Leong Sing Chiong: Achieving scale and impact in transition finance

Opening remarks address by Mr Leong Sing Chiong, Deputy Managing Director (Markets & Development) of the Monetary Authority of Singapore, at the COP29 Singapore Pavilion, Finance Day, Singapore, 14 November 2024.

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Distinguished guests, ladies and gentlemen, good morning. Thank you for joining us at the Singapore Pavilion on Finance Day.

We know that transitioning our energy systems and economies to achieve net zero will require massive capital investments into new technologies and infrastructure.

- Yet, global financial flows for climate action continue to fall short of targets – an estimated USD 1 trillion per year from external sources is still needed to adequately support emerging economies in their transition to net-zero[1].

We therefore need to take action today that can generate enduring results and achieve long-lasting impact.

- At last year's COP in Dubai, we announced a few key initiatives, including the launch of the Singapore-Asia Taxonomy (SAT), the Transition Credits Coalition (TRACTION), and the Financing Asia's Transition Partnership (FAST-P).
- These initiatives are quite unique. They are unique because we are not just looking to generate financing solutions to meet Singapore's transition needs. We are also asking what key building blocks we need to put in place to enable Singapore's financial centre to better support Asia's decarbonisation.

Today's programme will showcase the progress that we have made on two fronts – one, in accelerating the energy transition through innovative solutions in blended finance and carbon markets, and two, putting in place enablers to strengthen financing flows across borders and segments of the economy. Let me provide some updates on these areas.

Accelerating the Energy Transition

First, energy transition. The International Energy Agency (IEA) estimates that Asia's energy demand will increase by more than 60% by 2040[2]. With Asia accounting for about half of the world's carbon emissions[3], we need to transform our fossil-based energy system into a low-carbon one to power Asia's long-term economic growth in a sustainable manner.

However, many climate projects in the region are not fully bankable, and public sector funds alone will not be enough to finance the energy and green transition in Asia. We need a concerted movement to crowd in both concessional and commercial capital if we are to succeed in advancing Asia's energy transition.

Recognising this, Singapore announced the Financing Asia's Transition Partnership, or FAST-P, at COP28.

- FAST-P is a blended finance initiative which aims to mobilise up to USD 5 billion to de-risk and finance green and transition projects in Asia.

- The Singapore Government announced this week that it will pledge up to USD 500 million as concessional capital, to match dollar-for-dollar, concessional capital raised from other partners.

- This combined pool of concessional capital will be used to crowd in commercial capital and other sources of finance to accelerate financing flows to support Asia's green transition.

FAST-P will focus on important areas of green and transition investments in Asia. Earlier this week, we have announced that we are developing three programmes.

First, the Energy Transition Acceleration Finance partnership.

- Asia's energy demand continues to grow by about 3% annually[4]. But 85% of the region's energy consumption comes from fossil fuels[5], and new coal plants continue to be built to keep pace with Asia's energy demand.
- We will need financing to encourage new plants that are not yet built, to be substituted by renewable energy sources. We will also need to encourage existing sponsors to shorten the life of their existing plants.
- Commercially, these endeavours will not be viable, but this is where blended finance, with a lower blended cost of capital, can improve the economics of these transactions.
- The Energy Transition Acceleration Finance partnership is jointly developed by Asian Development Bank (ADB), the Global Energy Alliance for People and Planet (GEAPP) and MAS. We are currently in discussions with Clifford Capital to be the manager of this programme.
- This partnership seeks to finance energy transition projects such as grid modernisation and development projects, and the managed phase-out of coal assets with renewable energy replacement.

Second, the Green Investments partnership.

- In Asia, it is estimated that approximately 10% of green projects are bankable, with an additional 35% marginally bankable.
- There are many infrastructure projects that are sound, but not able to secure commercial financing for reasons such as a lack of investor familiarity, or operating in countries with less developed regulatory frameworks.
- Blended finance can help enhance project bankability and crowd in commercial capital.
- For the Green Investments partnership, International Finance Corporation (IFC), MAS, Temasek, and Allied Climate Partners have come together as joint partners, and it is managed by Pentagreen Capital.

- The programme seeks to finance marginally bankable green and sustainable infrastructure in Asia, such as renewable energy and storage, electric vehicles, transport, and water and waste management.

The third partnership is the Industrial Transformation programme.

- Urbanising Asia requires vast investments in infrastructure and the built sector. Regional economies are also reliant on air and sea transport for supply chain connectivity.
- But these involve production activities from corporates and sectors that are carbon intensive.
- Helping these companies and sectors improve their carbon efficiency is critical.
- MAS is pleased to partner IFC and Blackrock to develop the Industrial Transformation programme (ITP).
- This aims to finance carbon emissions reduction efforts in hard-to-abate sectors, technology solutions for low carbon transformation, and low carbon industrial opportunities.

The concept of blended finance is not new. But it has mainly been deployed at the project or transaction level. We think that there is scope to scale blended finance through a platform-level approach, where capital can be aggregated and blended, then efficiently deployed to regional projects in a more streamlined manner.

This is what we aim for FAST-P to do.

- It will be an operating platform where concessional capital will be aggregated to create scale, and where risks are better diversified across use cases at the portfolio level.
- Beyond the initial crowding in of both concessional and commercial capital, we see a further multiplier effect over time where some marginally bankable use cases could "graduate" from the need to have concessional capital.
- This can happen as risks are better mitigated after an initial phase of development, and emerging technologies have scaled to be commercially viable.

Since its launch, FAST-P has achieved good momentum, attracting reputable partners.

- A number of other partners are close to finalising their investment due diligence to commit concessional capital, which will be matched by the Singapore Government.
- With this strong support, FAST-P aims to commence commercial fundraising early next year, and make its first investments by the next COP.

Later today, the Singapore Pavilion will feature a blended finance segment, where there will be a showcase of each FAST-P partnership.

Next, an update on our transition credits initiative.

Transition credits can be a powerful lever to improve the economics of managed phaseout of coal plants. These can be generated from the emissions reduced through the early retirement of coal plants and replacing them with cleaner energy.

At COP28, MAS announced the formation of the Transition Credits Coalition (TRACTION) to examine the enablers needed for transition credits to be a viable financing solution.

TRACTION will launch its interim report later this afternoon. This distils the insights gathered from discussions among TRACTION members and experts involved in coal transition and carbon credits over the past year. It seeks to address three key issues:

- First, building a supply of high integrity transition credits.
  - The report highlights four common high integrity attributes across different coal phaseout financing guidelines, taxonomies, and draft transition credit methodologies. These are:
    - Demonstration of additionality;
    - Permanent emissions reductions and no emissions leakage;
    - Robust verification and monitoring of emissions reduced; and
    - Contribution to Just Transition and SDGs.
  - It also spells out, for the first time, the considerations for how sectoral and project-based crediting approaches can complement each other to support coal transition globally.
- Second, building market demand for transition credits.
  - Different categories of buyers would have different requirements. For instance,
    - Voluntary buyers who purchase credits to meet climate targets or contribute to global climate action, may prefer credits relevant to their businesses, including credits from the geographic locations of their value chains.
    - Compliance buyers need transition credits to meet their environmental integrity criteria and be approved for use under the requisite regime.
  - A good appreciation of these factors will allow transition credits to be better positioned to tap on a broader base of buyers.
  - The report will share preliminary observations on buyers' considerations for transition credits, and build on this next year as we expand consultations with a wider group of prospective buyers.
- Third, developing viable and replicable transition credits transactions.
  - To scale the use of transition credits, we need replicable risk management solutions and structures. The report thus sets out transition credit-specific risks that stakeholders face across a transaction lifecycle and considers possible financing structures and risk mitigation solutions to address them.

In our engagements with the industry, stakeholders are most concerned with the risk of timing mismatch.

- Timing mismatch is where financing is needed upfront to structure the early coal phaseout, but cashflows from the sale of transition credits are only realised later when the coal plant is retired and replaced.
- This mismatch is significant in Asia, given the profile of young coal plants in the region.

Addressing this will entail a combination of conventional and innovative instruments, such as:

- Carbon credit insurance, to protect against the risk that the issued credits are invalidated and reversed due to unavoidable events; and
- Advance market commitments, to signal credible demand for transition credits. Frontier is an example that is used for catalysing supply of carbon removal projects. With $1bn committed by members such as Stripe and Alphabet, they have contracted $346m worth or 635 kilotons of removal credits[6].

To test these ideas, there are two pilot transactions in Philippines that can provide practical insights to TRACTION from ground considerations. We are pleased to see the progress made on the pilots.

- For instance, ACEN Corporation signed an MOU with GenZero and Keppel in August this year, to undertake a development study to explore utilising transition credits to facilitate the early retirement of South Luzon Thermal Energy Corporation coal plant.
- This follows the Article 6.2 MOU agreement between Philippines and Singapore, to pave the way for bilateral carbon credits trading.

This report is by no means final. There remain many areas that need to be considered and expanded on, including the important issue of how Just Transition elements can be designed and implemented. By COP next year, TRACTION hopes to conclude its work with a final report for transition credits transactions to be scaled.

We welcome feedback on the interim report and remain on the lookout for more use cases to pilot transition credits.

Strengthening Cross Border Financing Flows

Beyond new financing solutions to accelerate the energy and climate transition, we have also made progress in two other key building blocks - aligning taxonomies to facilitate cross border sustainable and transition financing flows, and tapping on insurance solutions for additional risk mitigation.

Taxonomies are key building blocks to establish a common definition on what constitutes green or sustainable activities. Yet, the current global landscape is diverse and fragmented, with over 50 different taxonomies in place or are being developed[7].

To facilitate more seamless cross-border sustainable financing flows, Singapore designed our Singapore-Asia taxonomy to be interoperable with other international taxonomies, while maintaining some room to cater to Singapore's and the region's context. This includes supporting hydrogen-ready Combined Cycle Gas Turbine Plants as a transition activity, as Singapore steps up its clean investments.

I am happy to share that we have also taken a further step by working with the EU and China to develop the Multi-Jurisdiction Common Ground Taxonomy (or M-CGT) under the International Platform for Sustainable Finance (IPSF). This enhances the comparability of taxonomies across the EU, China and Singapore.

- Market participants can refer to the M-CGT to assess activities that could be considered green across the three jurisdictions.
- The M-CGT can also serve as a reference framework for other jurisdictions who are developing their own domestic taxonomies, and can accommodate more jurisdictions' taxonomies as they are developed.
- To find out more about this, please stay on for the next item at the Singapore pavilion - this will be hosted by the IPSF where you can witness the launch of the M-CGT.

In addition to taxonomies, we also see scope to tap on insurance solutions to unlock financing at scale. Many climate projects are located in emerging markets with key risks, ranging from project, country, regulatory and geopolitical risks. Insurance can play an important enabling role to mitigate such risk dimensions, and bring projects within the risk thresholds of commercial investors.

- Political risk cover is particularly needful for investments in emerging economies. The Multilateral Investment Guarantee Agency (MIGA) has been playing a key role here, and the formation of the World Bank Group's one-stop guarantee platform housed under MIGA will make this political risk cover more accessible to investors.
- Other insurance solutions can be in the form of parametric insurance covers, as well as pre-Final Investment Decision insurance, such as technology performance guarantees and counterparty credit covers. These can help support the certainty of revenue flows, improving the bankability, risk management, and resiliency of renewable energy and decarbonisation projects.
- To facilitate broader adoption of such solutions, MIGA and the insurance industry can work closely with infrastructure project developers to develop new risk assessment frameworks, risk engineering methodologies, and sector-specific solutions.

Do keep a lookout for the panel moderated by the Singapore Sustainable Finance Association, as well as other showcases by financial institutions.

A Vision Rooted in Collaboration

In closing, let me offer some personal reflections.

Scaling finance, achieving regional and global impact is hard work.

- First, it requires tackling chokepoints and addressing dependencies across various areas and disciplines. Just look at the range of initiatives that I touched on – from blended finance, transition credits, taxonomy, and insurance solutions.
- In each area, it requires great skill and determination in convening, in solutioning, and in spurring collective action.
- Second, it requires each individual stakeholder to lean forward and step outside your individual mandates when we come together to solution for the whole. Optimising individually for your own agenda may sub-optimise the collective agenda. Optimising for the whole may require some give and take but can open up real pathways to achieving scale and impact.

As mentioned earlier, MAS takes a broader view of what Singapore's financial centre can do to support the region's transition to net zero.

- In our own way, we have tried to leverage on our convening power to pull diverse stakeholders together, draw the ecosystem tighter, to achieve scale and impact.
- In a do-nothing scenario, each stakeholder will do their own thing, put in their best individual efforts, but things will remain subscale.

But if we can all leverage on our respective convening powers and work in concert, we can do bigger and better things - where every investment drives progress, every partnership amplifies impact, and every effort collectively creates the momentum to bring us closer to our shared goal of creating an enduring impact for a better and greener tomorrow.

Thank you.

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[1] How maximizing green finance flows to developing countries could tackle global warming, World Economic Forum (WEF), 2024

[2] World Energy Outlook, IEA, 2022

[3] Global Energy & CO2 Status Report, 2022

[4] Statistical review of World Energy, Energy Institute, 2024

[5] ADB, GEAPP and MAS to establish Energy Transition Acceleration Finance Partnership in Asia, Global Energy Alliance for People and Planet, 2023

[6] https://frontierclimate.com/progress

[7] Harnessing taxonomies to help deliver sustainable development, paper 1: leveraging the potential of sustainability taxonomies and avoiding the pitfalls, Deloitte and World Business Council for Sustainable Development, 2024