Annex A. Overview of transition finance approaches

Table A A.1 below provides an overview of existing transition finance approaches (taxonomies, guidelines, frameworks, white papers, etc) developed by a variety of actors, namely jurisdictions, regional bodies, think tanks, multilateral development banks and market actors. The table summarises the analysis of these approaches along several dimensions, such as their focus, DNSH approach, the transition goal/pathway, whether it includes transition definitions, criteria, or thresholds, whether it applies to an activity or entity, relevant transition use cases and whether they consider just transition factors. The table builds on, updates and extends the analysis conducted in (Tandon, 2021[1]) and (Muller and Robins, 2022[2]).

Table A A.1. Stock-take of transition finance approaches

Actor	Focus	DNSH	Goal/Pathway	Criteria/ Thresholds	Activity/Entity	Definition/conditions of transition activities	Transition use cases	Just transition
				Public actors				
ASEAN ASEAN Taxonomy for Sustainable Finance	Mitigation Adaptation Protection of healthy ecosystem and diversity Promotion of resource resilience Transition to circular economy	Yes	Alignment with Paris Agreement	Yes, for the second tier (multi-level thresholds to be developed in the future)	Activity	Activities classified as "amber" are those that: • Do not currently have zero or near-zero emissions but are on a decarbonisation pathway aligned the goals of the PA • Are making short-term emission reductions but for which low-emission alternatives are not yet economically or technologically viable • Generate less emissions compared to an alternative and need to be carried out for a limited period of time while alternative low carbon technologies are developed into viable and scalable solutions.	Specific thresholds for economic activities' classification into red, amber and green will be developed in the next phase for the following sectors: • Agriculture, forestry and fishing • Manufacturing • Electricity, gas, steam, and air conditioning supply • Transportation and storage • Construction and real estate • Water supply, sewerage, waste management and remediation. Thresholds will be developed also for enabling sectors, namely: • information and technology • professional, scientific and technical activities • CCUS.	References to just transition and the social diversity across ASEAN members.

Actor	Focus	DNSH	Goal/Pathway	Criteria/ Thresholds	Activity/Entity	Definition/conditions of transition activities	Transition use cases	Just transition
European Union Taxonomy for sustainable activities	Mitigation Adaptation Sustainable use and protection of water and marine resources Transition to a circular economy Pollution prevention and control Protection and restoration of biodiversity and ecosystems	Yes	Climate-neutral economy by 2050	Yes	Activity	• No technologically or economically viable green alternatives • Support the transition to a climate-neutral economy consistent with a pathway to limit the temperature increase to 1.5 above pre-industrial levels. • Have GHG levels that correspond to the best performance in the sector or industry. • Do not hamper the development and deployment of low-carbon alternatives. • Do not lead to a lock-in of carbon-intensive assets, considering the economic lifetime of those assets.	Provided compliance with technical screening criteria and thresholds, "transitional activities" include: • Manufacturing steel, iron, aluminium, cement, plastics and other products • Renovation of a building to enhance energy efficiency • Water, rail, and road transport related activities • Electricity generation from fossil gaseous fuels* • High-efficiency co-generation of heat/cool and power from fossil gaseous fuels and production of heat/cool from fossil gaseous fuels in an efficient district heating and cooling system*	The minimum safeguards set out in Article 18 of the Taxonomy Regulation requires that companies implement procedures to comply with: • International Labour Organisation (ILO) core labour conventions; • OECD Guidelines on Multinational Enterprises (MNEs); and • UN Guiding Principles on Business and Human Rights. In 2022, the Platform on Sustainable Finance proposed a structure for a possible future social Taxonomy, including just transition aspects.
Indonesia Green Taxonomy	Environmental protection and management Mitigation Adaptation	Yes	Paris Agreement and NDC	Yes (screening criteria)	Activity	Traffic light system: • green (do no significant harm, apply minimum safeguards, provide positive Impact to the environment and align with the environmental objective of the taxonomy, • yellow (do no significant harm) • red (harmful activities).	TBC	The Taxonomy is based on four principles, one of which centres on the need for social and environmental risk management, through identification, measurement, mitigation, supervision, and monitoring processes.

Actor	Focus	DNSH	Goal/Pathway	Criteria/ Thresholds	Activity/Entity	Definition/conditions of transition activities	Transition use cases	Just transition
Japan Basic Guidelines on Climate Transition Finance	Mitigation	Yes	• Paris Agreement • IEA's scenarios • SBTi • NDCs, industry sector roadmaps	No	Asset and entity	• Borrower must articulate a transition strategy with science-based targets. • Fulfil disclosure requirements as per the ICMA Transition Finance Handbook as well as Green, Social, Sustainability or Sustainability-Linked Bond Principles as the case may be.	Sector-specific roadmaps are available for chemicals, iron, and steel. Roadmaps are being developed for energy (electric power, oil and gas), paper/pulp and cement.	Explicit guidance on just transition: It is recommended that entities report how consideration of a "just transition" is incorporated into the transition strategy.
Korea Draft K-Taxonomy	Mitigation Adaptation Sustainable conservation of Water Circular economy Pollution prevention Biodiversity conservation	Yes	Activity	Yes, under development	Not specified	TBC	TBC	No
Malaysia Principles Based Taxonomy	Mitigation Adaptation	Yes	None stated explicitly; but from the context of the document, one may infer NDC under Paris Agreement.	No	Activity	• Have a positive impact on either mitigation or adaptation or both, though they may still, in the immediate and intermediate future, cause some harm to other environmental objectives. • In such cases, remedial measures are necessary to reduce or eliminate such harm.	1. Purchase of green technology equipment, 2. Purchase of factory certified as green building, 3. General working capital for an MSPO (Malaysian Sustainable Palm Oil) certified palm oil plantation.	Explicit guidance on just transition: Companies should also consider how its transition strategy supports a just transition.

Actor	Focus	DNSH	Goal/Pathway	Criteria/ Thresholds	Activity/Entity	Definition/conditions of transition activities	Transition use cases	Just transition
Singapore Second Taxonomy Consultation Paper	Mitigation Adaptation Healthy ecosystems and biodiversity Resource resilience and circular economy Pollution prevention and control	Yes	Sectoral Decarbonisation Approach (SDA), using IEA RTS, IEA 2DS and IPCC SR1.5-aligned models	Yes, for mitigation first	Activity	Traffic light system (green, amber and red). "Amber" activities include existing activities that are not presently on a net-zero pathway, but are either: • Moving towards a green transition pathway within a defined time frame; or • Facilitating significant emissions reductions in the S-T with a prescribed sunset date. All activities in amber must demonstrate their improvement process over time.	Specific thresholds and sunset dates for amber activities have been defined for the following sectors: 1. Energy (hydropower, bioenergy power generation, electricity generation from hydrogen and energy production form natural gas); Decommissioning of fossil fuel activities are eligible as 'amber' if phased out in line with Paris Agreement requirements and before sunset dates; 2. Transport (road freight transport outperforming best-on-the market approach; air, sea and coastal water transport in line with sectoral decarbonisation pathways of TPI); 3. Real estate (no amber category for new buildings; for renovation, threshold in line with Singapore's emission reduction target for the sector).	Explicit guidance on just transition: Entities must meet minimum social safeguards in the performance of their activities.

Actor	Focus	DNSH	Goal/Pathway	Criteria/ Thresholds	Activity/Entity	Definition/conditions of transition activities	Transition use cases	Just transition
South Africa [Green Finance Taxonomy]	*At present:* Mitigation Adaptation *In the future:* Sustainable use of water and marine resources Pollution prevention, sustainable resource use and circularity Ecosystem protection and restoration.	Yes	Paris Agreement	Yes	Activity	As in the EU Taxonomy, an activity for which there is no technologically and economically feasible low carbon alternative, is considered to contribute substantially to mitigation as it supports the transition to a low carbon economy by phasing out greenhouse gas emissions, in particular from solid fossil fuels, where that activity: • Has GHG levels that correspond to the best performance in the sector or industry; • Does not hamper the development and deployment of low-carbon alternatives; and • Does not lead to a lock-in in carbon-intensive assets considering the economic lifetime of those assets.	The inclusion of natural gas as a transition fuel is under consideration within the development of a future transition taxonomy. Transition elements to be clarified in the future.	As in the EU Taxonomy, companies and other issuers disclosing against the Taxonomy need to assess their compliance with minimum social standards by ensuring implementation of policies, procedures and governance mechanisms that put into effect alignment with South African labour law and the standards in: • International Labour Organisation (ILO) core labour conventions; • OECD Guidelines on Multinational Enterprises (MNEs); and • UN Guiding Principles on Business and Human Rights.
Market actors								
AXA IM [Guidelines on Transition bonds]	Emission reduction Energy efficiency Access to clean energy Use of natural resources Resilience	Yes	Paris Agreement	No	Entity and activity	Projects must be within pre-specified climate transition activities. Borrower must have a clear climate-transition strategy. The management must make a commitment to align business operations with the goals of the Paris Agreement.	None	Disclosure of environmental and social impact; just transition not directly addressed.

Actor	Focus	DNSH	Goal/Pathway	Criteria/ Thresholds	Activity/Entity	Definition/conditions of transition activities	Transition use cases	Just transition
Climate Bonds Initiative Climate Bonds Taxonomy	Mitigation Adaptation	No	Paris Agreement, based on IPCC and IEA pathways	Yes	Activity	Traffic light system, where "orange" activities are defined as those that are potentially compatible, depending on whether specific criteria are met.	Specific thresholds are developed for "orange" activities for all sectors covered by the taxonomy, namely: 1. Energy 2. Transport 3. Water 4. Buildings 5. Land and marine resources 6. Industry 7. Waste and pollution control 8. ICT	Social considerations are integrated only in the screening indicator for hydropower.
Climate Bonds Initiative White Paper	Mitigation	No	1.5°C science-based scenario	No	Entity and activity	• Goals and pathways pursued must align with zero carbon by 2050 and nearly halve emissions by 2030 • Goals and pathway pursued must be based on global scenarios supported by scientific evidence • Goals and pathways do not count offsets, but should count upstream scope 3 emissions • Technological viability trumps economic competitiveness • Operating metrics rather than a commitment/pledge	1. Deep retrofits of residential properties 2. Retrofit of shipping vessels to run on green ammonia 3. Retrofits of airline fleets to operate with a maximum biofuel or synthetic fuel mix 4. Installation of gas capture at a waste-to-energy plant treating only residual waste 5. Switch from fossil fuel based plastics to compostable alternative to produce bottled mineral water.	No

Actor	Focus	DNSH	Goal/Pathway	Criteria/ Thresholds	Activity/Entity	Definition/conditions of transition activities	Transition use cases	Just transition
DBS Sustainable and Transition Finance Framework and Taxonomy	Green SDGs Transition	No	Paris Agreement along with guidance of the IEA Sustainable Development Scenario.	No	Entity and activity	The asset must displace more carbon intensive options in alignment with the trajectory of the PA while following the guidance of the IEA SDS. The borrower must exhibit one of the following in the previous 12 months: 1. Divestment from carbon-intensive activities 2. Diversification from carbon-intensive activities by either acquiring a green or socially positive business or through R&D, or 3. Decarbonised by demonstrating a reduction in emissions intensity beyond national or regional industry average.	1. Logistics and operations efficiency improvement: Fleet optimisation and route management (e.g., eliminating backhauls and consolidating loads) 2. Use of aircraft with electric engines or hydrogen fuel cell 3. A substantial reduction in GHG emissions or energy saving because of upgrade or retrofit, or an upgrade in certification rating of at least one notch higher.	For use of proceeds, just transition/social dimensions are not addressed. For company in transition, the social dimension is integrated as a potential additional eligibility criterion, whereas just transition factors are not directly addressed.
ICMA Climate Transition Finance Handbook	Not specified	Partially	Science-based scenario aligned with the temperature goal of the Paris Agreement.	No	Entity	Borrowers should: • Have a long-term corporate strategy to manage climate-related risks and transform the business model to align it with the objectives of the Paris Agreement • Seek TF to transform core business operations	None	Explicit guidance on just transition: • When the transition has negative impact for workers and communities, issuers should outline how they incorporates just transition considerations and details any social expenditure.

Actor	Focus	DNSH	Goal/Pathway	Criteria/ Thresholds	Activity/Entity	Definition/conditions of transition activities	Transition use cases	Just transition
						• Have a science-based, quantifiable transition trajectory, with include interim targets, independently vetted, and verified • Planned capital and operational expenditures to support the transition strategy must be communicated along with their intended climate-related impact.		
Research Institute for Environmental Finance Japan Transition Finance Guidance	Emission reduction	No	None	No	Entity and activity	• Borrower must be within a high-emitting sector and be overall carbon-intensive • Asset/technology financed must not lock-in long-term emissions or negative effects on the environment • Asset(s) or corporations must be eligible under the brown taxonomy provided in the guidance	1. CCS in coal fired power plants 2. Pipeline repairs to reduce methane leakages 3. Switching ships and aircraft to alternative low-carbon fuels 4. Retrofitting buildings and houses to increase energy efficiency.	No
International financial institutions								
EBRD Green Transition Bond Framework	Energy Efficiency Resource Efficiency Sustainable Infrastructure	Social impact review	Domestic objectives of the country under the Paris Agreement	Yes (use-of-proceeds eligibility criteria)	Activity	• Asset must sit within the climate-governance strategy of the implementing company • Asset must contribute to the national objectives under the PA of the country wherein it is located	1. Manufacturing (e.g., by decarbonising chemical, cement and/or steel production) 2. Food production (e.g., by reducing resource intensity and promoting sustainable land use)	Social dimension as a potential additional eligibility criterion; just transition not directly addressed.

Actor	Focus	DNSH	Goal/Pathway	Criteria/ Thresholds	Activity/Entity	Definition/conditions of transition activities	Transition use cases	Just transition
						• Finance must be used towards one or more of the following (i) energy efficiency, (ii) resource efficiency, and (iii) sustainable infrastructure • The decarbonisation or resource efficiency performance targeted by the project must exceed industry average.	3. Building construction and renovation (e.g., by improving resource efficiency).	
MDBs Common principles for climate mitigation finance tracking	Mitigation	Yes	Pathways	Yes (eligibility criteria for climate mitigation activities)	Entity and activity	• Lack technologically or economically feasible very-low-emission alternatives available • Comply with high performance country- or sector-specific standards, benchmarks, or thresholds for GHG emissions or emission-intensity that significantly exceed expected performance in a sector or activity • Do not hamper the development or deployment of very-low-emission activities • Do not lead to a lock-in of GHG-emission-intensive assets that is inconsistent with the net-zero goal.	The Common Principles outlines for climate mitigation finance eligibility criteria. After the first two-year operationalisation period, the list will be adjusted to focus also on eligibility criteria of transitional and enabling activities. The current list includes eligibility criteria for financing supporting closure of fossil fuel plants or other activities involving fossil fuel extraction, processing, or transport, including support to workers or communities affected by such closure.	No

Note:
* = Included in the EU Taxonomy Complementary Climate Delegated Act, which is currently under scrutiny by the European Parliament and the Council and, once the scrutiny period is over and if neither of the co-legislators objects, the Complementary Delegated Act will enter into force, amend the Delegated Act and apply as of 1 January 2023 (European Commission, 2022[3]).
Sources: (ASEAN Taxonomy Board, 2021[4]; European Parliament and Council of the EU, 2020[5]; European Commission, 2021[6]; European Commission, 2022[7]; OJK, 2021[8]; FSA, METI and Ministry of Environment, Japan, 2021[9]; InfluenceMap, 2021[10]; Bank Negara Malaysia, 2021[11]; Green Finance Industry Taskforce, 2022[12]; South African National Treasury and IFC, 2022[13]) (AXA, 2021[14]; CBI, 2021[15]; CBI, 2020[16]; CICERO Shades of Green, 2020[17]; ICMA, 2020[18]; Research Institute for Environmental Finance, 2020[19]; EBRD, 2019[20]; EIB, 2021[21]).

References

ASEAN Taxonomy Board (2021), *ASEAN Taxonomy for Sustainable Finance*, https://asean.org/wp-content/uploads/2021/11/ASEAN-Taxonomy.pdf. [4]

AXA (2021), *Financing brown to green: Guidelines for Transition Bonds*, https://www.axa-im.com/financing-brown-green-guidelines-transition-bonds. [14]

Bank Negara Malaysia (2021), *Climate Change and Principle-based Taxonomy*, https://www.bnm.gov.my/documents/20124/938039/Climate+Change+and+Principle-based+Taxonomy.pdf. [11]

CBI (2021), *Climate Bonds Taxonomy*, https://www.climatebonds.net/files/files/Taxonomy/CBI_Taxonomy_Tables-08A%20%281%29.pdf. [15]

CBI (2020), *Financing Credible Transitions (White Paper)*, https://www.climatebonds.net/resources/reports/financing-credible-transitions-white-paper. [16]

CICERO Shades of Green (2020), *DBS Sustainable & Transition Finance Second Opinion*, https://www.dbs.com/iwov-resources/images/sustainability/responsible-banking/Cicero%20SPO_Jun%202020.pdf?pid=DBS-Bank-Second-opinion-IBG-by-Cicero. [17]

EBRD (2019), *Framework for Green Transition Bonds*, https://www.ebrd.com/work-with-us/sri/green-bond-issuance.html. [20]

EIB (2021), *Common Principles for Climate Mitigation Finance Tracking*, https://www.eib.org/attachments/documents/mdb_idfc_mitigation_common_principles_en.pdf. [21]

European Commission (2022), *Commission Delegated Regulation (EU) 2022/1214 of 9 March 2022 amending Delegated Regulation (EU) 2021/2139 as regards economic activities in certain energy sectors and Delegated Regulation (EU) 2021/2178 as regards specific public disclosures for those e*, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32022R1214. [7]

European Commission (2022), *EU Taxonomy: Commission presents Complementary Climate Delegated Act to accelerate decarbonisation*, https://ec.europa.eu/commission/presscorner/detail/en/ip_22_711. [3]

European Commission (2021), *Commission Delegated Regulation (EU) 2021/2178 of 6 July 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by specifying the content and presentation of information to be disclosed by undertakings subject to Article*, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32021R2178. [6]

European Parliament and Council of the EU (2020), *Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (Text with EEA relevance)*, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32020R0852. [5]

FSA, METI and Ministry of Environment, Japan (2021), *Basic Guidelines on Climate Transition Finance*, https://www.meti.go.jp/press/2021/05/20210507001/20210507001-3.pdf (accessed on 30 April 2022). [9]

Green Finance Industry Taskforce (2022), *Identifying a Green Taxonomy and Relevant Standards for Singapore and ASEAN*, https://abs.org.sg/docs/library/second-gfit-taxonomy-consultation-paper. [12]

ICMA (2020), *Climate Transition Finance Handbook*, https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Climate-Transition-Finance-Handbook-December-2020-091220.pdf (accessed on 30 April 2022). [18]

InfluenceMap (2021), *Policy Alert: The Korean Sustainable Finance Taxonomy (K-taxonomy)*, https://influencemap.org/report/Investor-Intervention-Opportunity-The-Korean-Sustainable-Finance-Taxonomy-K-taxonomy-15855. [10]

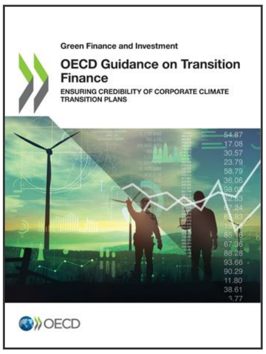
Muller, S. and N. Robins (2022), *Where are the people in transition finance?*, https://www.lse.ac.uk/granthaminstitute/news/where-are-the-people-in-transition-finance/. [2]

OJK (2021), *Indonesia Green Taxonomy*, https://www.ojk.go.id/keuanganberkelanjutan/Uploads/Content/Regulasi/Regulasi_22012011321251.pdf. [8]

Research Institute for Environmental Finance (2020), *Transition Finance Guidance*, https://rief-jp.org/wp-content/uploads/Pressrelease-for-Final-version-fo-Transition-Finance-Guidance.pdf. [19]

South African National Treasury and IFC (2022), *South African Green Finance Taxonomy*, http://www.treasury.gov.za/comm_media/press/2022/SA%20Green%20Finance%20Taxonomy%20-%201st%20Edition.pdf. [13]

Tandon, A. (2021), “Transition finance: Investigating the state of play: A stocktake of emerging approaches and financial instruments”, *OECD Environment Working Papers*, No. 179, OECD Publishing, Paris, https://doi.org/10.1787/68becf35-en. [1]



From:

OECD Guidance on Transition Finance

Ensuring Credibility of Corporate Climate Transition Plans

Access the complete publication at:

https://doi.org/10.1787/7c68a1ee-en

Please cite this chapter as:

OECD (2022), “Overview of transition finance approaches”, in *OECD Guidance on Transition Finance: Ensuring Credibility of Corporate Climate Transition Plans*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/90b694a9-en