



Asia Transition Finance (ATF) Activity Report

September 2022 (1st Edition)

Table of Contents

1 INTRODUCTION	3
1.1 Call to action	4
1.2 Importance of transition finance in Asia	4
2 OVERVIEW OF STUDY GROUP ACTIVITY	5
2.1 Study Group set-up, members of Study Group	6
2.2 Study Group Activity	6
2.3 Challenges identified	7
2.4 Outcomes	7
3 SUGGESTED SUPPORT MEASURES FROM GOVERNMENTS AND STAKEHOLDERS	8
3.1 Create sector-level or country-level pathways and technology roadmaps for Asia	9
3.2 Consideration of a just and orderly transition in accelerating decarbonization	9
3.3 Financing or stakeholder support for transition finance /pilot cases in Asia	9
3.4 Promote the interoperability of regional and country taxonomies	10
3.5 Create guidelines on the role of carbon credits in transition finance	10
3.6 Development of transition support for SMEs:	10
3.7 Promote acquisition and development of relevant skills to transition technologies	10
4 CONCLUDING REMARKS	11

1

INTRODUCTION

Governments, regional bodies and business organizations are all taking measures to tackle climate change. They are building frameworks for designing strategies and pathways to lower their carbon emissions. Countries all over the world are now required under the Paris Agreement to act.

Most frameworks focus on green, zero-emission activities. However, transition activities are also important globally and particularly in Asia, where the demand for energy is growing, fossil fuels are currently heavily used, and the potential for renewables varies by country. As such, frameworks should accommodate transition activities, which allow for a more gradual progression toward climate (carbon) neutral/net zero.

For financial institutions (FIs), the unique circumstances of Asian countries create a challenge. FIs should determine whether the proposed transition activities will allow fundraising entities to meet the targets in the Paris Agreement and fulfill their own countries' decarbonization commitments. Only then can transition financing start to flow in Asia and contribute to decarbonization objectives.



1.1 CALL TO ACTION

The Paris Agreement and the COP26 climate summit have triggered ambitious decarbonization commitments globally, with accompanying public initiatives to craft frameworks for determining the activities that will help meet those commitments. These frameworks, which include pathways to climate (carbon) neutral/net zero, roadmaps, and taxonomies, are essential to attracting investments and financial flows into sustainable projects.

For example, China, Indonesia, Malaysia and Singapore are among the Asian countries that have developed or are developing taxonomies as of September 2022. ASEAN is also developing one. The taxonomies use different classification systems, but they all cover green, zero-emission activities as well as transition activities.

FIs are also playing a key role. For example, the Network for Greening the Financial System (NGFS), a body of central banks and supervisors, has developed six emission scenarios (four of which are climate (carbon) neutral/net zero scenarios) that help analyze the possible impact of climate change on the economy and financial system. And in April 2022, the UN Special Envoy for Climate Action and Finance, Mark Carney, and the COP26 Presidency launched the Glasgow Financial Alliance for Net Zero (GFANZ). Its stated aim is to publish recommendations and guidelines to help FIs develop and implement credible, high-ambition climate (carbon) neutral/net zero strategies. Its Recommendations and Guidance, Financial Institution Net-zero Transition Plans (June 2022 edition), for example, describes how FIs can operationalize their climate (carbon) neutral/net zero commitments and support the real-economy transition.

1.2 IMPORTANCE OF TRANSITION FINANCE IN ASIA

There is a growing recognition of the importance of just and orderly climate transitions. Just and orderly captures the idea that sustainability can be pursued without jeopardizing the reliability or affordability of energy supplies. Avoiding dislocations and social instability is also part of the just and orderly concept. Recent energy supply disruptions in Europe and globally have demonstrated how quickly and deeply fossil fuel shortages—often unanticipated—can hurt economies in the absence of sufficient renewable supplies to replace them¹

The need for a just and orderly transition explains the particular importance of transition activities in Asia, where decarbonization trajectories will have to weigh Asia's continued industrialization and growing demand for energy to support it. They will also have to consider some Asian nations' current high dependency on fossil fuels, their limited ability to generate renewable energy because of weather conditions or geography, and the intermittent nature of various renewable energies. Though the International Energy Agency estimates that the supply of renewable energy in Asia-Pacific countries will increase by 42 exajoules or 11 percent by 2040, it will still only account for some 20 percent of the region's total supply, given strong rising demand. That same year, renewable energy will account for 35 percent of Europe's total supply.²

Despite this, most frameworks and guidelines that can help financiers assess decarbonization activities have focused on green activities, not transitional ones. Some organizations are beginning to address this gap. For example, in 2020 the International Capital Market Association (ICMA) published its *Climate Transition Finance Handbook* (the *ICMA Handbook*), recommending the fundraisers to credibly position their debt as transition finance via suggested disclosures. Private and public institutions are beginning to form coalitions as well. For instance, the Asia Energy Transition Initiative, a government-led international collaboration in Asia, was created to accelerate energy transition in May 2021, where transition finance is one of the main focuses. Under such circumstances, the Asia Transition Finance (ATF) Study Group, a private-led initiative whose core participants are Asian and global banks, was set up to identify challenges in accelerating transition finance and help address them, contributing to the global initiatives underway. Nevertheless, obstacles remain (to be explained in Chapter 2.3).

1. In Europe starting in 2021, gas demand threatened to exceed supply, and this reinforced the importance of alternative energy sources. The diminished supply also prompted European policymakers to secure their traditional sources of fossil fuel energy, to avoid a situation in which their citizens would pay excessively high prices for energy—or not have access to it at all (see details in the *ATF Guidelines* Chapter 1).

2. Based on IEA data from IEA (2021) World Energy Outlook, www.iea.org/statistics. All rights reserved; as modified by The Asia Transition Finance Study Group.

2

OVERVIEW OF STUDY GROUP ACTIVITY



2.1 STUDY GROUP SET-UP, MEMBERS OF STUDY GROUP

The ATF Study Group was set up in recognition of the important role that transition finance will play in helping Asian economies move toward climate (carbon) neutral/net zero emissions and the challenges FIs can face in assessing the suitability of corporate plans and projects for transition finance. The ATF Study Group is designed as a cross-border initiative across the region, recognizing that transition activities sometimes need to be financed beyond national boundaries. The core members of the ATF Study Group are Asian and global banks. Development banks, export credit agencies, public agencies and finance associations also participate.

The current participants represent a starting point. The ATF Study Group expects to expand, and new participants will be welcomed.

Exhibit 1:

Category	Participants				
Core members of Study Group	Commercial banks (19)	<ul style="list-style-type: none"> MUFG Bank Mizuho Financial Group Sumitomo Mitsui Banking Corporation Sumitomo Mitsui Trust Bank 	<ul style="list-style-type: none"> Bank Mandiri Bank Danamon Maybank BDO Unibank Security Bank United Overseas Bank 	<ul style="list-style-type: none"> Bank of Ayudhya Kasikornbank VietinBank 	<ul style="list-style-type: none"> Macquarie Barclays Bank Standard Chartered Bank HSBC UBS Citibank
Observers of Study Group	Development banks, ECAs, and others (6)	(Multilateral) <ul style="list-style-type: none"> International Finance Corporation 	(State-affiliated) <ul style="list-style-type: none"> Development Bank of Japan Japan Bank for International Cooperation 	<ul style="list-style-type: none"> Export-Import Bank of Thailand Nippon Export and Investment Insurance 	(Commercial) <ul style="list-style-type: none"> DBS Bank
	Public agencies and finance associations (13)	<ul style="list-style-type: none"> ASEAN Taxonomy Board Sustainable Finance Institute Asia The International Capital Market Association 	<ul style="list-style-type: none"> Australian Government Ministry of Energy and Mineral Resources, Indonesia Ministry of Finance, Indonesia Ministry of Finance, Japan 	<ul style="list-style-type: none"> Financial Services Agency, Japan Ministry of Economy, Trade and Industry, Japan Economic Planning Unit, Malaysia 	<ul style="list-style-type: none"> Department of Energy, Republic of the Philippines Ministry of Energy, Thailand Japanese Bankers Association
Knowledge Contributor (4)		<ul style="list-style-type: none"> DNV ERIA JCR Moody's 			

2.2 STUDY GROUP ACTIVITY

To date, the ATF Study Group has held four learning sessions to help deepen members' knowledge of topics related to transition finance. Topics explored include:

- Individual countries' decarbonization commitments/pledges in Asia
- Relevant guidelines and frameworks, such as those issued by the ICMA
- Reference documents/information on decarbonization—for example, decarbonization pathways, taxonomies, and technology roadmaps
- Other transition initiatives—for example, climate-related activities
- Types of transition technologies and their role in early decarbonization efforts that are aligned with the Paris Agreement

Also, the ATF Study Group conducted nine Study Group sessions (SG) to discuss and understand the challenges that are relevant to transition finance in Asia and to develop guidelines that supplement existing frameworks, including global ones. Topics explored include:

- Approaches of green and transition finance taken across Asia and other markets
 - Challenges FIs face in assessing transition finance in Asia (detailed in Chapter 2.3)
 - Practical guidelines for transition finance assessment in the context of Asia
 - Case studies of transition finance across Asia
- Based on these discussions, the ATF Study Group presented an interim report summarizing its activities and progress in April 2022 at the Asia Green Growth Partnership Ministerial Meeting.

2.3 CHALLENGES IDENTIFIED

The ATF Study Group identified a range of challenges to transition finance in Asia. It drew on hypothetical case studies to help understand these obstacles, while also examining real-world situations. Challenges identified include:

I. Differing standards. Practitioners should navigate several different standards and taxonomies, each with its own requirements. the *ICMA Handbook*, which provides recommendations for transition bonds, is recognized by many practitioners as the foundation of what should be considered transition finance, even for instruments other than bonds. However, it is unclear how certification under one standard can be transferred to certification under other taxonomies; that is, there is uncertainty regarding the interoperability of the *ICMA Handbook*, ASEAN taxonomy, and other taxonomies developed or under development by individual countries.

II. Assessment complexity and reference material. A limited number of globally recognized practical approaches describe how to assess an activity's suitability for transition finance.

III. Localized references. Transition solutions are context-specific, making localized references critical for evaluation. However, Asia doesn't yet have many official national and sectoral pathways to climate (carbon) neutral/net zero that are aligned with the Paris Agreement. Because of this limitation, necessary support, particularly from public entities, should be listed and proposed to governments.

IV. Limited track record. FIs have limited case examples to use as reference points when trying to assess or develop transition finance, especially the ones aligned with the *ICMA Handbook*.

2.4 OUTCOMES

Various real transition finance cases were shared among the ATF Study Group members to deepen the group's understanding of actual practices. The ATF Study Group also developed hypothetical cases to identify challenges and potential approaches.

That work has led to *The ATF Guidelines*, a practitioner's manual (attached to this report) that FIs can use to assess transition finance. The ATF Study Group has also made recommendations to governments and other stakeholders about the measures they might take to support transition finance.

In its interim report in April 2022, the ATF Study Group recognized a need for a technology roadmap, or something similar, that FIs could use in transition finance. In response, the Economic Research Institute for ASEAN and East Asia (ERIA) published the [Technology List and Perspectives for Transition Finance in Asia](#) (not as part of the ATF Study Group's activities)

3

SUGGESTED SUPPORT MEASURES FROM GOVERNMENTS AND STAKEHOLDERS



Based on discussion through the 4 Learning Sessions and 9 Study Group sessions, the ATF Study Group identified various ways in which governments and other stakeholders can accelerate efforts to overcome the challenges that FIs face in assessing the suitability of corporate plans and projects for transition finance. What follows are the ATF Study Group's suggestions for governmental and intergovernmental agencies and international organizations involved in decarbonization pathways and taxonomies:

3.1 CREATE SECTOR-LEVEL OR COUNTRY-LEVEL PATHWAYS AND TECHNOLOGY ROADMAPS FOR ASIA

FIs require tools to assess whether corporate strategies and project plans are credible and compliant with the Paris Agreement and therefore suitable for transition finance. To help FIs fill this critical void, the Study Group strongly encourages government agencies in charge of energy (or others) to create sector- and country-level decarbonization pathways and technology roadmaps, which are equipped with the following characteristics:

- **Globally recognized.** They should be linked to the Paris-aligned climate (carbon) neutral/net zero scenarios with science-based targets and endorsed by international organizations. This will also facilitate their interoperability with other standards and taxonomies.
- **Granular.** Considerable detail should be provided if pathways and roadmaps are to demonstrate alignment with the Paris Agreement. Such detail is also required for financiers to assess the risk of lock-in with non-compliant assets. It's necessary to know, for example, when transitional technologies will be replaced with green ones to ensure climate (carbon) neutral/net zero emissions by an agreed year.
- **Feasible.** The pathways and roadmaps should have clear targets that reflect national economic and development policies. This will facilitate co-financing of activities by FIs and local governments. The roadmaps also need to be flexible, with the ability to incorporate technological change and policy updates.

3.2 CONSIDERATION OF A JUST AND ORDERLY TRANSITION IN ACCELERATING DECARBONIZATION

A just and orderly transition will depend on the financing of transition activities in addition to green finance, particularly in Asian countries that are currently highly dependent on fossil fuels to meet a fast-growing energy demand. In developing rightly balanced policies on transition finance to secure a just and orderly transition, relevant governmental agencies are to consider how to ensure the reliability of energy supplies and their affordability for governments and their citizens, maintaining social stability (see details in the *ATF Guidelines* Chapter 1).

3.3 FINANCING OR STAKEHOLDER SUPPORT FOR TRANSITION FINANCE/PILOT CASES IN ASIA

Success stories can be used as a reference for subsequent projects and to accelerate transition finance. It is important for governmental and intergovernmental agencies, as well as international organizations, to work together to create reference material, by providing:

- Support or incentives for corporations to create decarbonization strategies (for instance, subsidizing the cost of getting assessed by Second Party Opinion providers)
- Proof-of-concept transition projects supported by the government or led by government entities (for instance, showcasing examples of effective corporate transition finance efforts on governments websites)
- Alignment between development financial institutions' strategies
- Public financing support such as concessional finance, equity injection, ECA finance, financial incentives and broader risk-sharing (blended finance)
- Incentives for corporations and FIs (such as warranty periods and de-risking for FIs, carbon credits for corporation)
- A database or digital platform for successful decarbonization projects

3.4 PROMOTE THE INTEROPERABILITY OF REGIONAL AND COUNTRY TAXONOMIES

As mentioned, several taxonomies are being developed by countries in Asia. In addition, ASEAN, an intergovernmental organization, is also developing a regional taxonomy and has set up the ASEAN Taxonomy Board (ATB) to help it in this work. The ATF Study Group encourages an ongoing dialogue between intergovernmental organizations such as ATB and the governments of ASEAN countries to ensure the interoperability of their taxonomies.

3.5 CREATE GUIDELINES ON THE ROLE OF CARBON CREDITS IN TRANSITION FINANCE

Carbon credits could be included in corporate or project decarbonization plans, and if they are, they may be part of the transition finance assessment. However, some global climate finance standards and taxonomies do not support carbon credits for transition finance. Other global standards, on the other hand, do not mention the use of carbon credits in the guidelines or taxonomy. Although the ATF Study Group recognizes the challenges of doing so, given divergent views among stakeholders, creation of practical guidelines for the use of carbon credits in assessing transition finance suitability may be needed.

3.6 DEVELOPMENT OF TRANSITION SUPPORT FOR SMES

The current guidelines for those wishing to raise transitional funds are challenging for small- and medium-sized enterprises (SMEs). SMEs seldom have the resources to create the necessary decarbonization strategy or comply with other disclosure requirements, making it hard for FIs to assess their progress toward climate (carbon) neutral/net zero. Therefore, tailored approaches are needed to promote and support efforts by SMEs to decarbonize their activities. These approaches could include the development of new frameworks by credible international organizations, and governmental support for SMEs' transitions with clear guidance (such as creation of decarbonization roadmaps/guidelines for SMEs). One foreseeable challenge revolves around the definition of an SME, which could vary across countries. Relevant stakeholders in any SME initiative should keep this in mind as they collaborate to come up with unified clear guidance across countries.

3.7 PROMOTE ACQUISITION AND DEVELOPMENT OF RELEVANT SKILLS TO TRANSITION TECHNOLOGIES

In order to implement transition technologies, talents with relevant cutting-edge skills indispensable. Moreover, said technologies possess nature of fast innovating, and hence it is required for such talents to keep renewing their skillsets. There is a strong need for governmental and intergovernmental agencies to set standards of skills required to utilize top-notch technologies and promote trainings of these skills to cultivate talents which meet the standards. In such efforts, technical cooperation between countries is an effective way to accelerate technology and knowledge spillovers.

4

CONCLUDING REMARKS



CONCLUDING REMARKS

The ATF Study Group would like to thank all those who have assisted its work so far. The job continues, and the suggestions and guidelines made in this and other documents will evolve in line with continuing discussions and growing experience in transition finance.

The ATF Study Group will continue to collaborate with broader stakeholders and meet regularly, working to:

- **Update and enhance the *ATF Guidelines*.** The ATF Study Group will update its Guidelines based on the experience of FIs that use them, on their feedback and on their suggestions for improvement. Other suggestions relevant to transition finance will also be reflected.
- **Collaborate further with stakeholders.** The ATF Study Group will continue to try to collaborate with governments and other bodies such as intergovernmental organizations to ensure that the *ATF Guidelines* are interoperable with other frameworks. It will work with FIs beyond those in the ATF Study Group to increase its understanding of transition finance and promote use of its Guidelines.
- **Encourage implementation of support measures.** The ATF Study Group will encourage governments and other relevant stakeholders to implement the support measures described in Chapter 3, such as stipulating relevant pathways in each sector and each Asian country and introducing incentives that will encourage businesses to engage in transition activities.