

An aerial, high-angle photograph of a dense urban landscape, likely a major financial hub. The image is in a dark, monochromatic blue-grey tone. In the center, a prominent cluster of skyscrapers rises above the surrounding city. To the right, another tall, slender skyscraper stands out. The foreground and midground are filled with a variety of building heights and styles, interspersed with green spaces and a winding road. The sky is filled with soft, white clouds.

# Transition Finance 2023 market overview

# OVERVIEW

This report summarizes the current state of transition finance in Japan. At the beginning, in addition to transition finance, we have also summarized international trends in the sustainable finance market, and after that, we have described the state of transition finance in Japan.

In the second half, we have explained the features of projects adopted under the subsidy program of the Ministry of Economy, Trade and Industry (METI) in FY 2023.

## Contents

### 01

#### Market Overview

- International Markets
- Domestic Markets

### 02

#### METI 2023 Subsidy Program

- Project Summary
- Trends of 2023

# 2023 Sustainable Finance International Markets

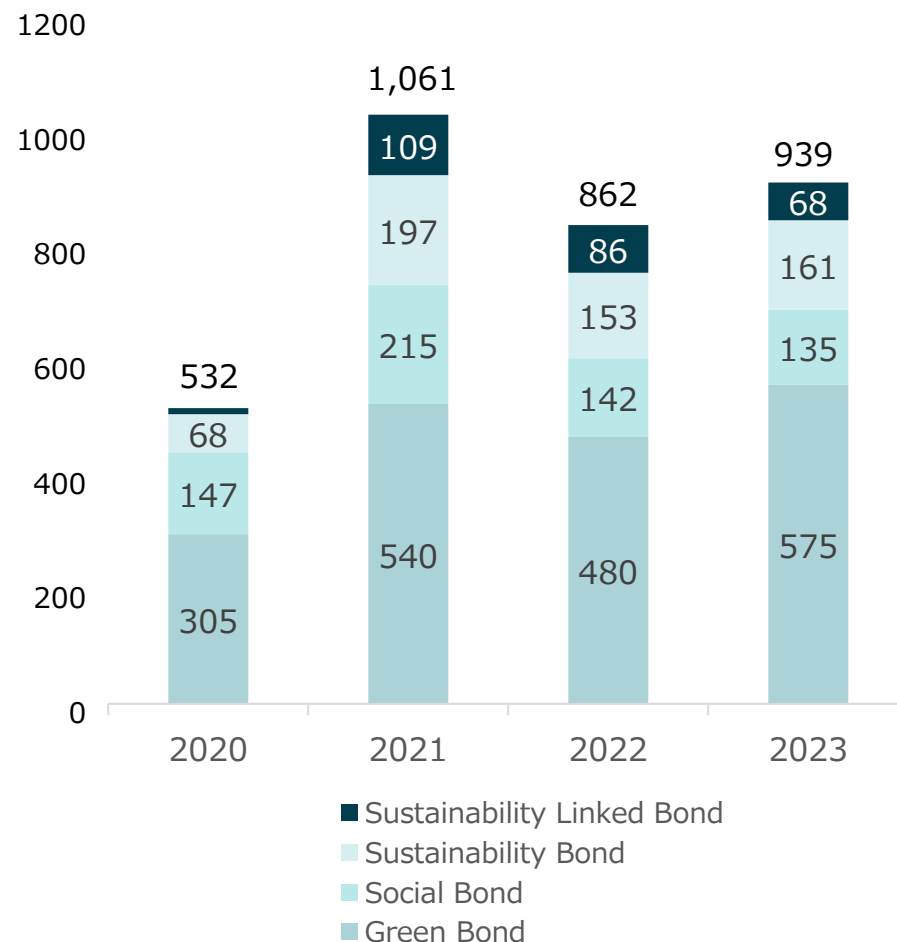
Sustainable Bonds Market vs 2022 Market Size

**939** bn USD **+8.9%**

The sustainable bond market in 2023 switched from a tendency to decrease the previous year, increasing in size to 939 billion USD. Of this amount, green bonds and sustainability bonds both increased steadily. One of the factors in the increase in sustainability bonds was that issues for non-climate related reasons such as human rights and biodiversity also increased. The definitions of social labels are currently vague, and it is expected that social-related issues with sustainability labels will increase in future, not only those with social labels.

On the other hand, sustainability linked bonds (SLB) continued their tendency to decline this fiscal year, continuing from last fiscal year. As the background to this, some investors raised the point that monitoring of the measurement of performance effects and requirements by investors became stricter in response to greenwashing so the additional burden on issuers increased.

Trend in fund procurement amounts overseas due to environment-related investment for decarbonization, etc.  
(bn USD)



# 2023 Transition Finance International Markets

The importance of transition finance was first mentioned at the G7 Hiroshima Summit 2023, and there were big moves around then too, including Japan carrying out the first fund procurement with GX economic transition bonds.

In addition, the ICMA's "Climate Transition Finance Handbook 2023" was also revised to show how the handbook can be used as a reference not only if arranging transition finance under the "transition" label, but also if transition elements are included when arranging green, sustainability or sustainability linked bonds (GSS bonds). Japan has taken a leading position in the issue amount of transition bonds using labels. Japan's efforts to formulate basic guidelines and sector-specific roadmaps were introduced as examples of transition finance initiatives in "Transition Finance in the Debt Capital Market"<sup>\*1</sup> published by the ICMA in February 2024.

On the other hand, in other countries, hard-to-abate industries procure funds centered on SLBs, and the current situation is that procurement by hard-to-abate industries through green bonds (GB) and sustainability bonds (SB) is limited to just part of their financing.

However, transition strategies and plans have become increasingly important internationally. As examples, the world's first transition categories were created in the taxonomies presented by Singapore and Malaysia in 2023 and the definition of "credible transition plan" was made clear. Especially in Asia, where energy demand will continue to increase along with economic growth, it can be said that moves towards the use of transition finance are increasing.

\*1 <https://www.icmagroup.org/assets/Transition-Finance-in-the-Debt-Capital-Market-paper-ICMA-14022024.pdf>

## Transition Finance methods

### Consistency with the Basic Guidelines



### Procurement method (2 types)

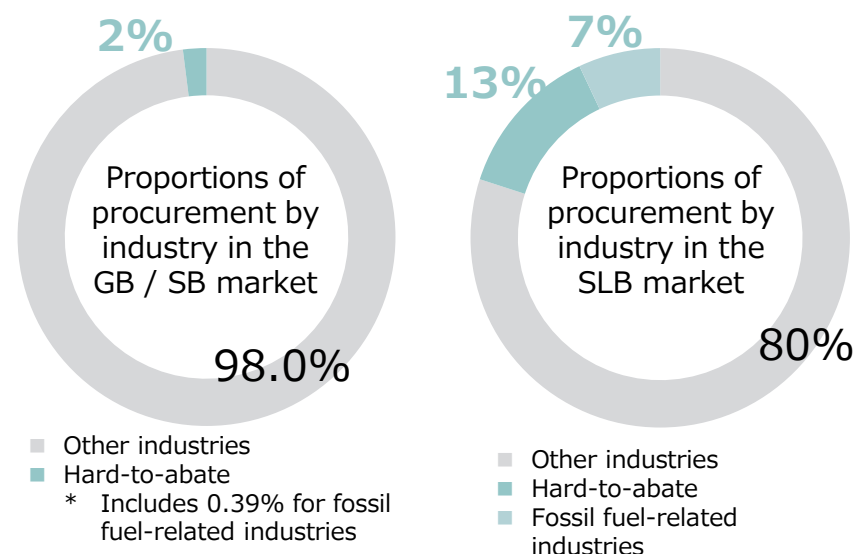
#### [1] Procurement through transition bonds

- "Procurement under the "transition " label

#### [2] Procurement through GSS bonds

- Use of Proceeds instruments (GB, SB)
- General Corporate Purpose instruments, setting of KPIs or SPTs (SLB)

## Proportions of fund procurement methods by large emission industries (\*Published from January 2022 to December 2023)



Source) Classification and figures for hard-to-abate industries and fossil fuel-related industries based on ICMA "Transition Finance in the Debt Capital Market" (February 2024)

# 2023 Transition Finance Domestic Markets

**Transition Finance\*1  
2023 Issuance**

**Approx. 840 bn yen**

**Transition Finance  
Cumulative issuance (2021.1 ~ 2023.12)**

**Approx. 1,640 bn yen**

In 2023, a total of about 841 billion yen was procured through transition finance, and among the fundraisers' industries, electric power companies accounted for about 40% of the total, shipping companies for about 20% and gas companies for 10%.

The total amount of transition financing since 2021 had expanded to about 1,640 billion yen as of the end of 2023.

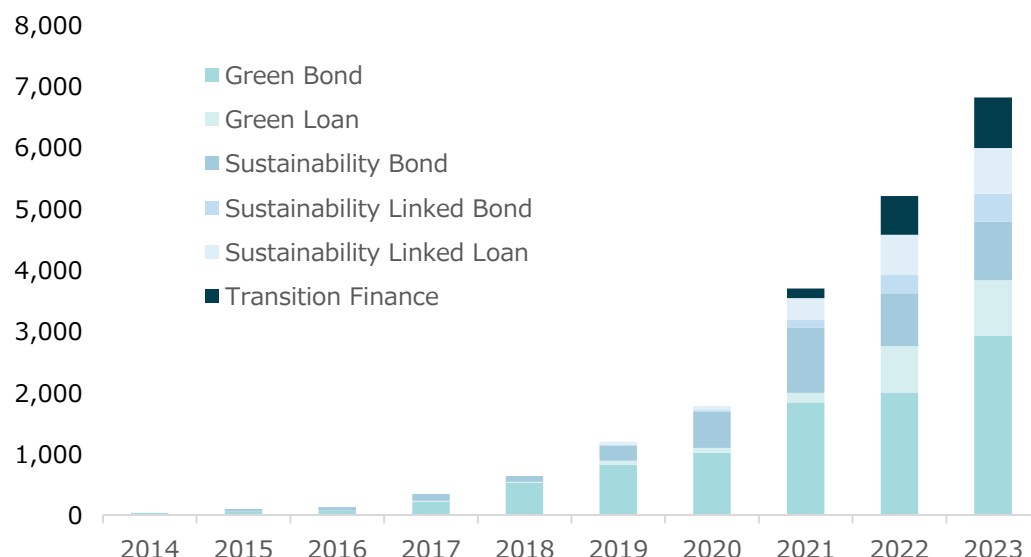
As in the previous fiscal year, Japanese transition finance accounts for a high proportion of that on the international market due to use of the Basic Guidelines on Climate Transition Finance and sector-specific roadmaps formulated by the government. In addition, due to the use of the sector-specific technology roadmaps and other means, many cases of use-of-proceeds-specified transition finance have been created, and this has also been the trend this year.

In 2023, it was apparent that procurement using the Ministry of Economy, Trade and Industry's subsidy program continued from the previous year, and additionally, fund procurement based on the transition label could also be seen often in loans and bonds outside of the subsidy program too, so penetration of the market accelerated. In particular, the proportion of cases in which funds were procured with use of proceeds specified (linked type) and with a transition label attached increased.

In addition, in February 2024, the Japanese government conducted a tender with the world's first climate transition interest-bearing government bond as a transition bond. The initially-issued ten-year bond received 2,321 billion yen in bids against a planned issue of 800 billion yen, and the subsequent five-year bond received bids of 2,714 billion yen against a planned issue of 800 billion yen. In view of the results of bidding, with both bonds over-subscribed by about three times, investment declarations from a wide range of parties including banks, life insurance companies and non-life insurance companies, etc., the bonds were evaluated as acceptable by a wide range of investors.

It is hoped that the transition finance market will expand further in a form following the government's moves.

**Domestic Funds raised for Climate-related Investments (bn yen) \*1 \*2**



\*1 Includes the amount raised through transition bonds, the amount raised through transition loans (including undisclosed amounts based on hearings, etc.), and General Corporate Purpose (linked) bonds and loans labeled as transition instruments.

\*2 Based on Ministry of Environment "Green Finance Portal", Ministry of Economy, Trade and Industry "Transition Finance" and other interviews.

# 2023 Transition Finance FY2023 METI Subsidy Program

The Ministry of Economy, Trade and Industry also implemented its subsidy program in FY 2023, aiming for the continuous expansion of the transition finance market. Applications were received from a variety of industries, including the automotive industry, the industry's first case of transition finance, and six companies were selected.

This fiscal year, in addition to the large amount of procurement with the use-of-proceeds-specified type of funding, a feature of the program was that it examined and adopted the financing frameworks of the issuers, who presented candidate fund uses, even if the initial use of funding had not yet been determined at the time of examination. Fund procurement with issuers executing transition finance is expected from now on, which is expected to lead to further increases in momentum.

## FY2023 List of Cases\*1

	FUNDRAISER	INSTRUMENT	AMOUNT	DURATION	KEY POINTS
2023. 11	Chubu Electric Power Co., Inc.	Loan	Not disclosed	Not disclosed	✓ Funds will be used to invest in upgrading power distribution operations to expand the introduction of renewable energy, etc.
2024. 01	Mitsui O.S.K. Lines, Ltd.	Loan	Not disclosed	Not disclosed	✓ Procurement under the sustainable finance framework, which revised and integrated the framework adopted for model business in FY 2021. ✓ Promotion of the spread of LNG-fueled ships and initiatives related to next-generation sailing ships.
	JFE Holdings, Inc. *2	Bond	15 bn yen	5 yr.	✓ Formulated by updating part of the framework formulated in 2022. ✓ Initiatives whose investment plans have taken shape were newly added as candidates. (e.g.: Initiatives for a recycling-oriented society, such as the introduction of electric furnaces and other low-carbon manufacturing processes, and the recycling of waste plastic)
	Mazda Motor Corporation*2	Loan Bond Bond Bond	Not disclosed 15 bn yen 20 bn yen 10 bn yen	Not disclosed 5 yr. 5 yr. 10 yr.	✓ This is the automotive industry's first case of transition finance. ✓ Promotion of CO2 emission reductions through multi-solutions such as the development and manufacturing of battery EVs and plug-in hybrid vehicles, etc.
2024. 02	Mitsubishi Materials Corporation	Linked loan	20 bn yen	Not disclosed	✓ KPIs and SPTs set for the 45% reduction of Scope 1 and Scope 2 GHG emissions by FY 2030 in a situation with high process-derived emissions.
	Kawasaki Heavy Industries, Ltd.	Bond	10 bn yen	5 yr.	✓ This was the first case of procurement using a framework covering multiple sustainable finance. ✓ Promotion of initiatives related to clean hydrogen-related transportation, storage, and energy use.
	Kansai Electric Power Company, Incorporated*2	Bond	15 bn yen	10 yr.	✓ The green bond framework formulated in 2022 was updated as a green / transition finance framework. ✓ Roll-out of initiatives such as the promotion of renewable energy, use of nuclear power, the promotion of zero-carbon thermal power and the building of a hydrogen supply chain.

\*1: Issued amount and duration for some loans are undisclosed

\*2: As part of this fiscal year's activities, the framework is the subject of subsidy programs. Some financing issued in the 2024 fiscal year.

reference

2022 Transition Finance

## FY2022 METI Model Program

Total Number of Projects

9

Total Amount Raised

Approx. **240** bn yen

### FY2022 List of Cases\*1

	FUNDRAISER	INSTRUMENT	AMOUNT	DURATION	SECTOR
2022. 11	Hokuriku Electric Power Company	Bond	44.4 bn yen	5, 10, 20 yr.	Power
	TOHO GAS Co., Ltd.	Bond	10 bn yen	10 yr.	Gas
2022. 12	Tokyo Gas Co., Ltd.	Bond	19.8 bn yen	60 yr.	Gas
2023. 01	Kirin Holdings Company, Limited	Linked loan	50 bn yen	10 yr.	Food & Beverages
2023. 03	Japan Airlines Co., Ltd.	Linked loan	Approx. 26.5 bn yen	10 yr.	Aviation
	Mitsubishi HC Capital Inc.	Loan	-	5 yr.	Finance
	Hokkaido Electric Power Co., Inc.	Linked loan	Total 34 bn yen	-	Power
	TAIHEIYO CEMENT CORPORATION	Linked loan	-	-	Cement
	Kawasaki Kisen Kaisha, Ltd.	Linked loan	Approx. 55 bn yen	-	Shipping

\*1 Issued amount and duration for some loans are undisclosed