Regional Online Academy:
Clean and Inclusive Energy Transitions in the Context of Green Recovery in Southeast Asia

MODULE 3

FINANCING CLEAN ENERGY PROJECTS IN SOUTHEAST ASIA

QUICK FACTS

Indonesia, Philippines, Thailand, and Vietnam account for 75% of South-East Asia's greenhouse gas emissions.

There is a strong correlation between energy consumption and GDP in South-East Asia, suggesting that energy is a critical component of economic development.

Project funding from the Green Climate Fund (GCF) can be accessed only through an Accredited Entity (AE).

Most of the Co-financing for GCF funded projects in Southeast Asia is made up of loans

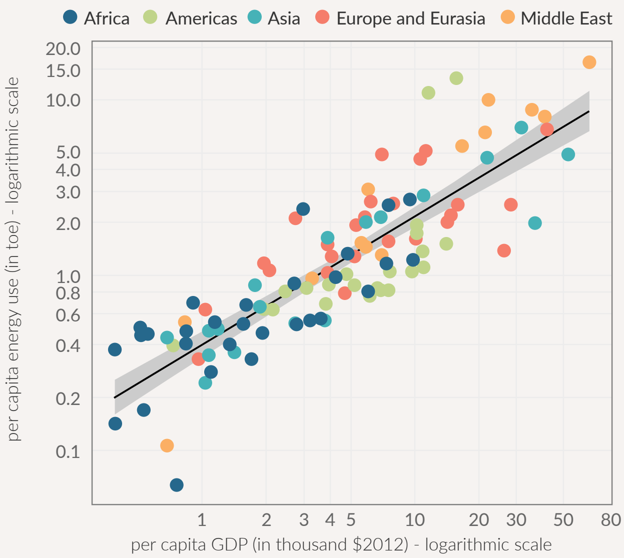
The most used financial instruments to finance clean energy projects in Southeast Asia are:

- Loans
- Equity
- Grants
- Guarantees

The Need for a Clean Energy Transition in Southeast Asia

Globally, fossil fuels account for over 75% of greenhouse gas emissions (United Nations). In South-East Asia, Indonesia, Philippines, Thailand, and Vietnam account for 75% of the region's greenhouse gas emissions (World Resources Institute). Therefore, transitioning to an energy mix that is dominated by clean energy is highly important for these four countries. Historically, research has also shown that there is a strong correlation between energy consumption and GDP, suggesting that energy is a critical component of economic development (Kabeyi & Olanrewaju). Additionally, pursuing a low emission path in the energy investments for these four countries will be instrumental in achieving their Sustainable Development Goals (SDGs) by 2030.

GDP vs. energy use per capita in 2016 (ex. OECD countries)



Source: International Energy Agency, World Energy Indicators

Financing Clean Energy and De-Risking Clean Energy Investments

The financial instruments that are being used the most by the public and private sectors to fund clean energy are: loans; equity; grants; and guarantees. In general loans make up a large part of the clean energy funding mix due to the commercial viability of clean energy investments. Different risks and barriers, such as off-taker credit risk, specialized skills shortages, and high exposure to regulatory risk can frustrate the process of setting up and funding clean energy projects. However, there are various measures which governments can take to mitigate risks and lower market barriers at entry. These include establishing standardized Power Purchase Agreements (PPA), tax exemptions, establishing feed-in tariffs, investment into education and training schemes designed to increase the clean energy workforce pool and streamlining regulatory requirements at national level.

Green Climate Fund (GCF) Financing

The Green Climate Fund (GCF) is a multilateral climate fund, created under the United Nations Framework Convention on Climate Change (UNFCCC), to support the funding of climate action in developing countries.

Clean energy projects in Indonesia, Philippines, Thailand, and Vietnam can access GCF funding through Accredited Entities (AE)*. Some examples of active AEs in these countries include the Asian Development Bank (ADB), GIZ, and the International Union for Conservation of Nature (IUCN). When submitting a funding proposal, the project owners will have to justify the climate rationale – mitigation and/or adaptation, of their project. Failure to adequately do so would likely lead to their request being rejected.

Additionally, projects submitted to GCF must align with the following 6 investment criteria: impact potential; paradigm shift potential; sustainable development potential; needs of the recipient; country ownership; and efficiency and effectiveness. Most GCF funded projects in South-East Asia received most of their funding in the form of a loan, with equity being the next most common financial instrument used by projects.

ACTIVE GCF ACCREDITED ENTITIES (AE) IN SOUTHEAST ASIA

- Asian Development Bank (ADB)
- FMO: Dutch Entrepreneurial Development Bank International Union for the Conservation of Nature (IUCN)
- Pegasus Capital Advisors
- World Bank Group

*An Accredited Entity is an institution or organization, approved by the GCF, to develop funding proposals to be considered by the Fund and oversee, supervise, manage, and monitor their respective GCF-approved projects and programs.

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On behalf of
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