Energy Transition Mechanism (ETM)

Overview

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ADB's Energy Transition Mechanism (ETM)

Increasing momentum—theory to operationalization

2021

- ETM launch
- Japan's $25M seed financing for ETMPTF

ETM launch at UN Climate Change COP26, Glasgow on 3 Nov. 2021 by ADB with the Governments of Indonesia and the Philippines.

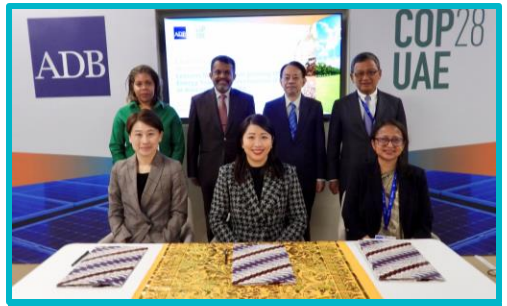
2022

- Indonesia ETM Country Platform launch
- MOU signing for Cirebon 1, the 1st ETM transaction
- Germany's €30M ETMPTF contribution

Indonesia ETM Country Platform launch on 14 Nov. 2022 during the Bali G20 by ADB and Indonesia's Ministry of Finance, with World Bank and Islamic Development Bank.

2023

- Agreement to retire Cirebon 1 CFPP ~7 yrs earlier
- New Zealand's $25M ETMPTF contribution
- MOU with Singapore and GEAPP on the $2B Transition Finance Platform (ETM FV)
- Approved $500M CIF ACT concessional financing for Indonesia



MOU signing between ADB, Monetary Authority of Singapore, and GEAPP for the Transition Finance Platform, at Dubai COP28 on 5 Dec. 2023.

2024

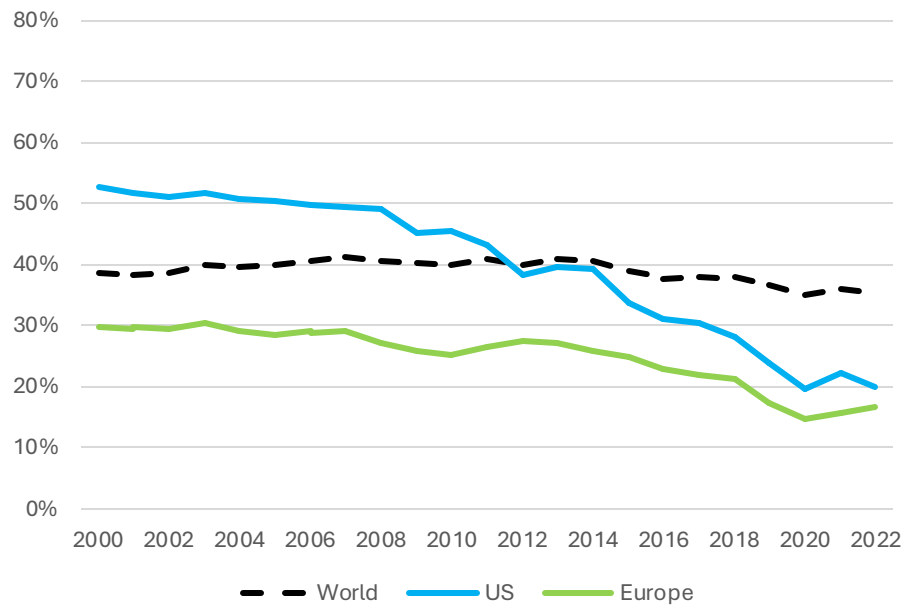
- Individual MOUs with Kazakhstan and Cambodia on ETM agreement
- Approved $500M CIF ACT concessional financing for Philippines

MOU signing on 13 Nov. 2024 between ADB and the Kazakhstan Ministry of Energy at COP29 towards piloting ETM.

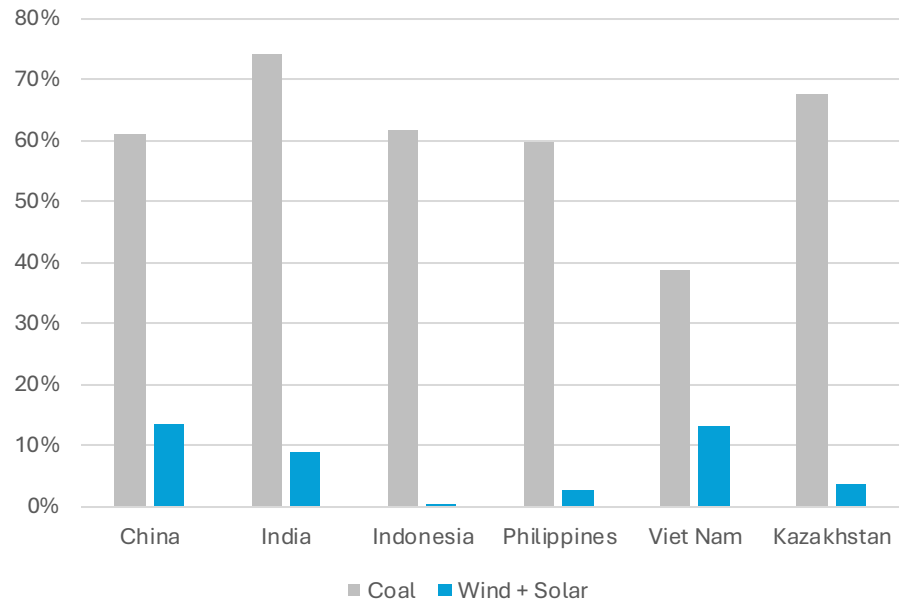
$ = United States dollar, € = euro, ADB = Asian Development Bank, CIF ACT = Climate Investment Funds Accelerating Coal Transition, COP = Conference of the Parties, ETM = Energy Transition Mechanism, ETMPTF = ETM Partnership Trust Fund, ETM FV = ETM Funding Vehicle, G20 = Group of 20, GEAPP = Global Energy Alliance for People and Planet, MOU = memorandum of understanding, M = million, UN = United Nations.

Coal-fired electricity must drop, but remains significant in developing Asia

Share of coal-fired power generation dropped in Europe and the US…



…but remains very high in Asia (2022)

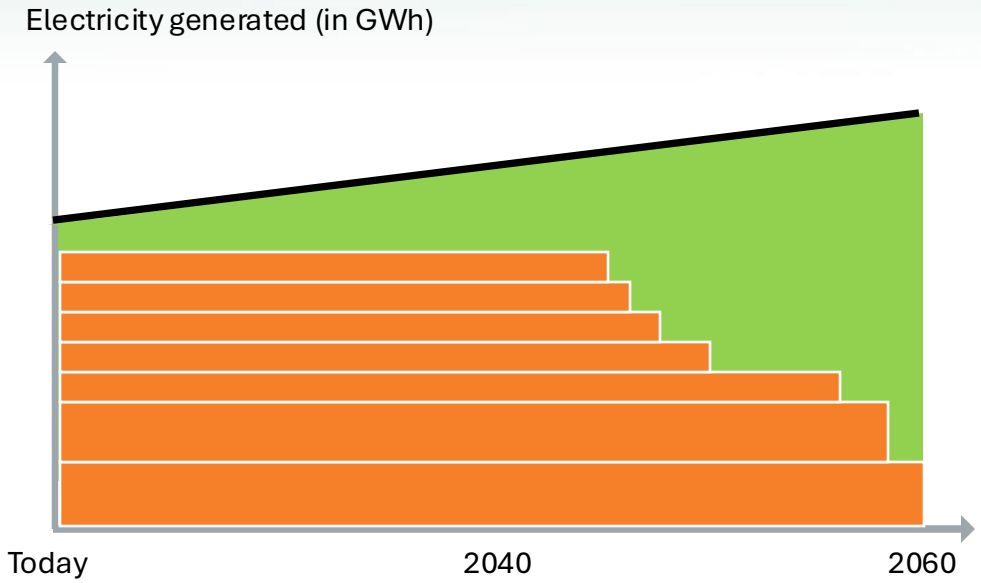


Large-scale solution needed to simultaneously and rapidly decarbonize and build up clean energy in Asian developing countries.

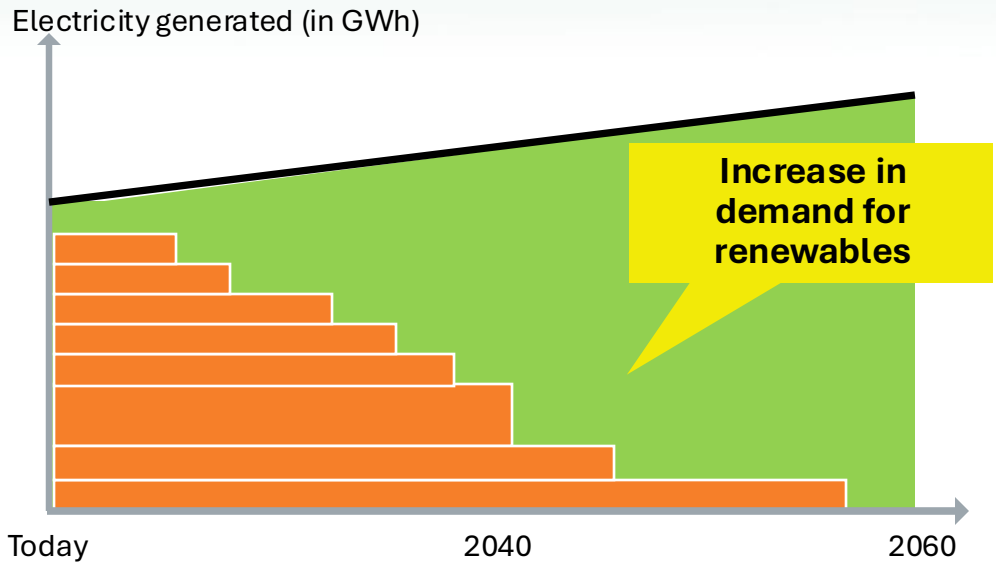
Sources: Calculations based on Energy Institute Statistical Review of World Energy (2023); Department of Energy 2022 Power Statistics (2023).

Why speed up the retirement of coal-fired power plants?

Business-as-Usual



With Energy Transition Mechanism



Total energy demand | Coal-fired generation | Renewable energy generation

Early retirement of existing coal-fired power plants can

- reduce emissions and improve population health,
- create additional demand for clean energy investments, and
- lower overall generation costs in the long-run.

Source: Kanak, Donald (2021). "How to accelerate the energy transition in developing economies". World Economic Forum blog.

ADB's Holistic 4P Approach Anchoring the ETM

People

Supporting just transition, protecting livelihoods and affordable electricity

- Just transition assessments from national to asset level, financing facility, and technical assistance
- Strategic environmental and social assessment and project safeguards
- Stakeholder engagement and communications

Policy

Supporting policies and regulations to accelerate energy transition

- Climate change policy programs, including carbon market and taxonomy
- Energy sector reform programs
- Sector analyses and advisory
- Policy-based and results-based loans

Power

Promoting scalable, market-based model for energy transition

- Investments in early retirement or repurposing of fossil-based heat and power plants, clean energy, storage and grid enhancement
- Technical, financial, and commercial analyses
- Transaction advisory

Partnership

Based on solid partnership with national and international stakeholders

- Partnering with governments; international financial institutions; private sector; commercial lenders and investors; philanthropies; CSOs
- Fund mobilization (ETMPTF, ETM FV, Indonesia ETM Country Platform, JETP, CIF ACT) and carbon credit generation

CIF ACT = Climate Investment Funds Accelerating Coal Transition, CSO = civil society organization, ETM = Energy Transition Me chanism, ETMPTF = ETM Partnership Trust Fund, ETM FV = ETM Funding Vehicle, JETP = Just Energy Transition Partnership.

ETM's Phased Approach in DMCs

Illustrative examples of activities under each phase.

0 | PRE-FEASIBILITY STUDY

- Policy and regulatory assessment
- Multicriteria analysis to identify priority plants for retirement
- Financial and economic analysis

1 | FULL FEASIBILITY STUDY

- Technical feasibility (grid impacts, replacement power, captive power studies, etc.)
- Policy and regulatory feasibility, policy-economy dynamics
- Broad just transition impacts
- Contractual and financial feasibility
- Strategic environmental and social assessment

2 | PILOT TRANSACTIONS

- Technical and legal due diligence
- Financial and commercial modeling (termsheet)
- Just transition impacts at asset-level
- Environmental and social safeguards

3 | SCALE UP

Replicating ETM transactions in other plants. This will only be done once the country has in place a robust policy framework that irreversibly commits them to a decarbonization path consistent with Paris targets.

Country-level | **Transaction-level**

The ETM Program Overview

- **Accelerate the retirement or repurposing** of coal-fired power plants using public and private finance through refinancing, acquisition, or sustainability-linked corporate loans
- **Scale up investment** in clean energy and energy storage
- Aim to achieve **just and affordable transition,** addressing impacts of coal retirement on people and communities

Governments and Philanthropies

Grants and highly concessional funding

ETM Partnership Trust Fund (ETMPTF)[1]
+ Other ADB-administered Concessional Funds
(e.g., CIF, GEAPP)

Grant and Concessional finance

IFIs and global climate finance[2]

International and local investors and lenders

Grant, debt, equity, or guarantee

ETM Funding Vehicle (FV)[2]
- **Carbon Reduction Facility (CRF)**
- **Clean Energy Facility (CEF)**

Direct ADB Transactions
(Sovereign or nonsovereign)

Technical Assistance (through grant):
- Grid, technical, and financial analyses
- Just transition, social and environmental safeguards
- Policy and regulatory support
- Carbon finance (e.g., carbon credit structuring)
- Measurement, reporting, and verification

Coal retirement transactions (asset level)

Clean energy transactions (asset level)

Corporate transactions (portfolio level)

❖ Just transition activities to be supported in line with agreed just transition plan.

[1] ETMPTF has received contributions totaling $81.5 M from the Governments of Japan, Germany, and New Zealand.
[2] Commitments from the Monetary Authority of Singapore and GEAPP under the Transition Finance Platform will form part of the ETM FV.

ADB = Asian Development Bank, CIF = Climate Investment Funds, GEAPP = Global Energy Alliance for People and Planet, ETM = Energy Transition Mechanism, IFI = International Financial Institution.

What have we learned through the ETM journey

- **Coal plants rarely retire naturally.** They are operated until there is a clear driving force to shut them down and replace them—this is true not just for DMCs or Asia but also globally.
- **Genuine engagement is highly valued by DMCs.** "Telling them what to do" is not acceptable.
- **Countries do want to transition away from coal for a range of reasons.** However, they need demonstrable national benefits and support with tools and financing to do so.
- **Energy security and affordability are paramount.** Other energy transition benefits are important (e.g., climate change mitigation, improvement in air quality), but action must be cost-effective and viable.
- **Politics and policy can often change rapidly.** Navigating these requires continuous senior-level and staff-level engagement to various degrees at different times.
- **Transitioning away from fossils requires complex financial engineering.** Not everyone can fully understand intricate financing and contractual structures required for ETM transactions. This poses challenges in obtaining support from governments and even from private sector owners of coal plants.
- **Impacts of energy transition are far-reaching.** Effects on the economy and power system need to be considered alongside impacts on individual communities, powerplant workers and others along the coal value chain.

Thank you!

For more information, visit:

https://www.adb.org/what-we-do/energy-transition-mechanism-etm