

Concept note – green transition work program

The Coalition of Finance Ministers for Climate Action

May, 2023

1. Context and Challenges

Today's global economy is marked by an unprecedented confluence of global crises that has upended development progress and eroded economic growth, poverty reduction, and human development since 2020, threatening people and the planet. The urgency of action continues to escalate given the vast and increasing needs in response to accelerating global challenges such as climate change, pandemic risk, and fragility, conflict, and violence. Poverty eradication is off track to reach 2030 targets, fragility, conflict, and violence are forcing displacement of millions of people, greenhouse gas (GHG) emissions are still growing, and the world is not on track to meet net-zero by 2050.¹

The existing scenario has made it more difficult to pursue the green recovery agenda but has also made the imperative of a green transition more urgent. Policy and decision makers are left with the dilemma of accelerating the transition under rising debt levels, lack of fiscal space, and increasingly difficult access to finance – particularly relevant for low-income and mid-income countries (LIC and MIC, respectively), while not adding to the already existing social challenges such as access to energy.

Coal-fired power plants are one of the major sources of base power supply globally, but also the largest source of GHG emissions, releasing circa 10 billion tCO₂e per year, or about 20 percent of all global annual emissions. To reach net zero emissions by 2050 and stand a chance of achieving a world with only 1.5 to 2°C of warming, immediate declines in the use of coal, oil, and gas will be necessary. Transforming such an industry implies in spending millions of Dollars to prematurely retire existing coal power plants 10-25 years earlier than their historic average operating lifespan², and in phasing out all unabated coal and oil power plants by 2040 – roughly one coal unit every day until 2040. The scale of the challenge is daunting³. Approximately \$1 trillion in coal-fired assets will have to be retired or repurposed, and LICs and MICs account for 89 percent of the global capital in coal-fired power plants that is at risk of being stranded⁴.

¹ Evolution of the World Bank Group – A Report to Governors, Development Committee (Joint Ministerial Committee of the Boards of Governors on the Transfer of Real Resources to Developing Countries), 2023

² The mean cost to retire a coal-fired plant was \$117,000 per mega Watt and up to \$466,000. <https://media.rff.org/documents/RFF20Rpt20Decommissioning20Power20Plants.pdf>

³ Eliminating emissions from today's 2,153 GW coal fleet by 2040 would require more than 100 GW of coal capacity to be retired each year for the next 20 years. While the average economic lifetime of a coal plant is 40 years, 60 percent of the existing fleet is less than 20 years old. The operating global coal power plants are expected to emit 100 GtCO₂ and thus exhaust one-fourth of the planet's remaining carbon budget.

⁴ Scaling Up to Phase Down: Financing Energy Transition in the Power Sector, the World Bank, April 2023

At the same time, annual clean energy investment worldwide will need to more than triple by 2030 to around \$4 trillion⁵, representing a particular burden for economies with limited fiscal leeway on keeping food and fuel affordable.⁶

Adding to the global economic challenges, and to the disproportionately higher financial and operational challenges faced by LICs and MICs, a green transition needs to overcome several issues on its own, some inherent to relatively new topics. Notwithstanding several invaluable attempts from governments and stakeholders around the world, the concept of green transition varies significantly. Existing literature identifies key aspects needed for a smooth and effective green transition process:

- Taxonomy, definition of eligible activities, and performance standards that are internationally accepted to ensure investments will have harmonized monitoring, reporting and verification processes. This is needed to attract private investors that need to clearly demonstrate genuine green transition investments and differentiate them from “greenwashing” ones.
- Green transition framework, encompassing credible timelines that takes into consideration flexible regional and sectoral adjustments – in recognition of different levels of fossil-fuel dependences across countries and end-users, as well as availability of affordable equivalent low-carbon alternative technologies. This is of fundamental relevance to enable the alignment between local investment milestones with moving global climate targets.
- Access to long-term finance with terms suitable to the nature of investments – premature decommissioning of existing carbon-intensive and/or the construction of new low-carbon infrastructure (i.e., high up-front costs, reduced IRRs and ROIs). Governments and multilaterals have an important role to play in offering innovative financial structures that incorporate concessional rates, de-risking characteristics, and blending structures⁷. Also supported by the Coalition, MoF can advance green transition with use soft (i.e., persuasion and incentives) power and regulatory power (i.e., law enforcement)⁸.
- Just transition: To leave no one behind, it is crucial to shape a transition in a way that is fair and inclusive. It needs to address country-owned and country-specific social factors such as access, affordability, and security, although global cooperation and partnership will be needed with

⁵ <https://www.iea.org/reports/net-zero-by-2050>, IEA 2021

⁶ While advanced economies have earmarked USD 370 billion worth of clean energy measures to be spent by 2023, which is consistent with the short-term spending required in the IEA Net Zero Emissions by 2050 Scenario, emerging and developing economies (EMDE)s spending on sustainable recovery measures is less than a quarter (around \$52 billion by 2023) of the short-term investment needed to reach mid-century net zero emission goals. <https://www.iea.org/reports/sustainable-recovery-tracker>, IEA 2022

⁷ Blended finance is the use of catalytic capital from public, concessional, and philanthropic sources to mobilize additional private sector investment in emerging markets. The term first gained traction internationally in 2015, when the concept of ‘blended finance’ to complement scarce public resources was featured prominently during the Third International Conference on Finance for Development. Since then, the need to find appropriate vehicles through which blended finance can be channeled for sustainable investments has become a central theme across several global platforms, including through the UNFCCC Conference of Parties, the G20, the OECD, and more. Climate finance especially renewable energy sector has traditionally been the focus of blended finance investments. Blending can be structured at various levels, ranging from project, fund, fund of funds (umbrella fund), to institution, or even market level. Blended finance vehicles can employ a wide range of financial instruments, including debt (senior and subordinated), equity, risk sharing facilities or guarantees, and grants.

⁸ There are successful case studies of MoF soft power in Rwanda, Indonesia, Switzerland, and Luxembourg <https://blogs.worldbank.org/psd/supporting-private-sector-net-zero-commitments-role-ministries-finance>

support to LICs and MICs. The just transition will have to avoid these countries to be caught in a poverty trap –unable to afford the high up-front costs of switching to clean energy, they get locked into higher costs and recurring payments for fossil fuels.

There is a broader global consensus that, by bringing these pieces together, accelerate the green transition towards a global net zero scenario is doable.

2. The Coalition and Green Transition

In 2022, the members of the Coalition of Finance Ministers for Climate Action have indicated the importance for the Coalition to discuss the transition to a net-zero global economy under existing economic and geopolitical challenges. As part of the discussion, an Issues Note on Green Transition was prepared by members of the Coalition, with the support of the secretariat and under the guidance of sherpas. The Note guided a discussion in the 8th Ministerial Meeting, on October 12, 2022, which acknowledged the relevance of a concerted global green transition process and highlighted the key role of Finance Ministers have to play in moving that agenda forward. Following up on the discussions, the Coalition agreed to include green transition in its 2023 work program, as a cross-cutting topic to the Coalition Principles, and the Coalition co-chairs and secretariat agreed in dedicating time to further discuss the topic during the 9th Ministerial Meetings on April 14, 2023.

At the meeting, the Coalition co-chair from Indonesia, Sri Mulyani, explained the relevance of scaling up transition finance and emphasized: *“Therefore, we need to develop a transition finance ecosystem that enables sufficient mobilization of transition financing. This includes developing clear and globally accepted definitions of transition activities and taxonomies that acknowledge transition activities. Additionally, it is equally important to establish the institutions to support the interoperability of transition finance mobilization, such as globally-accepted registry and verification bodies.”*

In the 2023 work program of the Coalition, the key activities and deliverables for the green transition work program were: (i) sharing of experiences on transition planning in workshops, including different approaches to addressing horizontal policy challenges, and economic policy issues related to Just Energy Transition Partnerships (JETPs) of member countries; (ii) an issues note on role of economic, fiscal and financial policies in the design of transition policies that could serve members to raise awareness on overall transition approaches across Helsinki Principles (especially HP1, HP3, HP4, HP5), and be used as an input to discussions in other fora, e.g. UNFCCC 2023 discussion on “Just Transition”; (iii) discussing the roles of IFIs/MDBs and Domestic Financial Institutions in driving green transformation and leveraging climate finance, public and private (this could be lined to other discussions, including especially adaptation and nature).

Please note the draft work plan and suggested activities in this document (see below) updates the 2023 work program on green transition, following on the highlights of the 9th Ministerial Meetings and follow up discussions with Indonesia, in particular recognizing the relevance in addressing definitions and taxonomy. Also, if the Coalition calendar permits, other activities can be considered under this workstream for 2023, for themes that include just transition and the roles of public (i.e., MoFs and MDBs) and private sectors in green transition.

3. Next steps – suggested process

The sherpa of Indonesia together with the secretariat (leading team) had an initial meeting on April 18 and agreed to prepare a draft concept note that sets the tone and includes a draft proposal of thematic topics to be covered within green transition – this document. As indicated above, topics suggested are based on priorities identified in recent events and discussions, underpinned by the material already produced under the Coalition, extensive literature review, and initial consultations. The concept note suggests format, sequencing, and timeline for the 2023 green transition work program. Its content aims at leveling understandings and expectations, as well as eliminating possible knowledge asymmetries among the Coalition members.

After preparation, the concept note will be circulated with other Coalition members and the leading team will call for a green transition meeting among all the Coalition members. The objectives of the meeting are: (i) to validate the work program, including proposed workshops and seminars, peer-to-peer exchange initiatives, and technical notes, (ii) agree on the format, sequencing and timeline of the selected activities, and (iii) identify interest and gather support with the organization and implementation of the activities.

4. Draft work plan (proposal for discussion)

A. Currently engaged countries and IPs (as per the 2023 work program)

Country leads: Indonesia and another Country (tbd)

Institutional partners: EBRD, EIB, ADB, NIB, WB, LSE/GRI, Brookings, OECD, EC (IPSF) identified in the work program (tbc)

B. Meetings and events in 2023

Events that took place already:

- HP5/Transition: transition finance workshop on [Net Zero Data Public Utility \(NZDPU\)](#), April 5
- 9th Ministerial Meeting (spring), April 14

C. Meetings and events in 2023 (cont)

Upcoming calendar activities:

Dates	Events
May 23	Kick-off meeting
Q2	Seminar on existing attempts on creating interoperable green transition taxonomy, eligible activities, and performance standards (Indonesia, EBRD, Japan METI, MUFG, Standard Chartered Bank ?)
Q3	Seminar on a green transition framework and financing: the case of Energy Transition Mechanism (Indonesia, US, and Japan (on JETP), ADB (on Indonesia ETM), OECD (on sectoral decarbonization approach – SDA and the absolute contraction approach – Science Based Targets initiative (SBTi), WB on project to decommission and repurpose the Komati (SA) coal-fired power plant, GFANZ)
Q3	Seminar on transition finance options and products as part of a green transition (WB TRE on green bonds, FCI on blended, SCCFE on carbon markets, ...) – possible coordination to expand scope of existing H3+H5 place holder on voluntary carbon markets)
Q4	Elaboration of a summary report on green transition to policy makers (Indonesia and Brookings, with support from secretariat and other IPs – EBRD, EIB, NIB, WB, LSE/GRI, OECD, EC-IPSF ?)
<u>Q4 - Oct 13-15</u>	Annual Ministerial meeting of the Coalition during the IMF-WBG Annual Meetings, Marrakesh, Morocco
<u>Q4 - Nov 30- Dec 12</u>	COP28, Dubai, UAE