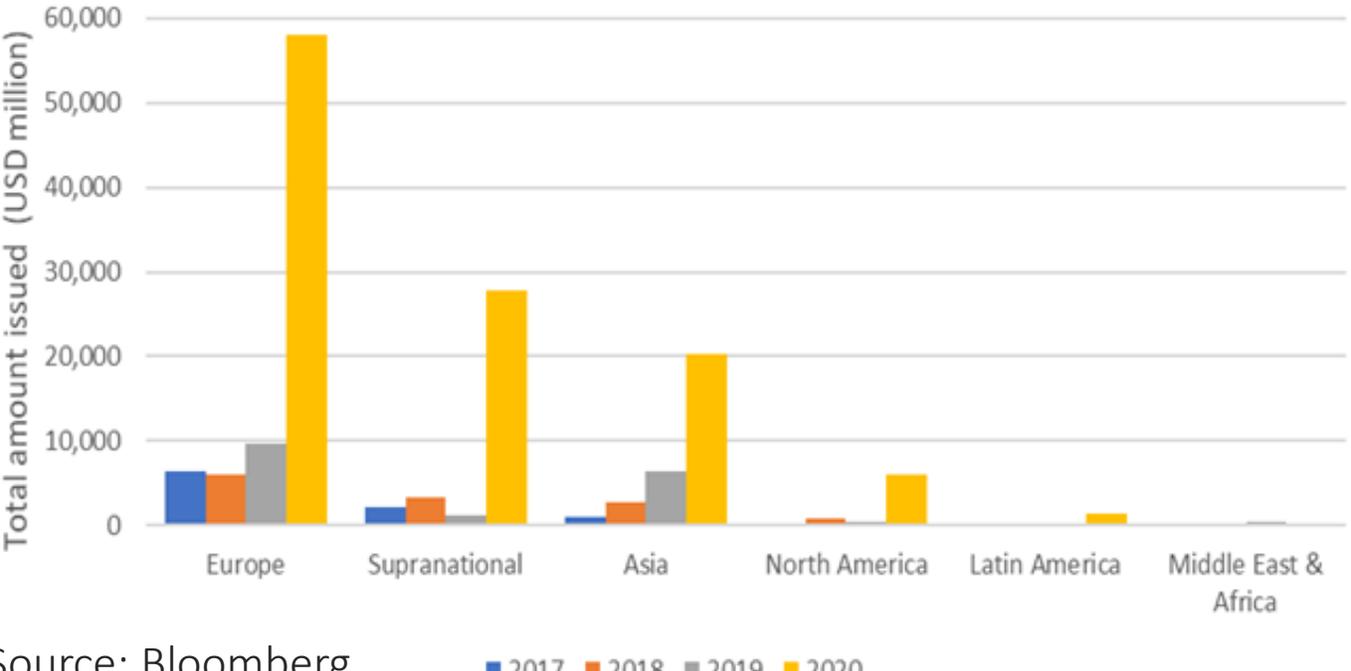
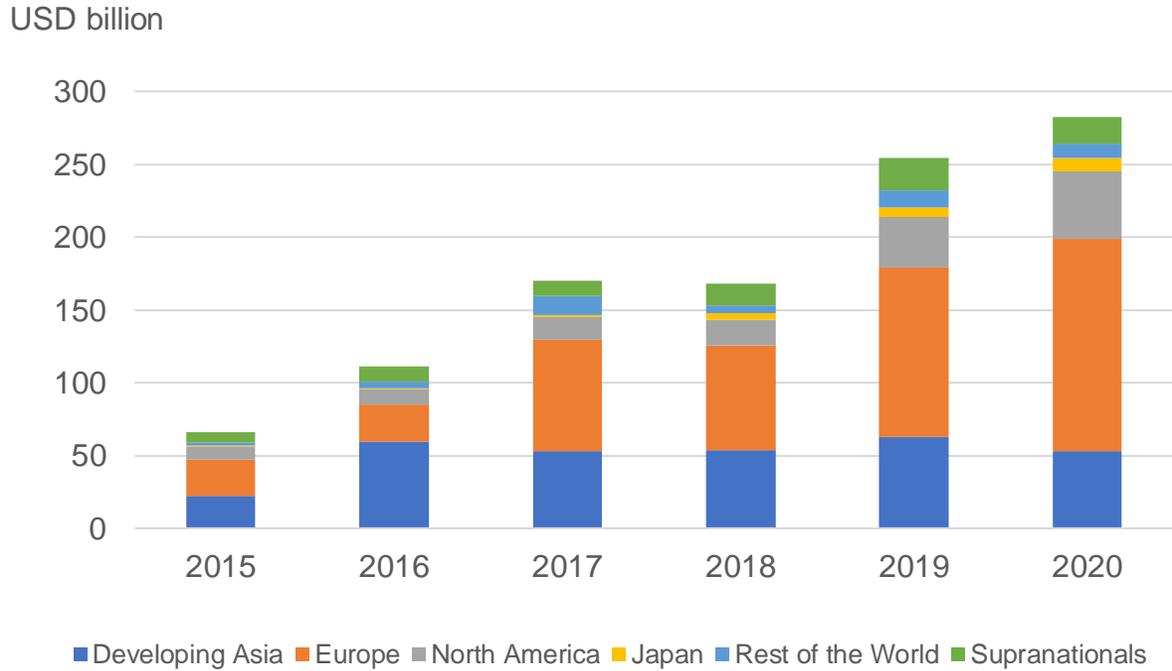
- Developing Asia needs to build back better
- Green and social finance are specifically targeted toward SDGs
- With limited public resources, private capital must be mobilized.

Green and social finance, especially from private sources, grew rapidly in recent years

- Advanced economies still dominate the global green and social finance landscape.
- But developing Asia leads emerging markets in terms of green, social and sustainability bonds, as well as regulation and policy guidance.

Global Green Bond Issuance by Region, 2015-2020

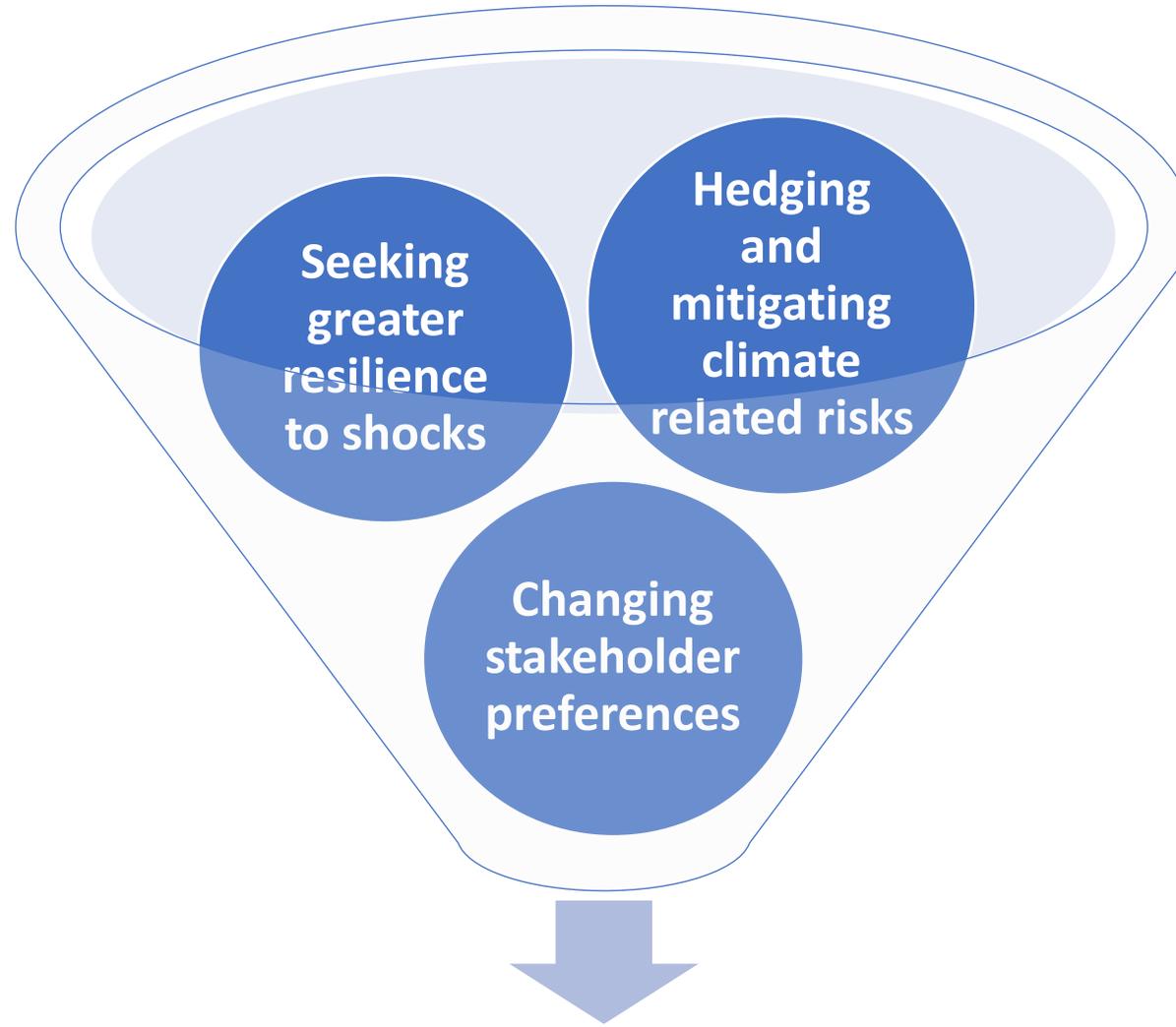
Global Social Bond Issuance by Region, 2017-2020



Source: Bloomberg

■ 2017 ■ 2018 ■ 2019 ■ 2020

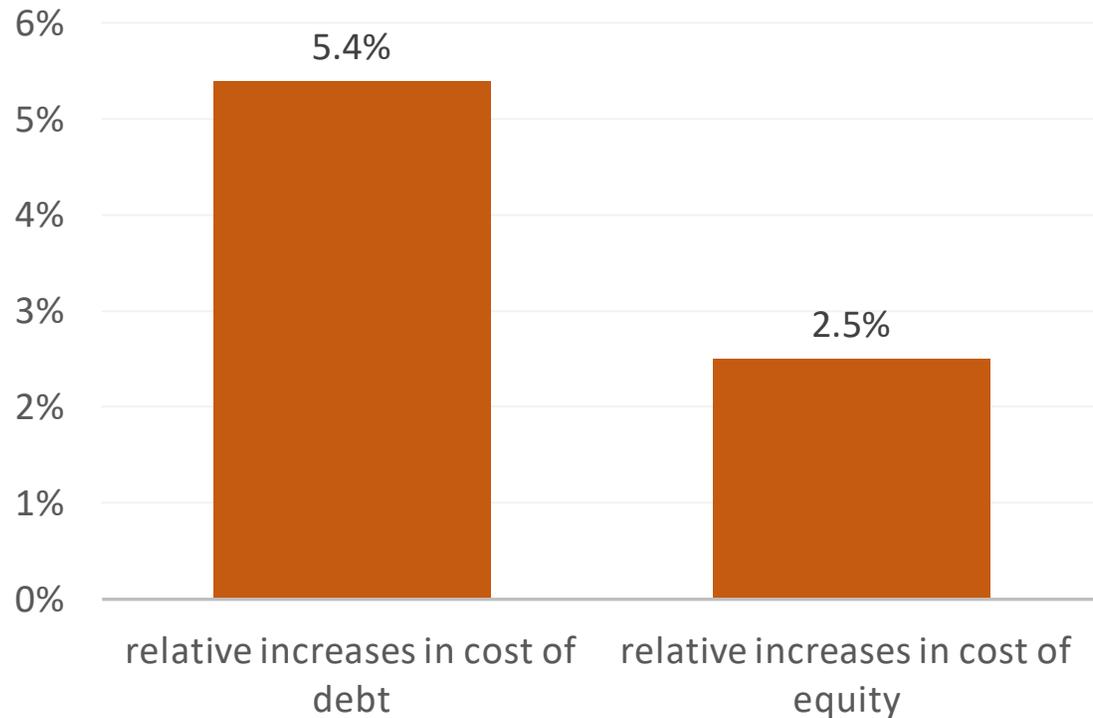
Both economic and non-economic factors drive green and social finance



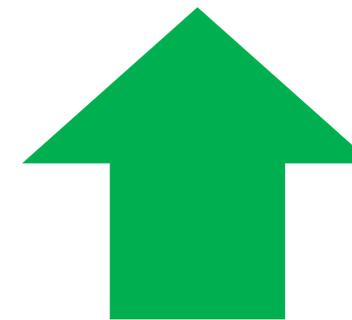
Increased demand for and supply of green and social finance

Financial motives are driving companies and investors towards sustainable activities

After the ratification of the Kyoto Protocol, high emitting Australian firms witnessed increase in relative financing costs



Stock prices respond positively to green bond issuance announcements in Asia



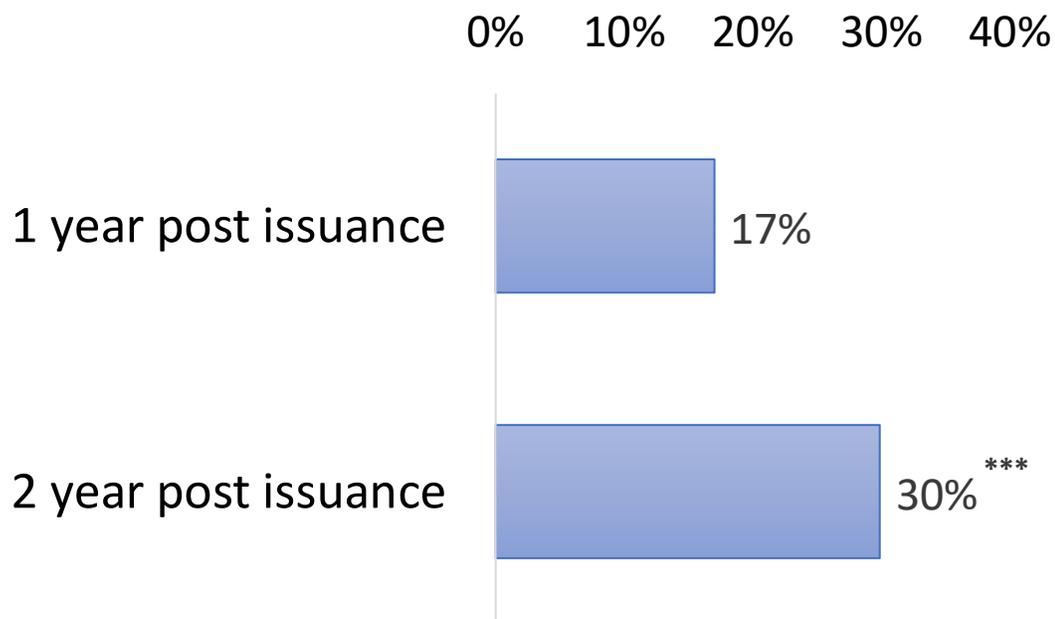
0.5% 16-day cumulative abnormal stock return around announcement of green bond issuance (8% annualized)

Green finance sends a credible signal of commitment to environmental impact

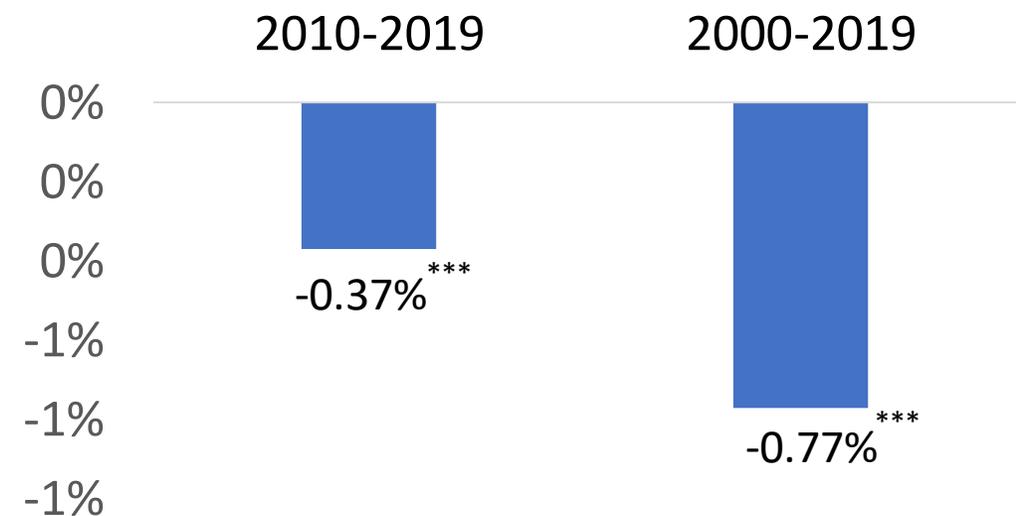
At the firm level, Asian green bond issuers improved their average environmental performance score by 17% and 30% one year and two years after green bond issuance.

At the market level, countries witnessed a decrease in carbon emission after the first green bond issuance in the market.

Percentage change in environmental score after green bond issuance



Average percentage reduction in CO2 emissions across different countries after first green bond issuance for two sample periods



Private capital helps achieve efficiency and effectiveness of social programs via innovative funding mechanisms

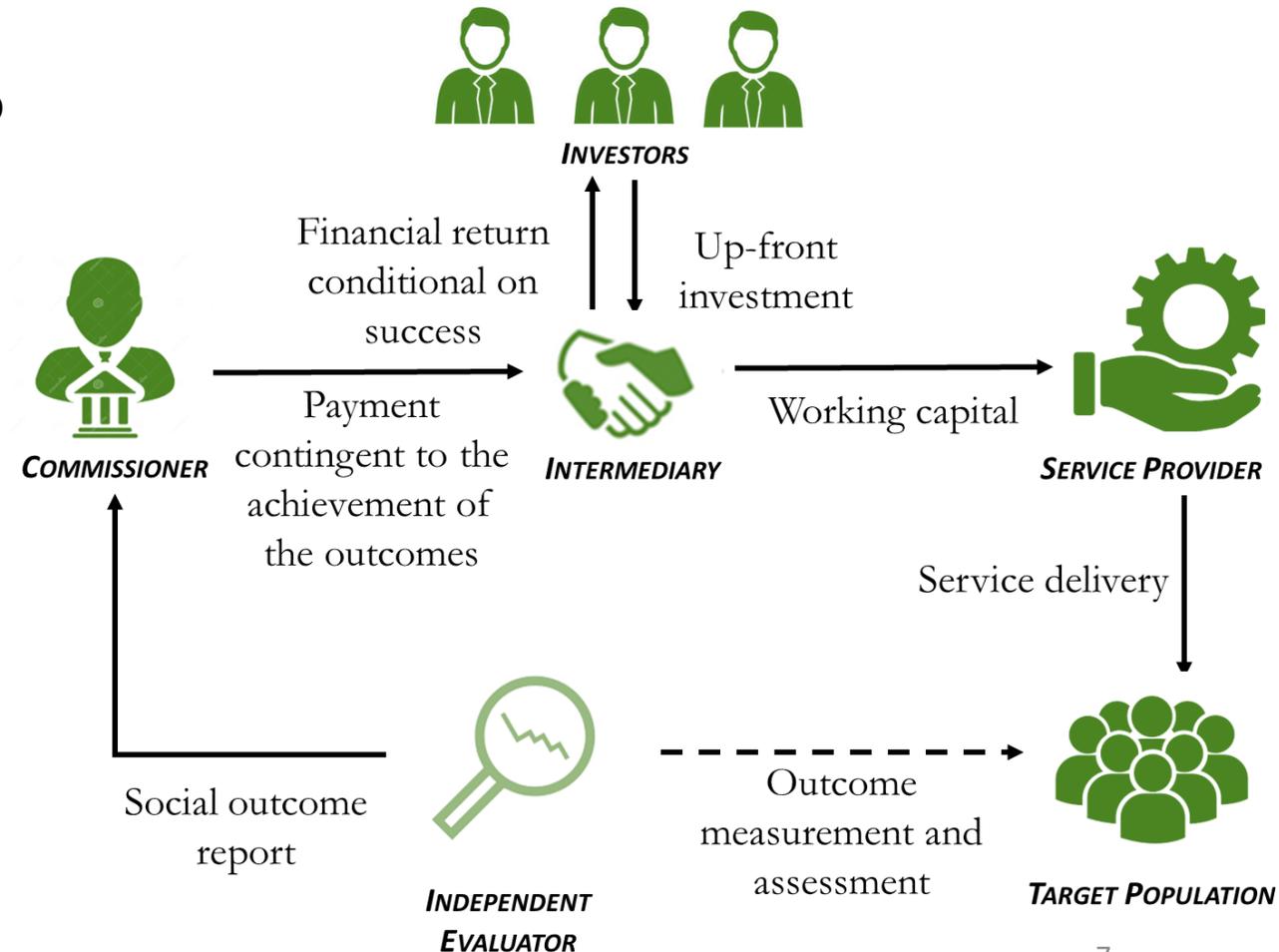
Impact bonds are emerging as innovative instruments for social programs

- payment-by-results contracts which are a partnership between investors, service providers, and outcome payers
 - “Educate Girls” Development Impact Bonds in India

Multilateral development banks can be a catalyst for unlocking green and social finance

- Participate in the market
 - Provide direct financing and catalyze additional public and private capital
 - Deliver innovative financing solutions
- Develop the market
 - Build market infrastructure and ecosystem
 - Strengthen policy, knowledge and capacity

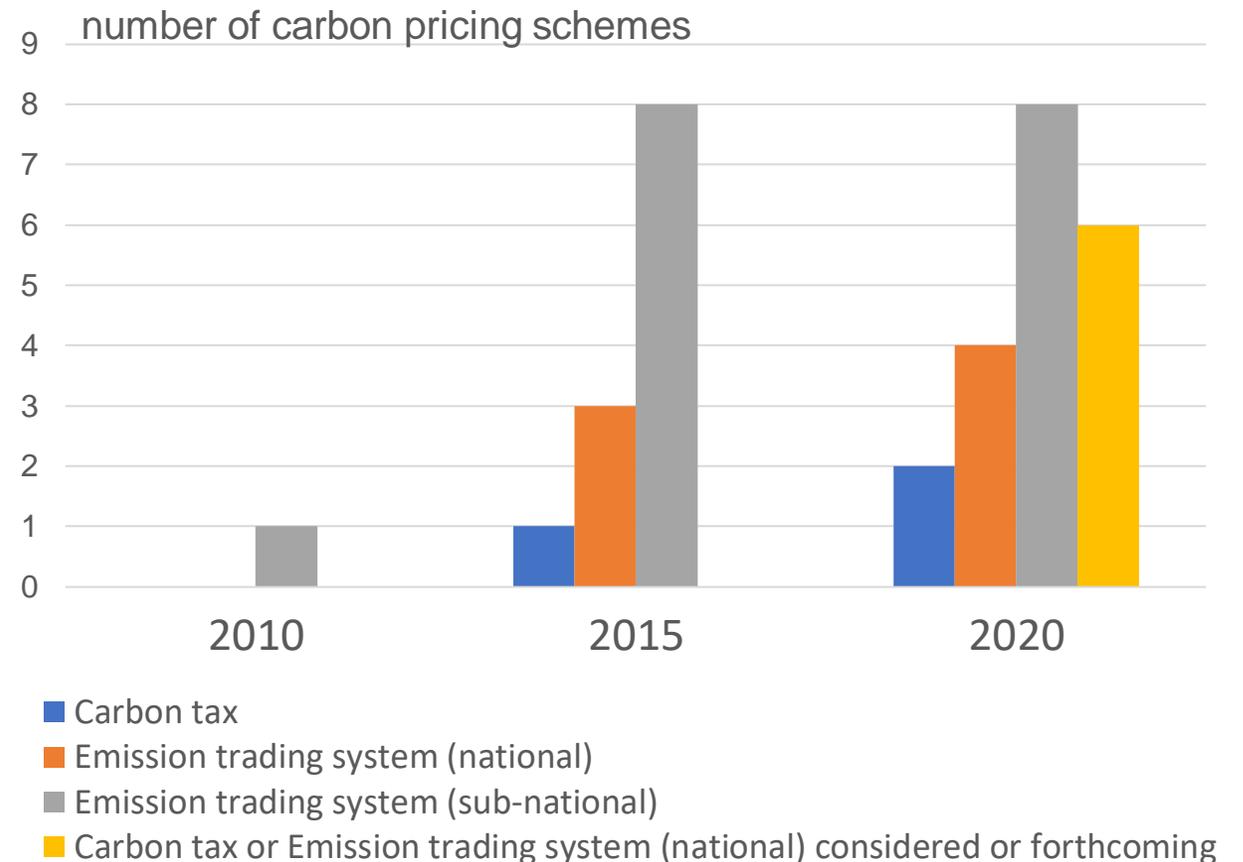
A typical Social Impact Bond (SIB) structure



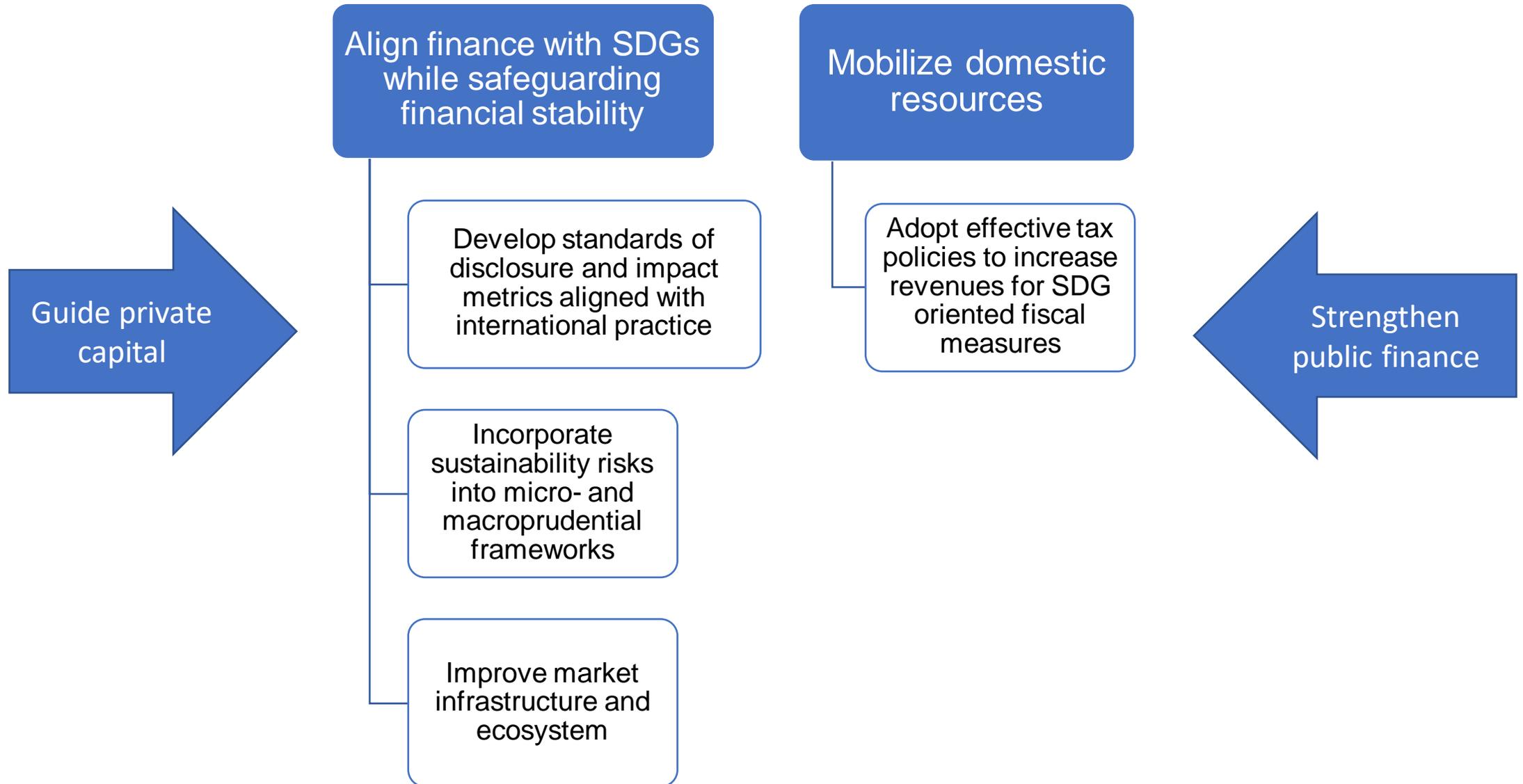
Multiple funding and instruments complement and catalyze private capital

- Fiscal revenues for SDG-oriented public spending remains important
- Microfinance provides vital financial services to underserved groups
- Carbon pricing helps to close the funding gap during the low-carbon transition

Asia & Pacific sees a growing momentum in the use of carbon pricing instruments



Policy options for nurturing green and social finance in Asia





Key Messages

- A green and inclusive post-COVID-19 recovery requires mobilizing public and private capital.
- The rapid growth of private green and social finance in recent years is increasingly driven by financial considerations.
- Evidence confirms positive environmental and social impacts of sustainable finance in Asia.
- Engaged public policy is central for nurturing social and environmental finance. Policy to enforce common standards of disclosure and impact measurement will significantly benefit the market.