International Energy Agency

Role of Sustainable and Transition Finance Instruments

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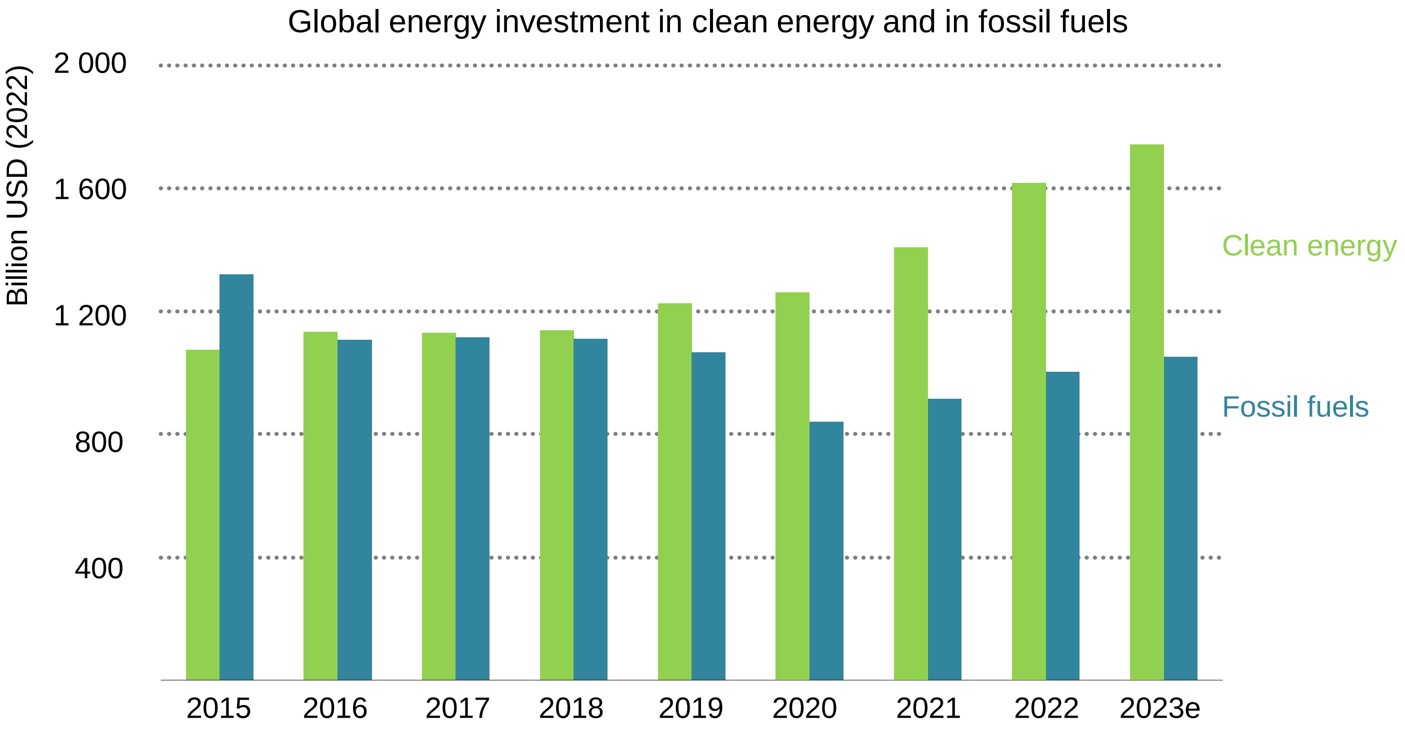
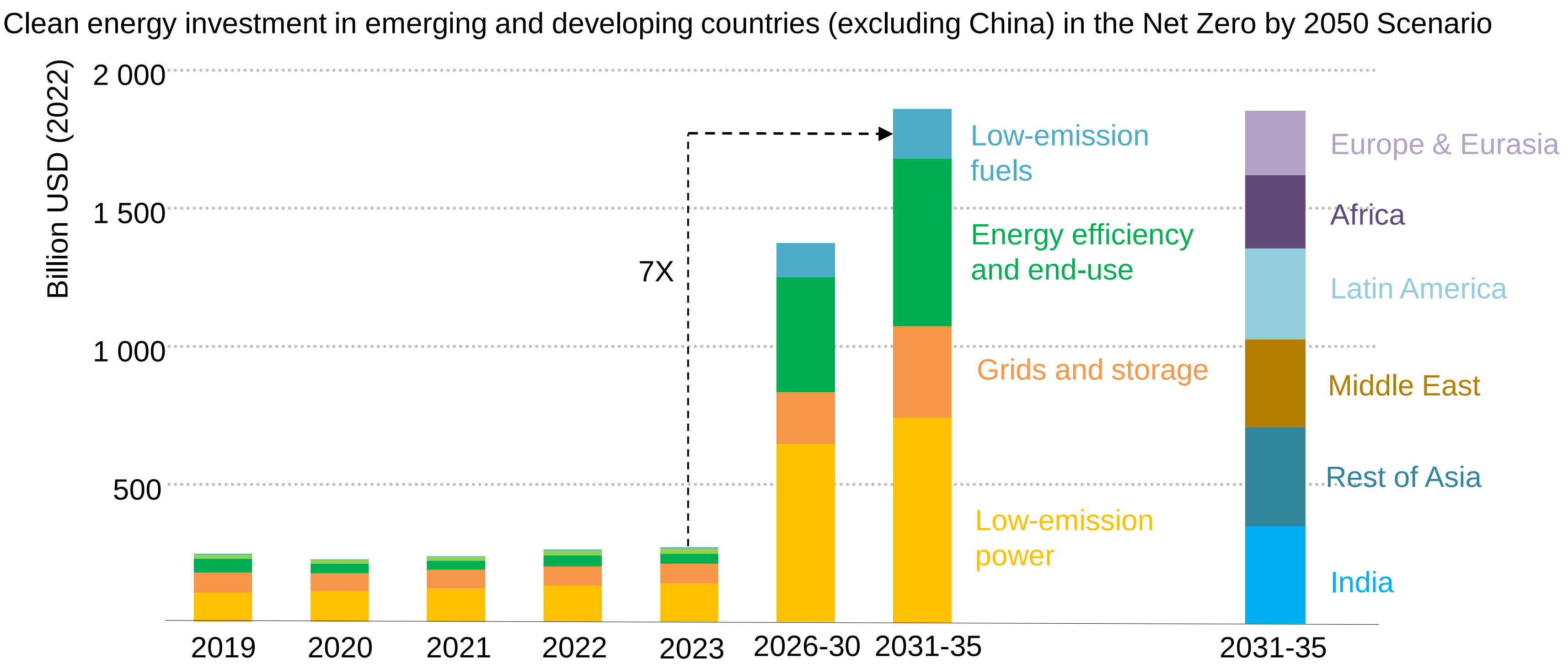
Clean energy investment is widening the gap over fossil fuels



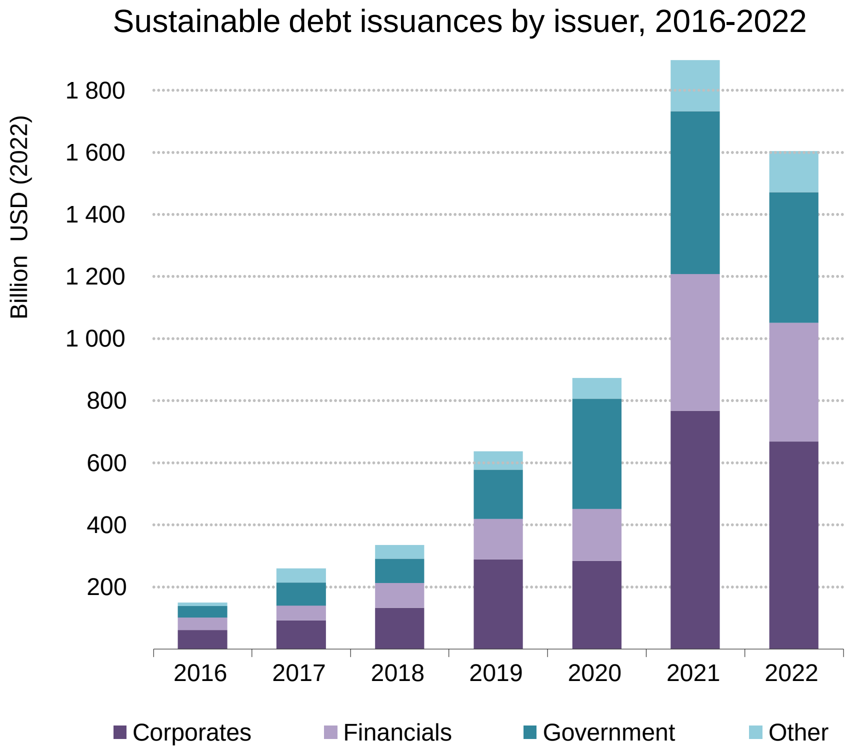
For every dollar invested in fossil fuels, about 1.8 dollars are now going into clean energy. Five years ago, this ratio was one-to-one

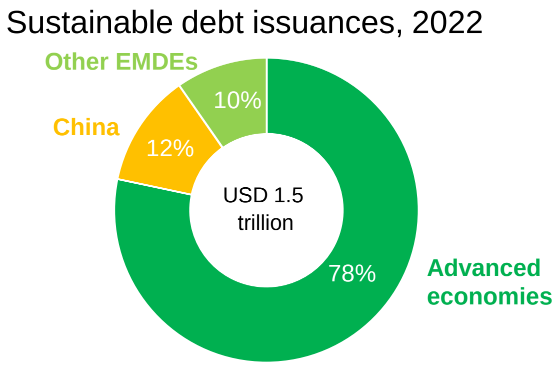
A steep pathway to SDGs and climate goals

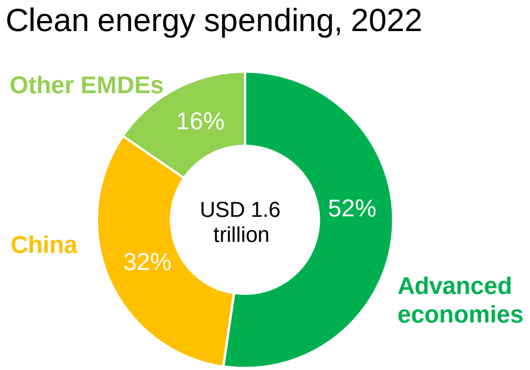


A seven-fold surge in spending on clean power, grids, storage and efficient technologies is needed over the next decade: less than 2% of the total would be enough to secure universal access to electricity & clean cooking fuels

Can sustainable finance get to where it's needed most?

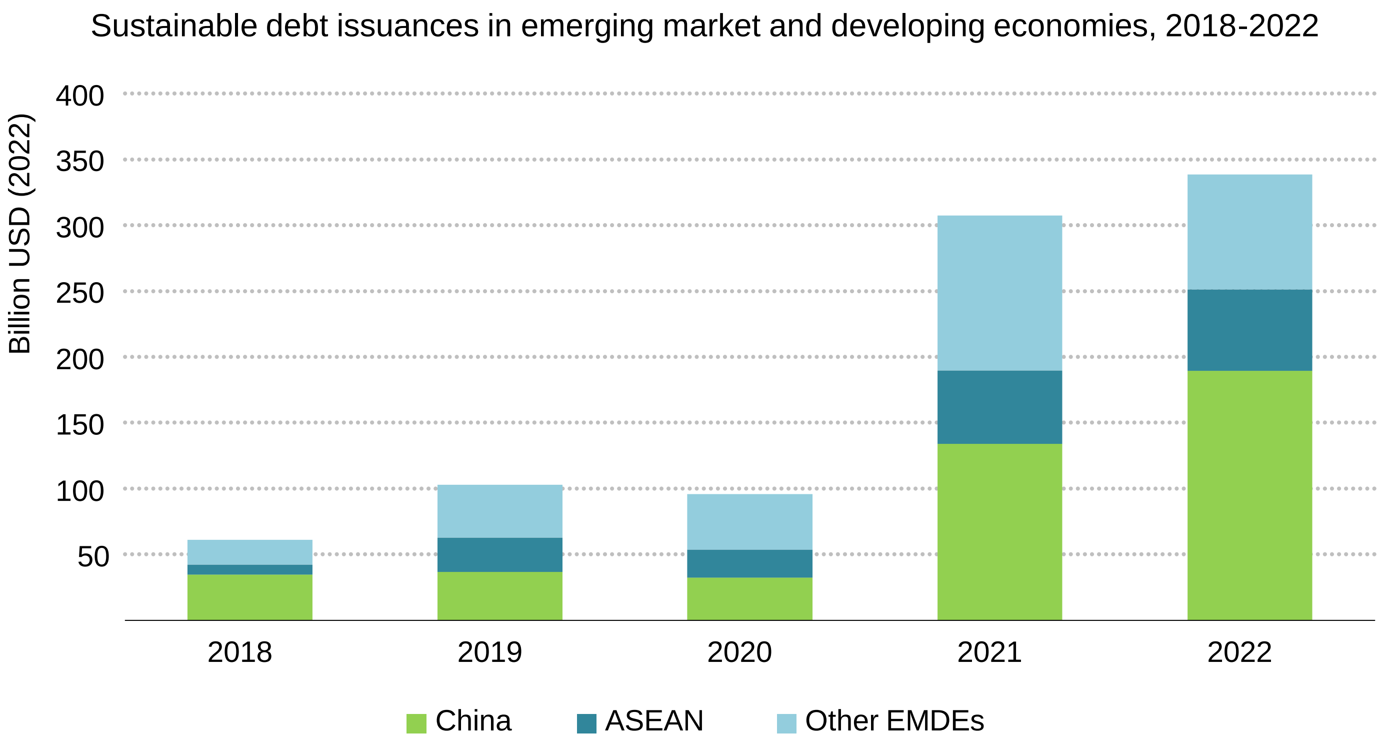






Sustainable finance has weathered the storm of the energy crisis, but big open questions remain on how to mobilise greater support for transitions in emissions-intensive sectors and in developing economies

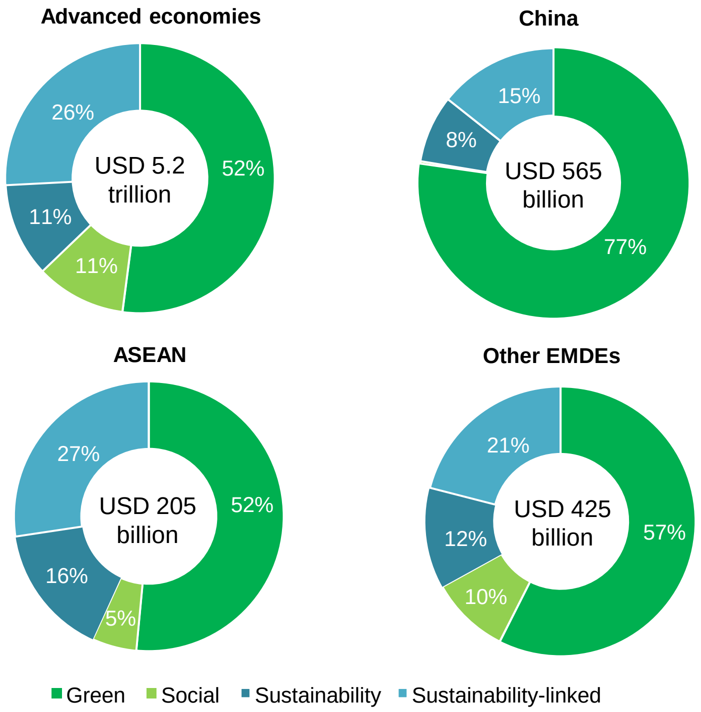
EMDE issuances follow the global trend for growth



China dominates issuances outside of OECD nations, accounting for over half of issuances; ASEAN accounts for a relatively static level of about a fifth of issuances

Green bonds are the most popular instrument across regions

Cumulative issuances by theme and region, 2014-2022



Use of proceeds bonds

- Green, social, sustainable bonds
- Funds are allocated to pre-defined targets that are aligned with taxonomies
- Include strict monitoring processes

Sustainability-linked bonds (SLBs)

- More flexible instruments
- Interest payments are based on issuer’s achievement of sustainability targets
- Regulatory environment is often more sparse for SLBs

Green debt, where bonds follow a use of proceeds model, is the most established sustainable finance theme, but sustainability-linked issuances have grown in popularity due to their flexible nature

Using sustainable finance to support transition activities

- Transition activities in emissions-intensive sectors often do not qualify for green bonds or loans

- **Transition finance instruments** can include:
  - Loans that adhere to transition principles
  - Transition bonds (use of proceeds)
  - Sustainability-linked bonds

- Emerging examples of how **regulation** can support the growth of transition finance while reducing risks of greenwashing
  - G20 Sustainable Finance Working Group's Transition Finance Taxonomy
  - Targetted activities in China such SLB issuances for heavy industries, or the creation of transition taxonomies in pilot zones such as Huzhou City
  - Introduction of climate transition finance guidelines in Japan with decarbonisation pathways by industry including iron, steel and cement

- The use of **clear, science-based transition pathways** are an essential part of the toolkit