Transition Finance
A way to steadily achieve carbon neutrality

14th June, 2021
Environmental Economy Office,
Industrial Science and Technology Policy
and Environment Bureau
Transition finance is an important tool to reach carbon neutrality by 2050

The Basic Guidelines on Climate Transition Finance
FSA, MOE, METI (7th May, 2021)

• International consistency (Four elements)
• Guide to practice transition finance
• Possible diversity by regions and industries
The Importance of Transition Finance

- Transition can contribute to the mitigation of climate change
- Not all companies can immediately fit into the decarbonized society

Transition (initiatives for low carbonization etc.)

Pathways are set in accordance with the regional and sectoral characteristic, resulting in various pathways
Sustainable finance has been growing, but not enough investments in industries

- Increase of sustainable finance: 30.7 trillion USD in 2018
- Only 0.5% from industry sector in total green bond issuance

**Trends of Sustainability Investment (bn USD)**

<table>
<thead>
<tr>
<th>Year</th>
<th>EU</th>
<th>Canada</th>
<th>USA</th>
<th>Australia, New Zealand</th>
<th>Japn</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>22,389</td>
<td>1,086</td>
<td>8,273</td>
<td>12,040</td>
<td>2,180</td>
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<tr>
<td>2018</td>
<td>30,683</td>
<td>1,699</td>
<td>14,075</td>
<td>11,995</td>
<td>734</td>
</tr>
</tbody>
</table>

**Global Green Bond Issuance 2010-2019 (bn USD)**

<table>
<thead>
<tr>
<th>Year</th>
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<th>USA</th>
<th>Australia, New Zealand</th>
<th>Japn</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>3.9</td>
<td>1.2</td>
<td>3.1</td>
<td>11.0</td>
<td>11.0</td>
</tr>
<tr>
<td>2011</td>
<td>3.6</td>
<td>1.4</td>
<td>3.7</td>
<td>11.5</td>
<td>11.5</td>
</tr>
<tr>
<td>2012</td>
<td>4.2</td>
<td>1.8</td>
<td>3.9</td>
<td>12.2</td>
<td>12.2</td>
</tr>
<tr>
<td>2013</td>
<td>4.8</td>
<td>2.1</td>
<td>4.1</td>
<td>12.7</td>
<td>12.7</td>
</tr>
<tr>
<td>2014</td>
<td>5.5</td>
<td>2.4</td>
<td>4.3</td>
<td>13.4</td>
<td>13.4</td>
</tr>
<tr>
<td>2015</td>
<td>6.1</td>
<td>2.7</td>
<td>4.5</td>
<td>14.1</td>
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<td>5.1</td>
<td>16.2</td>
<td>16.2</td>
</tr>
<tr>
<td>2019</td>
<td>8.9</td>
<td>3.9</td>
<td>5.3</td>
<td>16.9</td>
<td>16.9</td>
</tr>
</tbody>
</table>

**Share of Green Bonds among Total Bond Issuance**

- 96.2% EU
- 3.8% Canada

**Breakdown of Green Bond Issuance by Use of Proceeds**

- 305.0 bn USD (35.3%) Energy
- 229.4 bn USD (26.5%) Buildings
- 89.8 bn USD (10.4%) Water
- 32.4 bn USD (3.4%) Waste
- 17.1 bn USD (2.0%) ICT
- 4 bn USD (0.5%) Industry
- 159.1 bn USD (18.4%) Transportation
- 28.3 bn USD (3.3%) Land Use

(Sources) Global Sustainable Investment Alliance 2018, Ministry of the Environment (GB Issuance), S&P Global (Total Bond Issuance), Climate Bond Initiative Database
Initiatives on transition finance

October 2020
Japan’s pledge to reach carbon neutrality by 2050

December 2020
Green Growth Strategy
- Industrial policies to create a “positive cycle of economic growth and environmental protection”
- Position transition finance as an important financial tool

January 2021
Taskforce on Preparation of Environment for Transition Finance established by FSA, METI and MOE

May 2021
Basic Guidelines on Climate Transition Finance was published
Basic Guidelines on Climate Transition Finance

What is the Basic Guidelines

- Consistency with the ICMA Climate Transition Finance Handbook
- A general guide for fundraisers and financial institutions in labeling transition bonds and loans
- The Basic Guidelines does not specify transitional assets nor trajectories of each industry.

Content

- Comprehensive judgement based on strategies
- In addition to scenarios widely recognized in the international community, NDC and roadmaps formulated by public organizations can be referred to.

Element 1 Fundraiser’s Climate Transition Strategy and Governance

Element 2 Business Model Environmental Materiality

Element 3 Climate Transition Strategy to be Science-based Including Targets and Pathways

Element 4 Implementation Transparency
Taskforce on Preparation of the Environment for Transition Finance, Basic Principles and Roadmaps

**Basic Principles**
Formulates in line with international principles and discussion of the Taskforce

Refer to

**Industry Roadmaps**
Focus on high CO2 emission industries, METI publish roadmaps for decarbonization by industry.

**Instruments**

- Transition Loan
- Transition Bond

**Users**

- Banks
- Enterprises
- Assessment firms
- Investors

**Model case authorization and Subsidy for external review**
Interest subsidy for loans with output oriented goals