POLICY BRIEF

GENDER-RESPONSIVE FINANCING SOLUTIONS FOR SUSTAINABLE AND RESILIENT ENERGY AND FOOD SYSTEMS IN ASIA-PACIFIC

ESCAP
Economic and Social Commission for Asia and the Pacific

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For further information on this policy brief, please address your enquiries to:
Oliver Paddison
Chief, Section on Sustainable Development and Countries in Special Situations
Office of the Executive Secretary
Economic and Social Commission for Asia and the Pacific (ESCAP)
Email: escap-css@un.org

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1. INTRODUCTION

Transitioning towards sustainable and resilient energy and food systems in Asia and the Pacific presents opportunities to advance gender equality. Adopting a gender lens in solutions and policy initiatives on energy and food system transformations is especially critical in the current polycrisis context (figure 1) as the COVID-19 pandemic, climate emergency, the Russian invasion of Ukraine and the cost-of-living crisis have particularly threatened women's livelihoods, health and wellbeing.

The shocks of the polycrisis have heightened inequalities within countries. High food and fuel prices have led to uneven welfare implications, including income losses, employment disruptions, nutrition setbacks and the potential widening of gender gaps. Failure to address these multifaceted shockwaves could result in persistent disparities.

The ESCAP-ADB-UNDP 2023 SDG Partnership Report sheds light on how countries in the Asia-Pacific region have experienced fragility in their food, energy and finance systems undermining years of progress in reducing hunger and providing energy access. The report also explores opportunities to redirect the region towards a more sustainable, inclusive and resilient future by transforming the interconnected energy, food and finance sectors to achieve the Sustainable Development Goals (SDGs).

To navigate present and future crises, the region requires inclusive and coordinated transformations in energy, food and finance systems, as current systems are not robust enough to withstand shocks. These transformations require close collaboration at the regional, national and subnational levels, aiming to minimize trade-offs and maximize synergies within the energy-food-finance nexus and prioritizing inclusivity and ensuring equitable progress.

The flow of finance is key to whether inclusive transitions in energy and food systems are well supported. Given pressures on existing financial mechanisms and the rising risk of debt crises that many countries in the region are facing, new financing models must be explored to bolster resilience and propel the region towards achieving its development objectives. Amid the multiple crises, there is an urgent need for a more fit-for-purpose financing framework that utilizes both public and private finance to advance

Figure 1: Polycrisis presents opportunities for long-term change in energy and food systems

Source: Asia-Pacific SDG Partnership Report 2023 progress on SDGs. The achievement of food security, adequate nutrition, energy access and renewable energy for all, requires the creation of fiscal space for gender-responsive investment and financing.

This policy brief will explore the impact of the polycrisis on financing for the SDGs and present examples from the Asia-Pacific region of how financing can be oriented to support inclusive and gender-responsive transformations in energy and food systems.

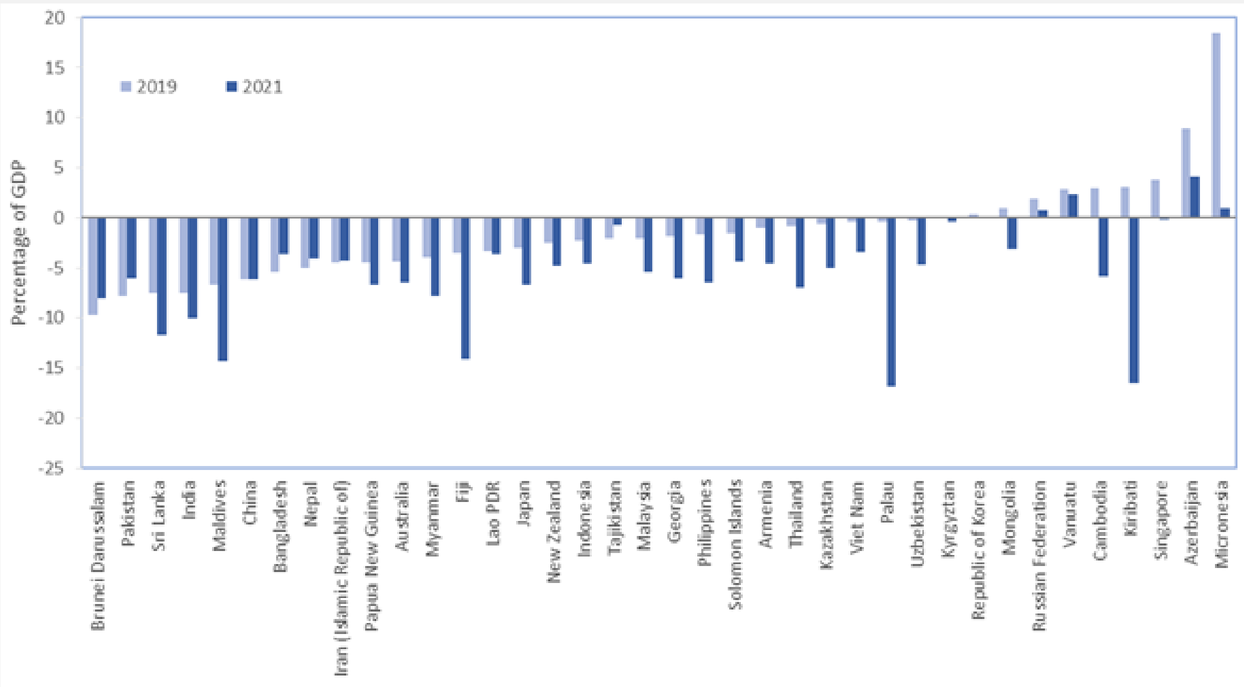
2. IMPACT ON SDG FINANCE

The financing gaps for achieving SDGs have widened significantly in developing countries. Estimates point to a global gap of $4.3 trillion per year from 2020 to 2025, a $400 billion increase from the 2019-2020 projections (UNCTAD, 2022). For food systems, for example, in addition to underinvestment in climate-smart agriculture, most existing resources disproportionately support mitigation measures instead of adaptation strategies, despite the latter's vital importance. Accelerating progress towards Goal 7 on affordable and clean energy also requires significant financing, focusing on two main pillars: (i) clean power, efficiency, and electrification; and (ii) transition in fuel and emissions-intensive sectors (IEA, 2021).

The polycrisis has resulted in significant losses in government revenues. While traditional sources of finance, such as domestic and international public finance, remain indispensable in financing efforts to meet energy and food-related SDGs, government expenditures rose sharply, mainly due to responses to the public health crisis and the socio-economic fallouts from the pandemic. This has resulted in a drawdown of fiscal buffers and widened fiscal deficits (figure 2). The energy and food price crises further forced many governments to divert additional funds to temporary measures, such as subsidies, tax cuts, loans and trade adjustments. This has further undermined progress towards improving fiscal balances. In addition, climate-related financing needs for adaptation and mitigation, as well as for loss and damage of extreme weather events, are expected to further strain public finances.

Increased pressure on government revenue and the need for large stimulus expenditure to counter the impacts of the polycrisis have sharply pushed up public debt levels in many Asia-Pacific countries. Several of them are in debt distress or at high risk of it, especially

Figure 2: Government budgetary balance across Asia-Pacific countries, 2019 and 2021



Source: IMF (2022). Global Debt Database those that already faced high debt-servicing costs, have a large share of external or foreign-currency denominated debts or heavily depend on energy and food imports for domestic production and consumption.

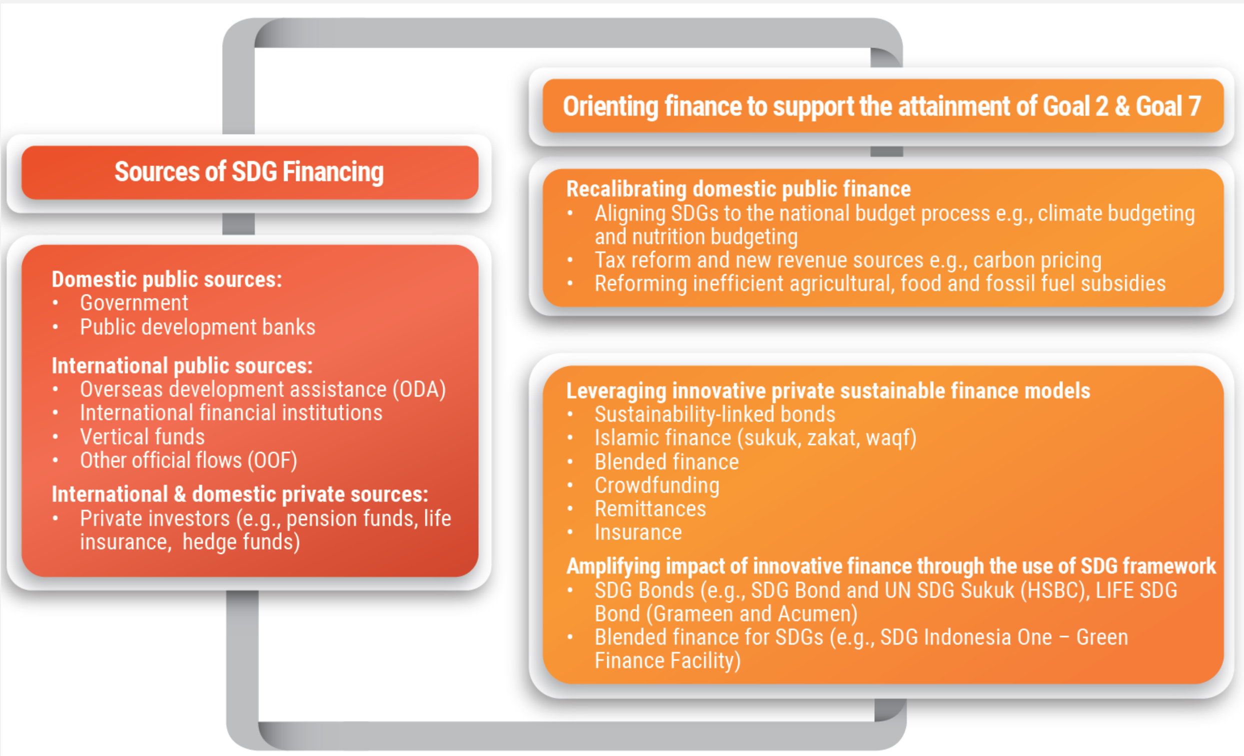
While Official Development Assistance (ODA) reached a record high in 2021 amid increased international solidarity to provide emergency relief, ODA to least developed countries (LDCs) fell short of commitments made. ODA and Other Official Flows are key sources of financing SDGs, particularly in the LDCs of the region. While grants still account for the largest share of ODA to LDCs, there has been a noticeable decline in their share - declined from 90 per cent in 2015 to 75 per cent in 2019. This decline is largely due to an increase in ODA loans, which, despite being highly concessional, are gradually exhibiting higher interest rates and shorter maturities (ESCAP, 2022).

Given these implications on public finance inflicted by the polycrisis, a more sustainable financing architecture at the national level and mobilisation of substantial amounts of finance from new sources have become a necessity.

3. GENDER-RESPONSIVE FINANCING SOLUTIONS

Sustainable financing is an enabler that can scale up progress and development impacts towards achieving the SDGs. Countries across the Asia-Pacific region are leading solutions to recalibrate domestic public finance and to leverage various forms of private financing models. Making use of private finance has never been more critical, especially recognising the wide-ranging benefits from unlocking and reorienting the $463.6 trillion of global wealth in the global financial system (Credit Suisse, 2022). This will entail a strategic allocation of such resources to prioritised areas, including shifting to renewable energy, reforming the agricultural sector and building social protection systems to meet the needs of vulnerable populations. Figure 3 provides an overview of the major sources of SDG financing that can contribute to transforming energy and food systems. A growing number of these financing instruments are linked to climate commitments, gender equality and other social priorities. Selected key highlights and examples from the countries in Asia-Pacific region are presented below.

Figure 3: Major sources of SDG financing for energy and food systems transformation



Source: Asia-Pacific SDG Partnership Report 2023

Integrated National Financing Frameworks (INFFs) can act as a tool to mobilise and align financing with development objectives. Countries are using INFFs to promote changes in their financing architectures to more effectively direct financing flows towards the SDGs and their Nationally Determined Contributions (NDCs). These strategies allow to prioritise reforms designed to advance gender equality as well as contribute to climate objectives. For instance, the INFF of the Maldives focuses on addressing its fossil fuel dependency, mitigating climate change impacts, and unlocking new sources of sustainable finance. The Ministry of Finance aims to set up a climate finance hub to achieve the objectives of the financing strategy. Central to their approach is placing gender equality at the heart of all financing actions by providing specific policy options to ensure that the proposed actions are gender-sensitive.

Public Financial Management (PFM) can be adapted for SDG implementation. Effective financing of the SDGs requires several fundamental shifts in development planning, including the use of the domestic budget as a key instrument of government policy to deliver on the SDG agenda. This calls for the SDGs and associated targets to be applied throughout the budgeting phases, namely budget preparation, execution, monitoring and audit. It also involves development of taxonomies or classification systems to facilitate tracking of allocations and expenditures, thematic areas (such as climate change and gender) and detailed methodology for budget coding or tagging. Aligning SDGs to the national budget process will ensure better policy coherence by focusing resources on strategic priorities, realizing synergies between SDGs and recognizing trade-offs in resource allocation. For instance, to optimize the allocation of Government funds and reach development targets, the Government of Indonesia has created several mechanisms to improve the alignment of spending programs. One of which is through a thematic budget tagging system. The thematic categories of budget tagging, which were specifically elaborated and updated in the Redesign in the Budget Planning System (RSPP) by the Ministry of Finance in 2020, specify 8 thematic budget tagging systems that help highlight the flow of government resources. This also enables efficiently targeting of groups and sectors that most need support. The thematic budget tagging includes education, public health, climate change mitigation, climate change adaptation, infrastructure, south-south cooperation, gender responsive, and stunting. Combining gender responsive budget tagging with climate change budgeting is a further means to identify gender integration in outputs related to climate change mitigation and adaptation actions (UNDP, 2021).

Innovative fiscal measures are crucial for enhancing domestic resource mobilization, especially in light of the widened financing gap for achieving the SDGs due to the polycrisis. Before the pandemic, this was already estimated at $1.5 trillion per year in the Asia-Pacific region. Targeted tax reforms, such as enhancing tax administration efficiency, modernizing data systems for more effective tax collection and curbing tax evasion, could boost tax revenues by 3 to 4 percentage points of GDP in developing countries in the region (ADB, 2022). Carbon pricing, a largely underutilized strategy, also holds significant potential for revenue generation. Implementing a carbon tax of $25 per ton could lead to substantial welfare gains and support the transition to renewable energy and more resource-efficient systems (IMF, 2021).

Agricultural and fossil fuel subsidies should be reformed to increase policy efficiency and equity. In 2021, total subsidies to support agricultural producers worldwide were estimated at approximately $540 billion, with 87% assessed as price-distorting and environmentally and socially damaging (UNEP, 2021). Moreover, global fossil fuel subsidies are estimated to increase from 6.8 per cent of GDP in 2020 (equivalent to $5.9 trillion) to 7.4 per cent of GDP in 2025, with the Asia-Pacific region accounting for 48 per cent of this total (IMF, 2021). In line with Target 2.b, which aims to correct trade restrictions and distortions, and Target 12.4 on the sound management of chemicals and waste, instituting subsidy reform in these sectors becomes imperative. Such reforms, while heeding the complexity and sensitivity of the process, would be crucial to expand fiscal space. They would enable channelling investments towards more equitable and redistributive policies to support ending hunger and enhancing access to clean energy, specifically catering to the needs of vulnerable populations.

Mobilizing the significant financial resources required for SDGs in food and energy systems calls for active participation of the private sector. There exists various models of private financing, which, if properly harnessed and targeted, can increase the financing that target sustainable, resilient and inclusive energy and food systems in Asia and the Pacific. Among such models are sustainability-linked bonds and blended finance:

- **Sustainability-linked bonds** are bonds issued by public or private entities to fund projects with sustainability objectives, with returns to investors tied to achieving specific sustainability benchmarks. These include green bonds for environmental projects, blue bonds for marine conservation, and orange bonds aimed at gender equality and women's empowerment. The Women's Livelihood Bond Series is an example of orange bonds. Its fifth issuance in 2023 raised $50 million and was recognized as the first to adhere to the Orange Bond Principles. Listed on the Singapore Exchange, it exemplified gender-lens investing and used a blended capital structure to pool together a portfolio of high-impact enterprises that promote gender equality across multiple countries and sectors. It aims to empower 300,000 women and girls in Asia and Africa by building economic resilience and advancing climate action.[1]
- **Blended finance** combines capital from public and private funds, including philanthropic sources, to spur investments in sustainable development. With arrangements allowing certain risks to be shifted from private investors to the public sector, blended finance unlocks new investments to support SDGs, including in energy and agricultural sectors. In LDCs and small island developing States (SIDS), blended finance can potentially diversify financial sources if implemented correctly. Blended finance for gender and climate change often focuses on off-grid and renewable energy and agriculture finance/sustainable agriculture. For instance, the Investing in Women (IW) initiative, launched by the Government of Australia in 2016, focuses investing in the Philippines, Indonesia, Viet Nam and Myanmar. The role of the initiative is to expand access and mobilize capital to women-owned or women-led small and medium enterprises (SMEs). Setting up of blended finance structures is facilitated through partnerships with reputable global impact investors. Its partnership with Root Capital, a non-profit global impact investment accelerator of small and growing agricultural enterprises which provides loans and advisory services to investee companies, is one example of such a partnership. By partnering, IW has developed the South-East Asia blended finance market and leveraged private sector capital towards women's SME investments (Investing in Women Southeast Asia, 2019; Chemonics, 2021).

4. CONCLUSION

Undertaking green and inclusive transformations in energy and food systems require substantial flows of finance that are aligned with the SDGs, support both mitigation and adaptation, and are gender responsive.

The adverse impacts of the polycrisis, particularly tighter financial conditions, have highlighted the importance of measurability and results management in ensuring effectiveness of public and private investments. Innovative financing solutions require a framework against which their effectiveness can be assessed. The SDGs—with its 17 goals, 169 targets and 231 indicators—can serve as such a framework to inform decision making and planning, and to measure and manage impact.

Asia-Pacific governments can, as a first step, carry out detailed analysis of the impact of the polycrisis on their SDG progress, producing different trajectories for SDG attainment. While estimates for SDG financing needs are often available, these must be updated to account for reversal in SDG progress due to the polycrisis, particularly for energy- and food-related SDGs. Regional institutions have a role to play in supporting this work, which can provide a knowledge base for practical strategies for mobilising new and targeted finance towards the attainment of the SDGs over the next six years.

[1] https://wlb.iixglobal.com/ (Accessed on 20 September 2023)

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