Scaling Up Transition Finance

48th IEEJ Global Energy Webinar

Ryo YAMASAKI, Special Advisor, the Office of the Chief Energy Economist, Energy Investment Unit

4th November 2025

International Energy Agency

Transitions need finance that goes where the emissions are

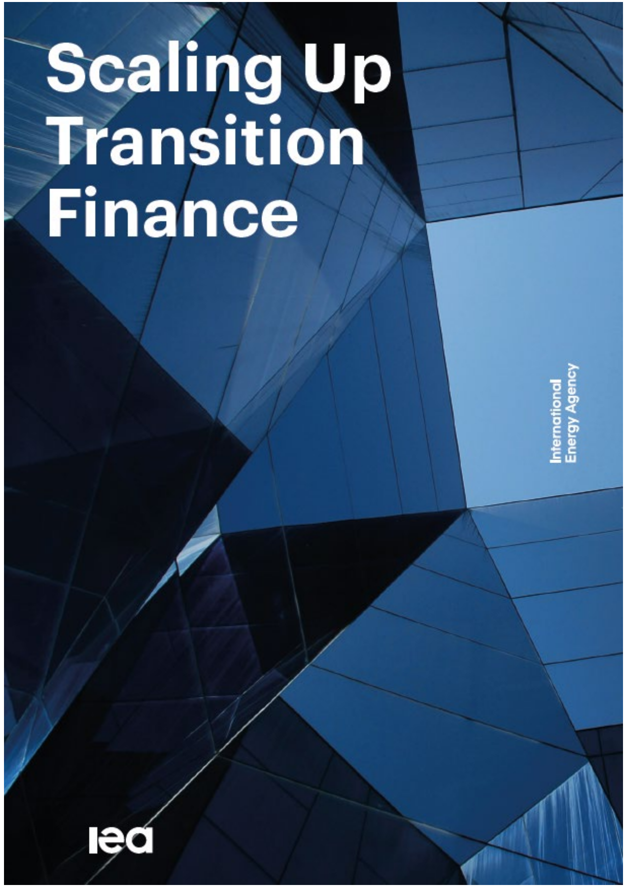
- With credible transition strategies, **transition finance** can help emissions-intensive countries, companies, and sectors shift over time towards sustainable practices, aligned with long-term climate and development goals.

- By focusing on **hard-to-abate sectors** and on **emerging market and developing economies (EMDE)**, transition finance can play a vital and complementary role to green finance.

- In the next decade, based on the IEA's scenario, **USD 4-5 trillion of investment could be supported by transition finance**, and half of this investment should be directed to EMDE.

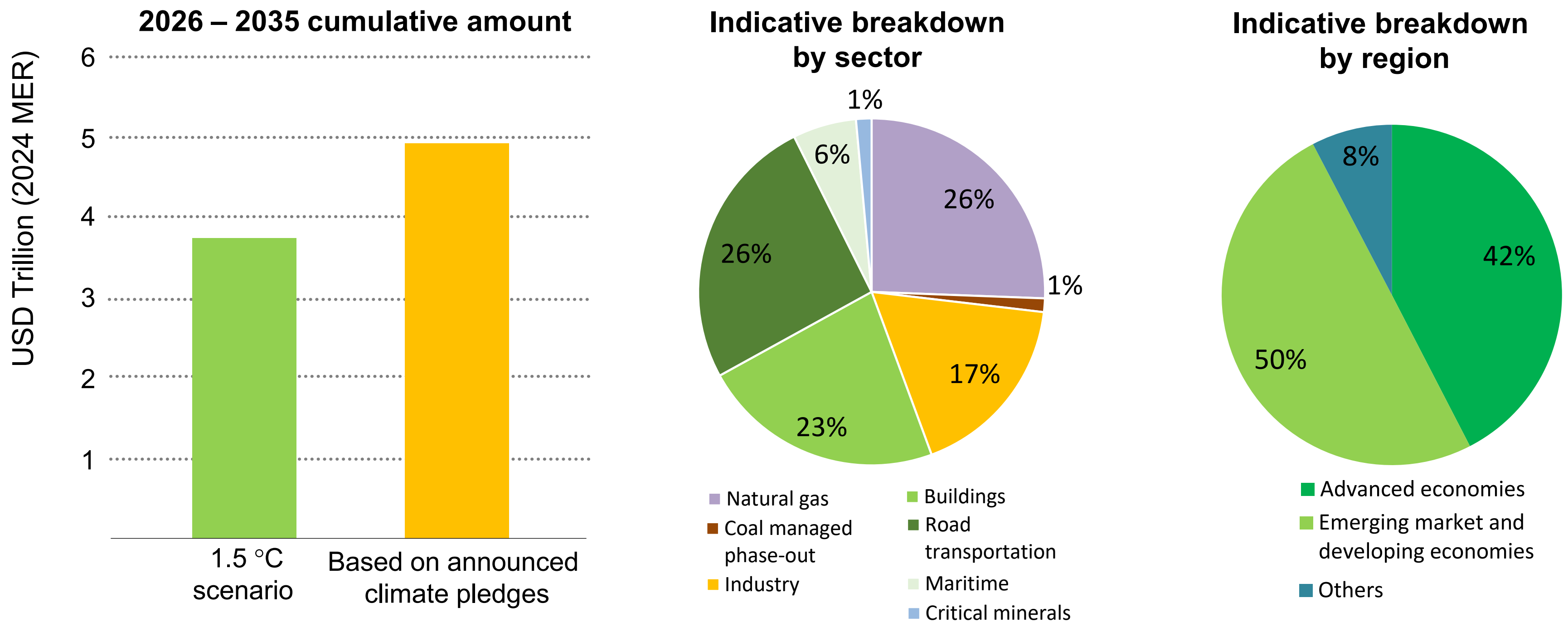
- Scaling up transition finance requires both public and private actors to design supportive frameworks, including safeguards that ensure **credibility** and **inclusiveness** throughout the transition**.**

- With the right supporting structures in place, transition finance can move from being seen as a "second tier" of green finance to becoming a **"second pillar"** of financing for the energy transition.



USD 4-5 trillion in investment could be supported to 2035

Investments that can be supported by transition finance, by scenario and sector



Note: All analysis based on World Energy Outlook 2024

Investments that can serve as bridging steps from today's industrial and energy systems to those with lower emissions are important for the progress of energy transitions in the next decade.

Two key issues to address

Key issues for transition finance

Establishing the distinguishing "transition" characteristic

- Strategy planning
- Follow-up

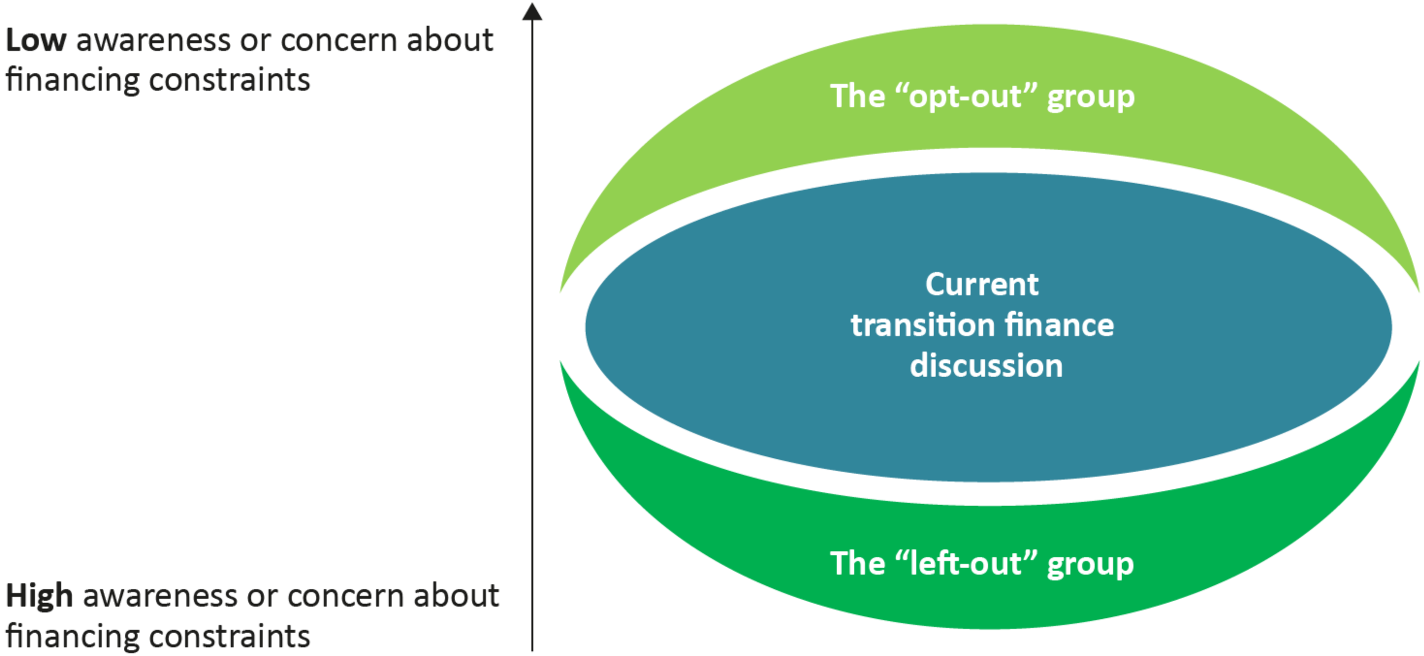
Expanding financial flows

- Inclusivity of transition finance
- Interoperability and equivalence
- Financed emissions

Achieving both credible transition integrity and expanded financial flows can make transition finance a truly additional and meaningful contribution for the global agenda.

Credibility and inclusiveness are both essential for transition finance

“Left-out” and “opt-out” groups in transition finance discussion



While it is important to advance leading cases through strong public-private collaboration, policy design also need to prioritise those most at risk of being left behind, where the strongest need for finance exists.

Cross-border capital inflows are essential for developing economies

Capital market size and future energy investment amount (Trillion USD, 2024, MER)

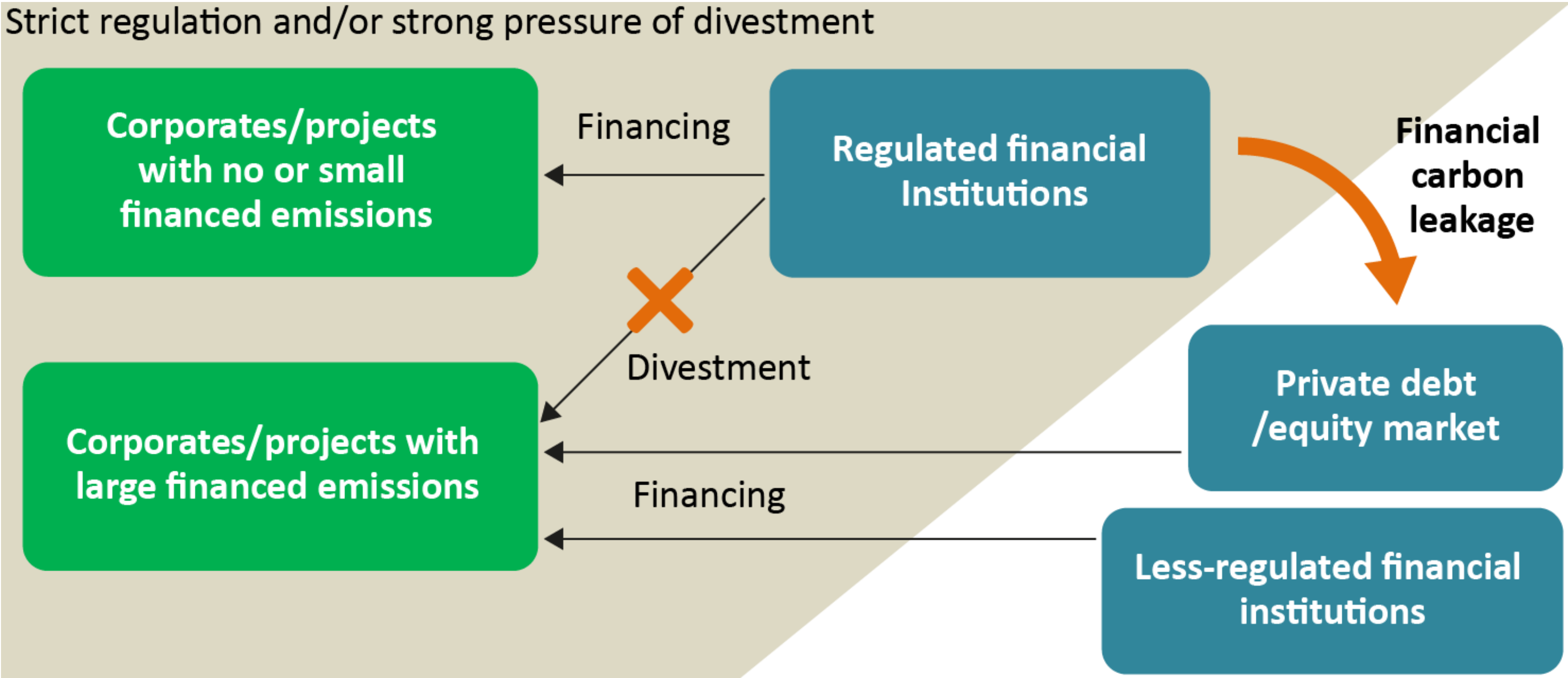
Country/ Region	Equity market capitalisation, 2024	Bond market outstanding, 2024	2026-2035 Cumulative energy investment, Announced Pledges	Number of taxonomies issued by the country/region
United States	62.2	58.1	8.3	0
European Union	11.1	26.1	5.2	1
China	11.8	25.0	9.7	2
Japan	6.3	10.1	1.0	0*
United Kingdom	4.4	6.1	1.0	0
EMDE other than China	4.8	7.0	12.2	29 (Including 11 transition taxonomies)

Note: EMDE = Emerging Market and Developing Economies; *Japan adopted a transition roadmap

Compared with the scale of energy investment needed, capital markets in EMDE remain relatively limited. It is crucial to make effective use of frameworks that exist on the demand side of finance.

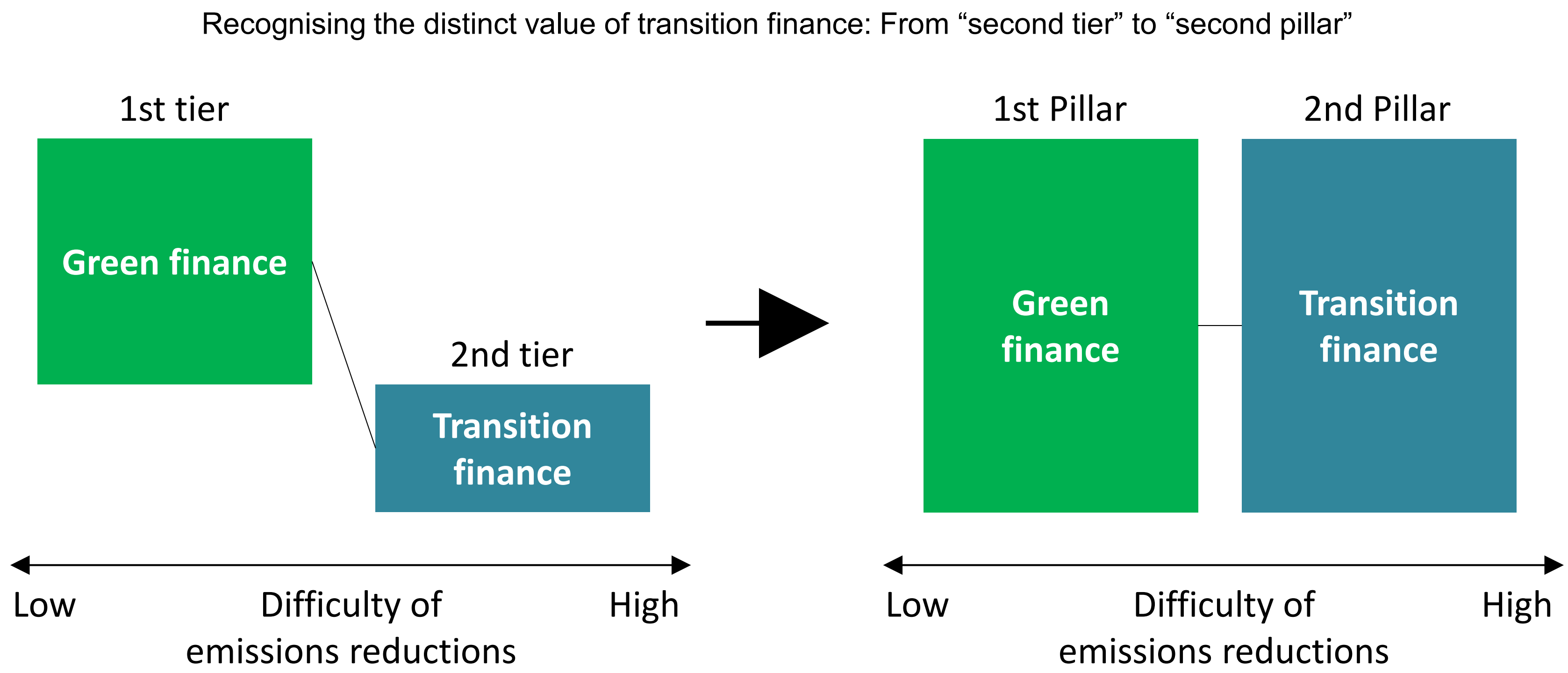
The risk of financial carbon leakage

Financial carbon leakage



Financial carbon leakage may falsely signal emissions progress despite unchanged real-economy emissions and weakened engagement, potentially delaying energy transitions

Transition finance could shift from "Second Tier" to "Second Pillar"



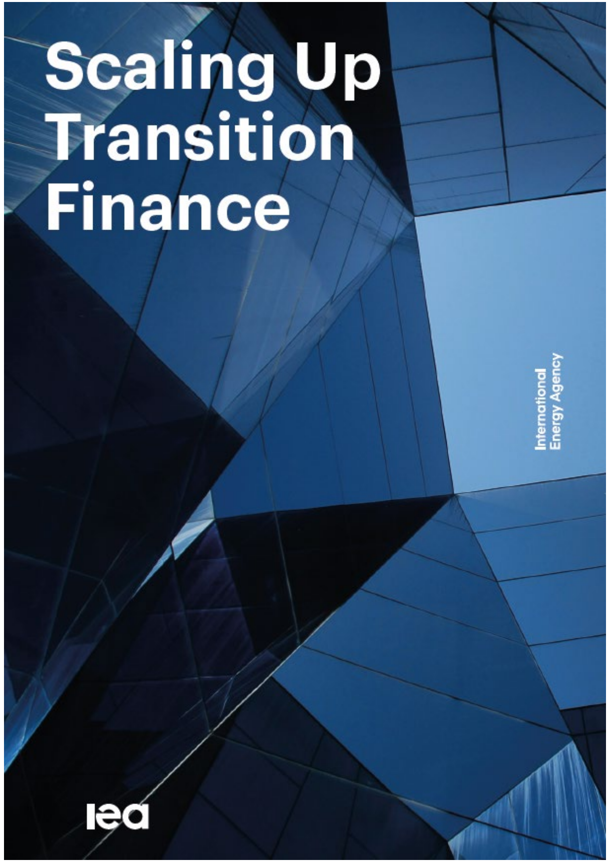
Policymakers and stakeholders could establish a dual-market framework of green and transition finance to support investments for energy security and decarbonisation over the next decade.

Q&A Session

- Actions by emissions-intensive sectors, companies, and countries are crucial to placing the world on a sustainable pathway. Yet, investments that could deliver meaningful reductions in their environmental footprint often do not receive sufficient financial support. Currently, finance is drawn heavily to certain “green” assets and activities. While vital, these investments alone cannot deliver all the changes needed to cut global emissions, especially in areas where clean technologies are not yet commercially available or cost competitive. This is where transition finance comes in: it can help emissions-intensive countries, companies, and sectors shift over time towards sustainable practices, aligned with long-term climate and development goals.

- In the new report, the International Energy Agency (IEA) provides analyses to map the landscape for transition finance, explains why it matters, and highlights approaches that could move the debate forward.

- The report also examines the role of transition finance in the steel and cement, critical minerals, and the natural gas sectors. It further presents findings from a survey of financial institutions on transition finance, along with an assessment of current challenges and emerging trends.



Link and QR Code

https://www.iea.org/reports/scaling-up-transition-finance