Two Levers to Unlock Transition Finance

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Speech at Net Zero Delivery Summit

Guildhall, London, United Kingdom

23 June 2025

Distinguished guests, ladies and gentlemen.

Transition finance – especially in developing countries - remains severely inadequate.

- We are still about 1.5 trillion US dollars short each year of what is required to meet the goals of the Paris Agreement.
- Public capital is willing but insufficient to bridge the gap; private capital is sufficient but not willing.

Why is transition finance not flowing at the scale and pace needed?

- one, the ***cost of capital is too high***.
- two, the ***carbon price is not high enough***.

There are two key levers to unlock the transition finance necessary for global decarbonisation:

- ***blended finance to address the cost of capital; and***
- ***carbon credits to address the lack of a carbon price.***

Blended finance is about synergising public-private-philanthropic capital to make transition projects bankable.

- Today, too much public capital – be it from sovereigns or multilateral development banks – is going into bankable projects that private capital can finance.
- A far more effective use of scarce public capital is to help reduce the risk of *marginally* bankable transition projects and attract multiples of private capital to these projects.
- Public and philanthropic capital should aim to be *catalytic not duplicative*.

Blended finance uses a combination of catalytic capital and technical assistance

to catalyse private commercial capital.

- Catalytic capital could be in the form of grants, guarantees, or financing at below market rates. By helping to absorb first-loss risk, it improves project bankability, thereby attracting private commercial capital.

- Technical assistance - in the form of project development expertise, capacity building, and institutional support – can also help to reduce risk, strengthen confidence, and improve bankability.

This is why Singapore launched a blended finance platform called FAST-P, or Financing Asia's Transition Partnership.

- FAST-P will support green and transition projects in Asia, from phasing out coal and strengthening grid infrastructure to electrifying transportation and decarbonising industrial processes.
- The Singapore Government has pledged 500 million US dollars as concessional capital to be matched dollar for dollar by other sources of concessional capital.
- The aim is to use this 1 billion dollar base of concessional capital to crowd in four times more private capital for a total fund size of 5 billion US dollars.
- FAST-P has attracted both sovereign and philanthropic funds, which has in turn motivated banks and asset managers to come onboard.
- FAST-P is making good progress towards its 5 billion dollar target.

The second key lever to unlock private finance for transition is **carbon credits**.

Carbon credits are a market-driven solution to bridge the financing gap, particularly
when policy and economic incentives are lacking**.**

- On the supply side, carbon credits are generated by mitigation activities that reduce or remove carbon emissions. If not for the revenue generated from these credits these activities would not have occurred.
- On the demand side, entities may want to purchase such credits to help offset their hard-to-abate residual emissions.

This convergence of demand and supply creates a win-win situation globally.

- For developing countries where financing needs far outpace available resources, carbon credits create an additional pathway to fund mitigation projects.
- For sovereign and corporate buyers, credits offer a transparent and credible way to meet emissions reduction targets.

Yes, global carbon markets have not been functioning well.

- On the supply side, there are valid concerns about the environmental integrity of some of the carbon credits being generated.
- On the demand side, there is also a lack of consensus regarding how companies can or cannot use credits to meet their net zero targets.

But we must not throw the baby out with the bathwater. We need to tackle these issues comprehensively – and in close partnership. I am happy to say this effort is well underway.

The supply-side integrity issues are being addressed systematically.

- There is growing consensus on what a high-quality carbon credit looks like, thanks to Article 6.4, ICVCM, and CORSIA setting global standards.
- The World Bank has been providing technical assistance and capacity building for carbon projects in many developing countries.

Singapore has been working with partners to promote high-integrity transition credits.

- This is a new class of credits to channel finance towards transition projects.

A good use case of transition credits is phasing out coal in Asia.

- Most of the coal-fired power plants in Asia are young and have an operational lifetime of at least 30 years, making early closure commercially unviable.
- But if left operational, these plants will exhaust two-thirds of the carbon budget remaining to keep global temperatures below 1.5 degrees Celsius.
- The solution is to provide incentives for the early retirement of these plants, replacing them with renewables.
- If we can generate transition credits from the emissions reduction attributed to the early closure of coal plants, we can finance the managed phase-out of coal in Asia.

Singapore is working with partners to test the feasibility of transition credits.

- We are doing so with two pilots involving coal-fired plants in the Philippines.
- We hope that sovereigns, companies, and standard setters recognise the potential of transition credits, and work together to stimulate demand for such credits.

On the demand side, Singapore has signed agreements with seven other countries to buy carbon credits compliant with Article 6 of the Paris Agreement.

- As an added demand incentive, carbon tax-liable companies in Singapore can offset up to 5% of their taxable emissions with Article 6 compliant carbon credits.
- When the government and carbon tax-liable companies in Singapore purchase these credits, they are contributing to decarbonisation efforts in our partner countries.

But demand for compliance credits alone is not enough.

- We need to re-ignite demand for voluntary credits too, to generate the financing needed for decarbonisation in the Global South.

Governments need to step in to encourage strong voluntary demand for carbon credits.

- Following the UK's lead, Singapore published last week guidance on how companies in Singapore can use carbon credits alongside a credible decarbonisation plan.
- But it's not enough that just the UK and Singapore governments do this. More countries need to step forward to provide guidance on the use of carbon credits**.**

- Our two countries have been engaging partners and look forward to announcing the fruits of our efforts tomorrow.

Thank you.