35th Asian Shadow Financial Regulatory Committee Statement

January 13th, 2020 – Singapore

Blue and Green Solutions to Climate Change

1. The Committee acknowledges that climate change is the most urgent global issue we face at this time and it is already upon us. Recent events in the Asia-Pacific region, including the decision to move the Indonesia capital city due to rising sea levels, massive bushfires in Australia and California, and unprecedented flooding in Japan highlight the diversity of climate change manifestations and their environmental and economic consequences.

2. There has been significant discussion of the agricultural and land-based impacts arising from rising temperatures and changing weather patterns, particularly for developed countries. However, globally, fisheries and aquaculture make a significant contribution to the food security and livelihoods of millions of people. Of particular concern in the Asia-Pacific region are the impacts of climate change on these countries and communities bordered by the vast Pacific Ocean.

3. The Asia-Pacific region contains the world's longest coastlines. Consequently, there are very significant impacts on fisheries and aquaculture from rising sea levels and warming oceans. In developing countries, where dependency on fisheries, both as a source of livelihoods and protein in diets is greatest, the Asia-Pacific region is particularly vulnerable due to their coastal populations numbering in the billions.[1] Globally, the fraction of marine fish stocks within biologically sustainable levels has declined dramatically from 90 percent in 1974 to 66.9 percent in 2015, but the effect has been more intense in developing countries[2].

4. While attention to the impacts of climate change in developed countries

[1] Of the countries with the longest coastlines in the world, Indonesia and the Philippines stand out for being middle-income, developing countries.

[2] See FAO (2018): http://www.fao.org/3/i9705en/I9705EN.pdf and
Ye and Gutierrez (2017): https://www.nature.com/articles/s41559-017-0179

tends to focus on urban-based real estate and land values, in middle-income developing economies, there are significant welfare effects on small and micro enterprises (SMEs) and small-scale farmers and fisher folk. These sectors usually represent those with the lowest income, so there are significant policy implications with respect to poverty alleviation and addressing income inequality.[3]

5. Larger firms, in both developed and developing economies, have access to risk and financial management products, which allows them to mitigate or diversify risks that arise from climate change. Typically, however, the SME sector and poor households do not have the same access to these products and, consequently, remain vulnerable to financial risks arising from climate change. They also generally lack the ability to hedge or mitigate against climate change impacts.

6. There are broader impacts associated with climate change for financial system stability and the long-term viability of financial institutions, especially banks and insurance companies. These include exposures to higher default and transition risks due to increased uncertainty in the income streams from the entire value chain, leading to potential losses in the manufacturing, agricultural and fishery sectors.

7. The existential risk arising from climate change necessitates urgent action by governments, regulators and financial sectors to address and mitigate climate change impacts. The ADB suggests that the scale of funding needed to meet these urgent challenges within the Asia-Pacific region is of the order of USD 40 billion per year between now and 2050. Existing initiatives by multilateral development banks in the Asia-Pacific region have currently mobilised USD 6.5 billion for climate action in developing countries, of which only USD 2.5 billion has been earmarked for the Asia-Pacific region. The World Bank has provided worldwide only USD 20.5 billion for fiscal year 2018 but agreed to provide USD200 billion over the next 5-years.[4]

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[3] There are existing development agencies that have expressed concern over financial inclusion and SME access to enabling technology,
(e.g. UN Sustainable Development Goals:
https://sustainabledevelopment.un.org/?menu=1300).

[4] See ADB discussion on climate financing, climate change and disaster risk management:
https://www.adb.org/themes/climate-change-disaster-risk-management/issues/climate-

8. To meet the apparent funding gap of more than USD 1 trillion over the next 30-years, we recommend the establishment of an Asia Climate Fund (ACF) initially under the auspices of ASEAN+3.

    a. The primary objective of the ACF is to support the establishment of "blue-green" infrastructure, facilitate investment and the adoption of technologies to mitigate the region-wide impacts of climate change and to meet agreed climate targets. This could include compensation for losses incurred in such technology adoption.

    b. We envisage the ACF to have a corporate structure with the Asia-Pacific regional governments participating as stakeholders. It should work collaboratively with existing multilateral development banks and government initiatives and to actively engage with the private sector.

    c. In addition to equity provided by regional governments, additional funding for the ACF can be provided by very long term blue and green bonds, with maturities in excess of 30 years, guaranteed by governments and arranged by central or private banks in the Asia-Pacific region.

    d. Furthermore, the ACF could provide credit-guarantees for blue-green projects undertaken by participating corporate entities. Income from the credit-guarantees could be used to support initiatives of the ACF.

    e. Participating governments could also levy an environmental tax to reflect the externalities associated with environmental damage. These taxes could be used to both provide additional support for ACF activities, as well as initiatives to mitigate the damage associated with climate change.

9. The ACF should also undertake an environmental surveillance function to measure, monitor and assess environment impacts and compliance.

10. It is critical that the climate change footprint of households, SMEs, and public and private sector corporations be measured. We recommend that

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financing.
https://www.worldbank.org/en/news/press-release/2018/12/03/world-bank-group-announces-200-billion-over-five-years-for-climate-action

regional governments formally introduce standardized disclosure requirements that better measure these impacts.

a. There is a critical need for stakeholders, particularly regulators, shareholders, rating agencies, banks, and insurance companies, to have information from disclosure requirements in order to make informed investment and capital allocation decisions and properly assess environmental and financial risks and opportunities.

b. The disclosure requirements, at a minimum, should include the recognition of environmental risk stemming from business activities. The relevant government agency can propose a baseline disclosure template. This template should cover a firm's carbon footprint, management actions, projects, targets relating to the carbon footprint, or broadly relating to environmental impact, past performance and targets. In addition, the governance, organizational structure overseeing the Environmental, Social, and Governance (ESG) strategies and policies of firms should be monitored.

c. We also recommend additional voluntary disclosure of environmental impacts to ratings agencies, and other stakeholders such as employees, communities, etc.

d. The ACF can also be deployed to support the development of an international ESG matrix and monitor/assess the performance of participating entities.