

Challenges for Expanding of Transition Finance in Asia through an “Inclusive Approach”

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GX Group, Ministry of Economy, Trade and Industry, Japan

Transition Finance Promotion in Asia

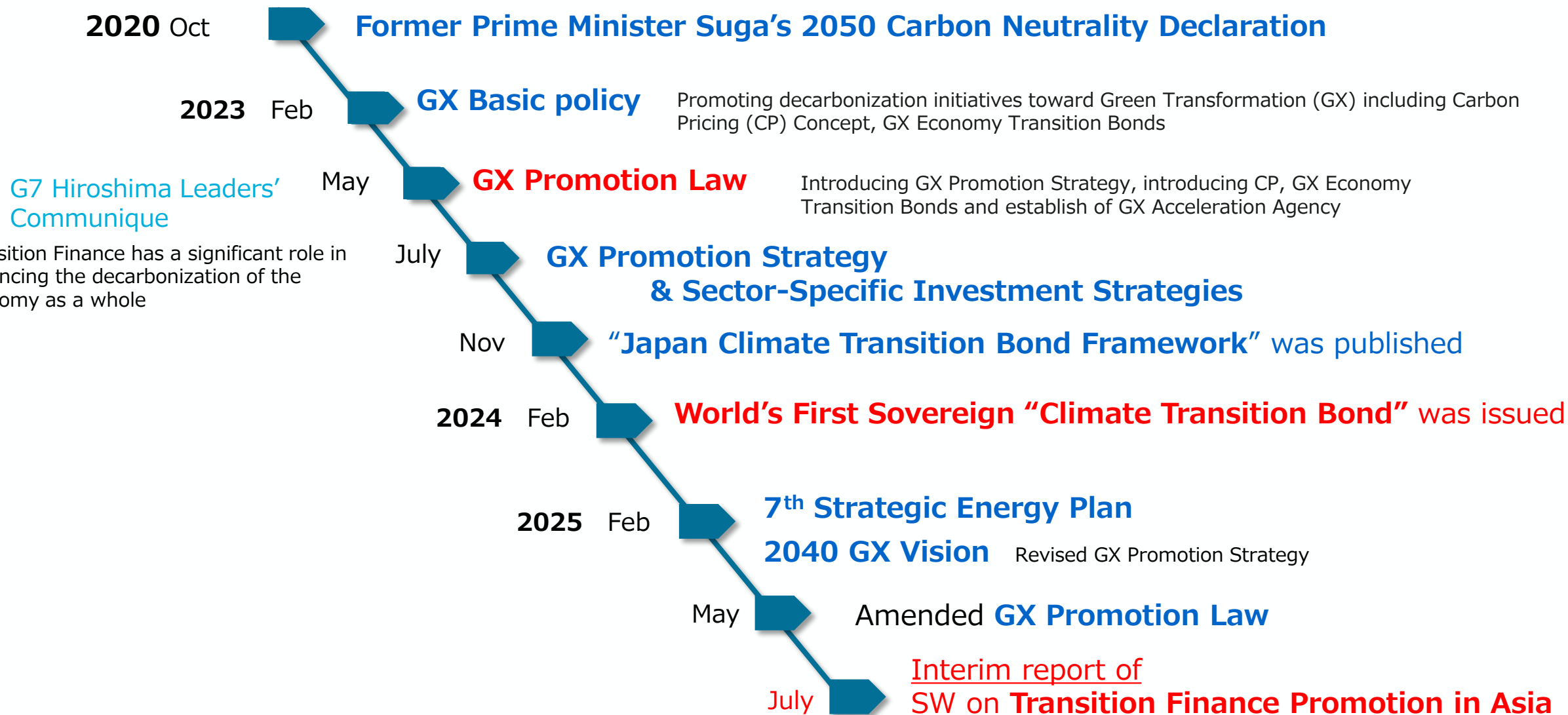
Interim report of sub-WG : Take away

- To advance transition finance in Asia, Japan's Ministry of Economy, Trade and Industry (METI) established a sub-working group on regional transition finance, bringing together experts from finance and academia. The group held discussions on how to mobilize capital for real-economy transition in Asia.
- Key discussions highlighted the need for an **“Inclusive Approach”** to accelerate financing for efforts toward achieving NDCs and long-term goals. The role of governmental strategies in ensuring credibility was emphasized in this approach, along with the importance of building global understanding of a two-layered approach—combining the existing ICMA-based and Inclusive Approaches.
- An interim report summarizing these discussions (Eng. version) was published in end of September 2025 as following website.

https://www.meti.go.jp/policy/energy_environment/global_warming/transition/20250930.pdf

Importance of “Transition” in the Whole-of-Economy Decarbonation

Japan’s long journey toward “Transition” began in 2020

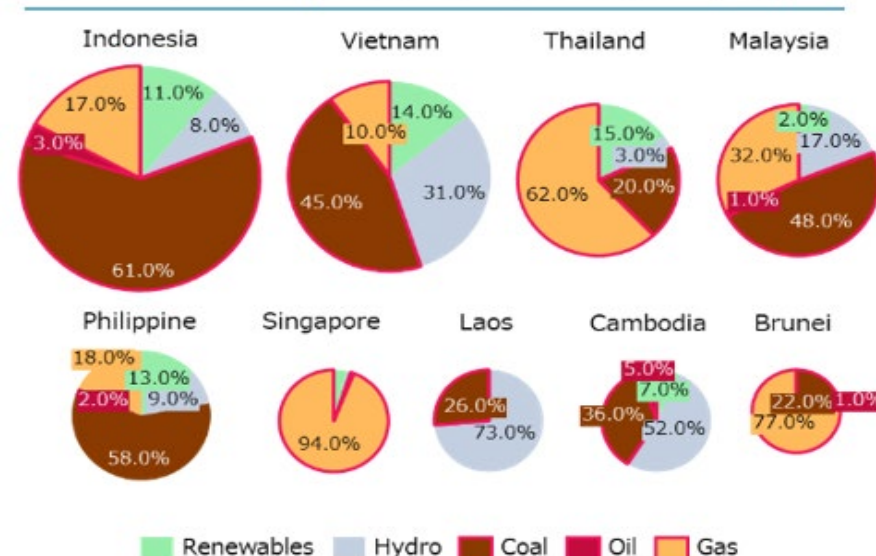


Asia's Energy Transition Challenges

Economic expansion in Asia pose challenges to achieving NDC targets

- Growing energy demand due to population and economic growth.
- Many Coal-fired power plants are relatively new, making short-term phase-out difficult, and Gas-fired power generation currently plays an important transitional role.
- As hard-to-abate sectors like steel and chemicals continue to play a crucial role in economic development, the need for long-term, country-specific transition strategies are undeniable.

Power Source Composition in ASEAN Countries (2021)



Source: METI, Situation in SE Asia

Coal-fired power capacity and average age in major ASEAN countries in 2022

Country	Capacity	Average Years
Indonesia	35GW	13
Vietnam	23GW	8
Malaysia	14GW	13
Philippines	11GW	13
Ref.: Japan-55GW-25y, Europe-184GW-25y, North America-244GW-41y		

Source: Coal in Net Zero Transitions (IEA, April, 2022)

Financing Needs for NDCs and long-term goals in Asia

Massive capital required to meet NDCs and long-term goals

- Each country has set NDCs and long-term goals. Massive capital, said to be on the order of several trillions of dollars, required and mobilization is necessary from outside of the region, including Japan.

Current Status of Selected Asian Countries (Emissions, NDCs, etc.)

	Indonesia	Vietnam	Thailand	Malaysia	Philippines
GHG Emissions	1,328 GtCO ₂ -eq(2019)	0.726GtCO ₂ -eq(2020)	0.25Gt-CO ₂ -eq(2022)	0.242GtCO ₂ -eq(2022)	0.2404GtC ₂ -eq(2020)
Power Configuration (2021)	Coal 61%, Gas 17%, Renewable(RE) 19%	Coal 45\$, Gas 10%, RE 45%	Coal 20%, Gas 62%, RE 18%	Coal 48%, Gas 32%, RE 19%	Coal 58%, Gas 18%, RE 22%
2030 NDC	Unconditional(U) 31.89% *1 Conditional(C) 43.20% *2	U: 15.8% *1 C: 43.5% *2	U: 30% *1 C: 40% *2	45% reduction in unit consumption(2005 Level)	U: 2.71% *1 C: 75% *2
CN Target	2060	2050	CO ₂ : 2050, GHG: 2065	2050	-
Required Investment(NDC)	App. \$281 billion	App. \$27.1 billion to \$86.8 billion	-	-	App. \$72 billion
Required Investment (2050 etc.)	-	-		App. 1.2 trillion ringgit	App. 20 trillion peso

*1:reduction from BAU *2:reduction compared to BAU

Source: Compiled from various public information sources

Importance of Flexible Eligibility Criteria for Finance

Eligibility criteria for supply finance should be flexible & context-sensitive

- Asia's transition needs major funding from public & private sectors. With many countries graduating from ODA and limited public finance, mobilizing private capital is critical and challenging.
- Domestic capital markets for labeled products are small, and loans remain the main tool. These countries must tap international private funds, while foreign investors face pressure to align with climate goals and ensure accountability.
- To address concerns including greenwashing, labeled products follow ICMA principles as standard practice.
- However, for Asia's transition, eligibility criteria should not be limited to ICMA standards for large developed-market and adopt flexible, context-sensitive and locally adapted approaches.

Financing instruments of major ASEAN countries and breakdown (\$1 billion, %)



Source: [Corporate Bond Markets in Asia](#) (OECD, 2024)

Proposal for Redefining Transition Finance

Transition finance as a two-layered approach

- Transition finance in Asia requires a two-layered approach;
- First, although domestic capital markets are limited, labeled finance products must continue to follow ICMA-based standards to ensure credibility. This is referred to as the **“ICMA-based Approach”**.
- Second, from the perspective of advancing the Paris Agreement, a broader **“Inclusive Approach”** is needed—mobilizing funds through instruments like loans, even if they don’t directly reduce emissions, as long as they support NDCs and long-term goals.
- This **“Inclusive Approach”** enables financing that contributes to economy-wide transition efforts beyond narrowly defined green investments.

Proposal for Redefining Transition Finance

ICMA-based Approach & Inclusive Approach

How to Provide Funds to Transition in Asia Through Transition Finance

① ICMA-based approach

Ensuring credibility at the entity (issuer/borrower) level

- [Strategy] Strategies/plans/framework of the fundraiser
- [Scientific-based] Evaluation of Paris Agreement alignment based on scientific evidence
- [Reporting] Disclosures of details such as the investment plan for the use of proceeds. Reports on the results of allocation.

- [Strategy] Although there may not be a strategy/plan/framework established by fundraiser, but following can be confirmed
 - Alignment with NDCs can be confirmed by the government
 - Initiatives are clearly superior compared to other companies in the same industry (e.g. carbon intensity)
- [Use of proceeds] Regarding Paris Agreement alignment, it may not be possible to confirm alignment with IEA scenarios or individual roadmaps, but asset or activity improvements at the site are being made (see the list on the next page).
- [Safeguards] Confirmation that there are no adverse environmental impacts and that concerns about carbon lock-in are being addressed.
- [Follow-up] Ensuring effectiveness and reliability through regular monitoring (utilizing government-level dialogue as necessary).

② Inclusive Approach

(e.g., based on NDCs, long-term strategies)
Ensuring system-level reliability and credibility

“Inclusive Approach”: Principles & Direction

Eligibility criteria for financial institutions & investors under Inclusive Approach

■ **Balancing Risk Management and Capital Flow**

Concerns such as greenwashing and carbon lock-in must be addressed.

However, these risks should not be used as a reason to halt capital flows toward transition-aligned investments.

■ **Proposed Eligibility Criteria for Transition Finance as a “Inclusive Approach”**

Financial institutions & investors may assess eligibility based on:

1. Alignment with NDCs or long-term strategies confirmed at the government level, even if no corporate-level Paris-aligned plan exists
2. Use of transition technologies appropriate to the sector and country context
3. Measures to avoid environmental harm and address carbon lock-in risks
4. Regular follow-up to ensure credibility and effectiveness

However, overly restrictive criteria for transition finance will result in no financing or financial carbon leakage.

Conclusion

Propose for “Inclusive Approach” as an economy-wide transition finance

- Asia faces massive financing needs to achieve its NDCs and long-term goals, requiring broad mobilization—including international sources.
- Domestic capital markets in Asia remain underdeveloped, with limited labeled financial products and heavy reliance on bank lending..
- **Transition finance** should adopt two layers; labeled financial products, “ICMA-based Approach”, must continue to ensure credibility through ICMA-based standard. “**Inclusive Approach**”, which mobilizes capital for efforts that improve current practices and support NDCs and long-term goals—even if they don’t directly reduce emissions—within a broader, economy-wide transition framework.
- Managing risks like greenwashing and carbon lock-in is essential, but stopping capital flows isn’t the answer. Financial institutions should focus on accelerating realistic decarbonization in partnership with industry, guided by the two-layered transition finance approach.

Thank you for your attention.

- An interim report (Eng. version)

https://www.meti.go.jp/policy/energy_environment/global_warming/transition/20250930.pdf



- If you have any questions or comments, please contact me at the following email address.

motohashi-takayuki@meti.go.jp

Takayuki MOTOHASHI

Director for Climate Finance Policy
Environmental Finance Office, GX Policy Group
Ministry of Economy, Trade and Industry
Japan