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Sumitomo Mitsui Banking Corporation

Asia-Pacific Needs to Address Funding Gap for Renewable Projects in Net-Zero Journey, New Study Finds

SINGAPORE, September 22, 2022 – Countries in Asia-Pacific will need to address the funding gap for renewable energy projects in order to accelerate transition to a net-zero future, according to a new study by Sumitomo Mitsui Banking Corporation (SMBC) and Economist Impact.

Many of the bottlenecks to a clean energy transition reported by senior level executives across Asia-Pacific are economic. The top three challenges that Asia-Pacific countries face in their energy transition are the higher cost of renewable energy (39%), lack of funding for renewable energy (33%), and the lack of clarity over long-term profitability (33%).

Weaning the Asia-Pacific region off its dependency on fossil fuels will require trillions in investment and innovative financing will be fundamental in helping the region meet its renewable energy goals. The Asia Investor Group on Climate Change (AIGCC) estimates that the investment gap for Asia's energy supply to achieve net-zero is between US\$26 trillion to \$37 trillion cumulatively from 2020 to 2050.

Titled 'Accelerating the energy transition: how governments and the private sector in Asia-Pacific are driving the shift to a low-carbon future', the study combines qualitative and quantitative analysis, including a survey of 450 executives across nine countries in Asia-Pacific, to examine how the public and private sectors are driving the transition to a net-zero future, as well as the significant challenges facing the energy transition.

Uneven progress across the region

Across the Asia-Pacific region, there are vast country-by-country variations in energy transition, as nations strive to reduce fossil fuel use amid growing domestic electricity demand. While the majority of countries in the Asia-Pacific region have some form of renewable energy national policy, most often for specific renewable energy sources, the study reveals that they largely lack a comprehensive and credible transition plan.

Further, emerging economies will require significant funding to wean national dependencies on cheap fossil fuels used domestically and exported. Political hesitancy is likely to slow the removal of fossil fuel subsidies, particularly in emerging economies where they cushion the poorest against the impact of rising energy costs. Breaking the dependency on fossil fuels, which is the backbone for some economies and the ticket to faster industrialization, will not only depend on capital but also on political will.

Greater access to innovative financing needed to fund transition

Almost half of survey respondents (46%) believe that government support through subsidies is a viable instrument to fund the green energy transition. According to supporting research and expert interviews, this is particularly the case where a project does not achieve bankability or financial viability, and poses risks to investors. However, only a quarter of respondents (25%) said that they currently rely on subsidies to fund

their companies' energy transitions, using internal funding and corporate social responsibility (CSR) initiatives instead.

Rajeev Kannan, Co-Head of Asia Pacific Division, Sumitomo Mitsui Banking Corporation, said: "ESG considerations have only grown more prominent in recent times, driven by the energy crisis, geopolitical tensions, and rapid climate change. With this report, we wanted to dig deeper into the considerations and drivers for the adoption of renewables, common challenges and bottlenecks. The findings shed light on how we may advance this transition by tailoring access to finance, technology innovation and ecosystem collaboration, to name a few solutions.

Looking ahead, more innovative financing will be needed to bridge the investment gap and accelerate the region's net-zero ambitions. As a global financial solutions provider, sustainability has always been foundational to SMBC's business, and we remain committed to supporting companies and governments to fund the region's clean energy transition, and continuous innovation for a better and greener future."

Better regulatory framework and technology advancement critical to accelerate transition speeds

More comprehensive regulations and policies are needed to support Asia-Pacific countries in achieving their energy goals over the next five years. Over a third of survey respondents (40%) report that a clearer renewable energy regulatory framework – which provides clarity on aspects such as tariffs and renewable purchase obligations (RPOs), and promotes grid connectivity and the development of the market – is what is most needed in their transition journey.

Technology will be critical in fast-tracking decarbonization across the region, with over three quarters of respondents (83%) prioritising the adoption of green technologies to support the energy transition, collaborating with innovative technology partners to accelerate climate awareness and solutions, and investing in the research and development of new energy solutions. Storage technologies, electrification of vehicle fleets, energy efficiency and digital grids were cited by experts and survey respondents as levers to help achieve decarbonization targets.

Other solutions highlighted in the report include:

- Skilling the workforce to develop and adapt to new energy technology
- Increasing regulatory governance for market-based instruments such as renewable-energy certificates to offset carbon emissions
- Increasing research and development budgets from both governments and the private sector, as well as greater support for green projects in the pilot phase, to ensure that critical technologies reach commercialization faster
- Overhauling traditional grid structures to adopt robust infrastructure such as decentralized "off-grid" systems and smart grids, to improve transmission and distribution of renewable sources

The path to a low-carbon future in the Asia-Pacific region is not a simple one, but the region has seen some encouraging success. Moving forward, progress to a net-zero future will be dependent on governments and businesses to step up swiftly on their decisions and actions to shape the road ahead.

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Additional Resources

- Read the report: <https://impact.economist.com/sustainability/net-zero-and-energy/accelerating-the-energy-transition-apac>

About the Study

Accelerating the energy transition: how governments and the private sector in Asia-Pacific are driving the shift to a low-carbon future is an Economist Impact report based on research undertaken between March and June 2022, sponsored by Sumitomo Mitsui Banking Corporation (SMBC). The report contains key insights on the transition to clean and renewable energy in nine countries in the Asia-Pacific region, derived from extensive desk research, a primary research survey and expert interviews, produced by a team of Economist Impact researchers and editors.

About SMBC

Headquartered in Tokyo, Sumitomo Mitsui Banking Corporation (SMBC) is a leading global financial institution and a core member of Sumitomo Mitsui Financial Group (SMBC Group). SMBC is one of the largest Japanese banks by assets, with strong credit ratings across our global integrated network spanning over 41 countries and regions, 16 of which are here in Asia. We work across SMBC Group to offer personal, corporate and investment banking services to meet the needs of our customers. Built upon our rich Japanese heritage, we put our customers first and provide seamless access to, from and within the region. For more information, please visit <http://www.smbc.co.jp/asia>

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