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# RESPONSE TO GFANZ APAC JUNE 2023 CONSULTATION

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**Note**

NewClimate Institute and the Institute for Climate Economics (I4CE) submitted a response to a public consultation on the Glasgow Financial Alliance for Net Zero's (GFANZ) proposed set of voluntary guidance for financing the early retirement of coal-fired power plants in Asia-Pacific. Our submission response is below.

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# PART 1: APAC CONSIDERATIONS

## QUESTION 1

### Are the most relevant considerations and contexts when considering energy transition and coal phaseout for APAC countries captured? Is anything material missing?

The report mentions: "MDBs and DFIs have limited coal finance with 99% of the internationally available development finance committed to reducing or ending coal finance support as of November 2021" (pg. 22)." But perhaps part of the context specific to this region and is that APAC countries' energy systems historically benefitted (and continue to benefit) from ODA. Development finance institutions have played a key role in financing the APAC region's energy capacity notably CFPPs and continue to play an important role. They therefore bear a historical responsibility to use their existing relationships to engage and support accelerated MPO plans.

The report also mentions the increasing awareness of stranded asset risk (pg. 28). This could be supplemented with estimates of that risk, for instance, Carbon Tracker estimates a combined USD 60 billion stranded asset risk in Vietnam, Indonesia, and the Philippines[1]. Crucially, the report should emphasize that if new coal plants in the pipeline are built this could lead to a doubling of stranded asset risks in some countries[2]. Commitment to no new coal substantially reduces the risk of asset stranding in ASEAN.

## QUESTION 2

### Given existing policy frameworks in APAC, what additional frameworks or enabling mechanisms are needed to incentivize and scale early phaseout transactions? How can the final GFANZ APAC Coal MPO Guidance best support these needs?

A more integrated regional green taxonomy encompassing the ASEAN taxonomy for sustainable finance and the Indian green taxonomy, among others, and that fully accounts for coal phaseout efforts, could be an additional enabling mechanism worth consideration to scale early phaseout transactions with regional investors.

While GFANZ and other alliances are critical to lending FI's voice to more climate ambition on the global and regional level, it is also important that they specifically engage and form coalitions on the national and even the utility level to advocate for ambitious MPOs with relevant stakeholders. The establishment and active

1 https://carbontracker.org/reports/economic-and-financial-risks-of-coal-power-in-indonesia-vietnam-and-the-philippines/

2 https://iopscience.iop.org/article/10.1088/1748-9326/ac4ec2

engagement through such coalitions are a further enabling mechanism to support the development of ambitious MPOs. FIs play a unique role in incentivising and scaling early phaseout due to their historic bank-borrower relationship with coal plants. Green and Vallée[3] found that CFPPs with parent companies more exposed to bank exit policies are more likely to be decommissioned – highlighting the role and need for strong and clear exit policies by FIs alongside accompanying support.

## QUESTION 3

## Is there a role for regulators / official sector authorities when developing MPO guidance? Where might regulators agree or disagree with the proposed guidance?

Regulators and official sector authorities will play an important role in both developing and implementing MPO guidance. Authorities can play a role in defining ambitious national parameters for coal phase out through, as noted on page 33, developing a national plan and sequence for CFPP retirement. Authorities will also be crucial in easing the economic and social transition for affected communities, particularly ensuring MPOs adequately address just transition concerns.

Vested interests, notably the lack of separation of regulatory functions from state owned utilities may represent a challenge to the development and implementation of ambitious MPOs, especially to recoup the cost of initial investments in existing CFPPs. Policy reform not only of energy systems and electricity markets, but also of pollution laws and climate legislation will require regulators and official sector authorities to reform the regulatory landscape. At least two important reforms of the policy environment are worth mentioning in particular:

As noted on page 26, merit dispatch reforms that base electricity production on the marginal cost of generation are an important reform that could help shift electricity markets to encourage investment and expansion of renewable energy.

A number of APAC countries are also signatories of the Energy Charter Treaty, which has also been a barrier to climate policy efforts for MPOs in various countries[4]. Public authorities may also wish to consider leaving the treaty to facilitate ambitious MPOs in their countries.

Public authorities may disagree with the proposed guidance if there are consequences to MPOs that may affect national interests in the short to medium term that are overlooked e.g., impact on foreign trade for exporting countries. The report mentions that many APAC countries also have significant economic dependencies on coal mining, yet the proposed guidance should account for those and further expand on how they can be mitigated, to increase buy-in from government representatives and regulators.

**3** https://www.hbs.edu/faculty/Pages/item.aspx?num=63074

**4** https://on.ft.com/449jirA

# PART 2: RECOMMENDATIONS FOR FINANCIAL INSTITUTIONS

## QUESTION 4

### Achieving climate goals require both a 'high bar' to mitigate leakage and moral hazard risks, and measures to support urgent action. To avoid precluding MPOs based on current country-level policy: What is the best way to balance the realities of where APAC is today with more stringent policies that are likely in the future? How can we encourage financial institutions to take action on MPOs today while government-level commitments are still evolving?

**To avoid moral hazard and help prevent / minimize emission leakage, it is important to start with a credible high-level country commitment to no new coal plants as a prerequisite for financing early retirement.** In principle, all countries have agreed to phaseout unabated coal power in the Glasgow Climate Pact. While the Pact's commitment applies to all, it is a question to what extent and when individual countries will implement national policies to implement it. Membership in the Powering Past Coal Alliance, which includes 48 national governments[5], indicates a more robust commitment towards a coal exit although exact coal policies vary greatly from country to country.

**Even with an existing commitment to ban new CFPPs, the credibility and durability of that commitment must be considered.** As noted on page 31, FI's "should assess the nature, strength and stability of the energy sector transition commitment of the government of the country in which the CFPP is located". This includes considering the MPOs commitment to credibility, impact, and accountability. Such commitments should ideally be shared across the political spectrum, as noted on page 29. To the extent that they are not, FI's should assess the danger that a shift of political power may reverse or undermine a commitment to an MPO. A credible commitment that brings the highest confidence to phase out coal should include, among other elements: a ban on new CFPPs, Paris-aligned phase out targets for coal use, rejection of measures that could lead to an increased lifespan of CFPPs, consideration of elements of a just transition, and a systems-level approach connected to the broader energy transition.

5 https://poweringpastcoal.org/members/

**In countries that have not yet banned new CFPPs and do not yet have coal phase out plans, FIs should engage with governments to adopt policies to ban new CFPPs and promote MPOs with ambitious phase out roadmaps.** As mentioned on page 11, FI's should assess the extent to which there may be an emerging MPO plan, which they can support and what potential stakeholders are influential in the process so as to further support ambitious engagement efforts. To enable ambitious phaseout plans, environmental and policy reform is needed. FIs should support and advocate for legislation on air pollution controls which increases operational and legal risks and can restrict CFPP lifetimes, and energy policy reforms that signal a shift toward renewables. FIs should also assess country commitment to fossil fuel subsidy reform, which is a crucial component of supporting a transition to renewable energy.

The report notes on page 32, that where national level planning is absent, independent analysis can be substituted but that this would be associated with lower confidence. However, even if such analysis is carried out, FIs should not engage in financial transactions for early coal retirement with countries without legal bans on new CFPPs and credible coal phaseout plans because of the risk of moral hazard. Page 37 notes that moral hazard and emission leakage risks can be mitigated by prohibiting the CFPP seller from developing new plants in the same power grid as the acquired CFPP. This does not secure emission mitigation. Limited funds should instead be channelled to sellers with clear commitments to retire coal early across their portfolio. FI's efforts would be better targeted to increase finance mobilization for renewable energy, battery storage, and electrification of fossil fuel end uses.

**In both countries with and without commitments for an MPO, FI's should engage with the financial and broader stakeholder community in the country to support ambitious MPO roadmaps.** Institutional investors' hold over USD 1.2 trillion worth of shares and bond holdings in the coal industry and commercial banks continue to channel significant finance to the industry through lending and underwriting[6]. Banks and investors face increasing portfolio exposure, shifting market forces, and rising public pressure. At the entity level, FIs have existing relationships from current and past financial transactions with coal industry stakeholders. FIs are therefore in a unique position to engage with these counterparties and push for credible phase out plans and real economy emission reductions. Credible phase out plans should be a prerequisite for financing, as recommended in this report. Existing insights into technical and economic considerations from past transactions can reduce the risk of information asymmetries on assumptions used to estimate how far MPO plans bring forward retirement dates.

**6** https://www.urgewald.org/en/medien/who-still-financing-global-coal-industry

## QUESTION 5

### While this report is focused on CFPP MPO plans, is it useful to capture the potential for emissions reduction from retrofits ahead of retirement? How might this be integrated into the guidance?

**It is not useful to consider emission reductions from retrofits ahead of retirement as retrofitting runs a high risk of extending the life of coal assets and undermining ambitious MPOs.** Specifically, retrofitting CFPPs could create perverse incentives to keep plants online longer to recover investment not only of the original plant but also the retrofitting, undermining the point made in 4a on page 42. As such the point made in 4b on page 42, directly contradicts the important principle laid out in point 4a. Continued and extended reliance on thermal coal plants and other fossil fuels increases the physical risks of climate change. FI's focus should remain on the early retirement of CFPPs as their rapid phaseout is needed for Paris alignment. This is the case with various kinds of retrofitting options:

**A** **FIs should not fund investments in efficiency improvements because even with improved efficiency, investments risk extending the lifetime of coal assets and are increasingly at risk of being stranded by tightening environmental and air standards.** As CFPPs age, their efficiency decreases, leading older plants to have higher rates of coal consumption and emit more $CO_2$ per unit of electricity generated. Investments to improve overall efficiency and power generation can extend the life of CFPPs, divert finance from scaling renewables, and delay the transition.

**B** **Investments in cofiring coal with biomass should not be supported as cofiring does not decrease carbon emissions, is likely to extend the life of coal plants, and can lead to deforestation and biodiversity loss.** Biomass is not carbon neutral and emits high levels of $CO_2$[7] along with other hazardous air pollutants during combustion[8]. With accurate accounting, the lower energy density of biomass can actually increase overall emissions[9].

**C** **Cofiring coal with green hydrogen or ammonia is extremely energy intensive with significant efficiency losses compared to direct electrification and diverts the green fuels from facilitating decarbonization in hard-to-abate sectors.** Expanding green hydrogen and ammonia production requires significant additional renewable energy. The energy lost in the production of hydrogen and conversion to ammonia means that the production of electricity with hydrogen or ammonia is highly inefficient. Green hydrogen, green ammonia, and renewable power to liquid fuels should be reserved for applications where direct electrification is not possible[10]. Similar to biomass co-firing, hydrogen or ammonia co-firing could perversely extend the life of coal power plants and delay the transition to a renewable-based system[11].

**7**
https://www.chathamhouse.org/2021/10/greenhouse-gas-emissions-burning-us-sourced-woody-biomass-eu-and-uk

**8**
https://iopscience.iop.org/article/10.1088/1748-9326/abe74c

**9**
https://www.pfpi.net/wp-content/uploads/2011/04/PFPI-biomass-carbon-accounting-overview_April.pdf

**10**
https://assets.bbhub.io/professional/sites/24/BNEF-Japans-Costly-Ammonia-Coal-Co-Firing-Strategy_FINAL.pdf

**11**
https://www.e3g.org/wp-content/uploads/E3G-Briefing-Challenging-Japans-promotion-of-ammonia-co-firing-for-coal-power-generation.pdf

**D** **Converting CFPPs to gas powered plants similarly does not represent a long-term solution to decarbonization as it results in continued dependency of fossil fuels.** Although at the point of combustion, switching from coal to gas may offer some emission reductions, when considering the emission of the entire gas value chain, these emissions savings are often highly undermined. Depending on gas leakage rates, there may be little to no climate benefit from a conversion of coal to gas and such conversions should generally not be supported. In exceptional circumstances, considering the existing grid infrastructure, there may be some benefit to a repurposing of existing CFPPs with a combination of BESS, SynCon, and small efficient back-up gas plants, but these should be critically assessed with regard to their compatibility with a rapid decarbonization scenario in the electricity system.

**E** **Retrofitting existing coal plants with CCS would not represent a coal phase out.** CCS is expensive, does not completely eliminate emissions, is energy intensive and is therefore not a competitive or feasible solution to the emissions or environmental impacts of CFPPs. CCS also has inherent downstream and lifecycle emissions that must be factored into assessing its emission reduction potential[13]. Retrofitting existing plants with CCS technologies requires significant investment to implement at scale, which diverts limited climate finance from mechanisms that support accelerated phase out. Wind and solar energy generation even with backup energy storage is often cheaper than fossil power in many jurisdictions, and certainly than fossil power with CCS, and the competitive advantage of renewable-based systems will only improve.

**F** **The dependency of thermal power plants on water for electricity generation means that retrofitting, and therefore prolonging dependence on thermal energy production, undermines adaptation and resilience efforts in the energy system.** According to WRI, 47% of the world's thermal electricity production is located in regions vulnerable to water stress[14]. In India, 40% of thermal generation is vulnerable, and thermal dependency has already led to increased vulnerability in the system and significant economic losses[15].

**13** https://www.nature.com/articles/s41598-018-31505-3

**14** https://www.wri.org/insights/water-stress-threatens-nearly-half-worlds-thermal-power-plant-capacity

**15** https://www.wri.org/insights/water-shortages-cost-indian-energy-companies-billions

## QUESTION 6

## Alongside approaches to evaluate expected emissions reduction from a coal phaseout plan, is there value in simpler guardrails relating to the maximum operating life of a CFPP (both in total and from now)? What analysis could the guidance draw on to support use of such guardrails?

**Simple guardrails relating to the operating life of a CFPP would help FI's concentrate their efforts on the early retirement opportunities with the most impact.** Expected emission reductions are always an estimate based on a counter factual baseline and the resulting expected "emission reductions" are highly influenced by assumptions which may be subject to perverse incentives

for a number of parties. Recommendation 6 remains high-level and excludes the risk that vested interests influence proposed emission reductions and maximum operating life. Therefore, in addition to estimates of expected emission reductions, various guardrails can support efficient use of limited resources to be targeted at early retirement.

While the ADB's considerations discussed in Box 3 are relevant and helpful, they are not all encompassing, are subject to bias from various vested interests, may be vulnerable to manipulation, and do not constitute simple guardrails for retirement. Potential guardrails should include guidance to:

**A** **Concentrate on CFPPs that are not already planned to close within the next two to five years.** While decreasing GHG emissions and retiring coal plants is the end goal, there is a conflict between easy wins and misallocating limited resources on plants that may be close to closing soon anyway. The additionality of attempting to close plants that are likely to close in the short to medium term is most questionable. Such a consideration could be added to Recommendation 5, instead of a pure attempt to calculate a "positive fair value".

**B** **Concentrate on systems where there is excess capacity in the electricity system first.** Early retirement is particularly challenging in fast-growing emerging markets where electricity demand is increasing[16]. Coal phaseout requires a systemwide approach that couples retirement with rapid deployment of renewables. However, as noted on page 46, direct replacement with clean power is not always feasible "from an investment, planning, location, or system reliability perspective". In the near term, FIs should focus on MPOs where CFPP phaseout is already technically feasible and politically supported (i.e., government commitment to no new coal). In systems where there is not yet excess capacity, FIs should support the rapid deployment of renewable energy infrastructure and push for systemwide decarbonisation plans.

**C** **Among younger plants or plants that are not already scheduled for closure in the short to medium term (2-5 years), concentrate early retirement efforts on the least efficient most polluting plants first.** Page 44 suggests that FIs could estimate impact with portfolio alignment measures (e.g., Implied Temperature Rise), however portfolio metrics do not provide the multidimensional granularity needed to consider individual CFPP phaseout and cannot be considered sufficiently robust. In addition to GHG emissions, coal plants spew toxic air pollutants like mercury, nitrogen oxides ($NO_x$) and sulphur dioxide ($SO_2$)[17]. In the US, pollution from CFPPs is linked to 3,800 premature deaths each year[18]. Less efficient plants consume higher rates of coal and emit more $CO_2$ and air pollutants and are uncompetitive. As governments enact more stringent regulations to stem negative

**16**
https://www.iea.org/energy-system/fossil-fuels/coal

**17**
https://www.epa.gov/power-sector/power-plants-and-neighboring-communities

**18**
https://www.sierraclub.org/press-releases/2023/02/new-report-investigates-deadly-coal-plant-pollution-and-life-saving

environmental and public health impacts and implement carbon pricing schemes, FIs can step in to support the phaseout of inefficient plants under increasing pressure to retire.

D **At a minimum, concentrate on phaseout plans that are in line with the IEA's Net-zero pathway to retire by 2030 for OECD members and by 2040 for non-OECD members (as noted on page 42).** While guidance in Box 7 recommends coal plant owners to develop commitments and transition plans at the latest by 2030, this timeline might be too late. FIs should actively encourage owners to develop credible plans in the next two to five years that reflect the urgency of the climate crisis. This should be a minimum condition for financing as many countries' net-zero targets and NDCs are not sufficiently ambitious (as noted on page 8)[19]. Ceilings on maximum operating life, as set out in the ASEAN Sustainable Finance Taxonomy (referenced on page 32), can act as helpful backstops but are not necessarily in line with global benchmarks, or the ambition needed to align with Paris. Where phaseout dates are not Paris aligned, FIs can help facilitate greater ambition through financing renewable energy generation that can ensure continued grid stability and energy access.

## QUESTION 7

### In relation to assessing socio-economic considerations in a coal phaseout plan, are there additional areas the Final Report should aim to cover or guidance / references financial institutions could draw on?

**In addition to assessing measures to mitigate adverse socio-economic impact, FIs should assess the mechanisms MPOs put in place to improve the socio-economic well-being and biodiversity of impacted communities.** As noted by the LSE Grantham Research Institute's guidelines on Making Transition Plans Just (Box 17), MPOs should explore how to "seize the social opportunities of net zero." National or subnational just transition plans or frameworks can serve as reference for the challenges and opportunities of transition in a specific context. Reference to the South African Just Energy Transition Framework[20] could be included as an example. The recommendations should be expanded to encourage FIs to assess whether MPOs take a holistic approach to retirement that integrates opportunities.

As the report notes, "Power producers may consider leveraging concessionary capital… as in other parts of the world" to address adverse impacts (page 49). The final report could delve more into how FIs and CFPPs can leverage concessionary capital to address socio-economic impacts.

**19** https://climateactiontracker.org/global/cat-net-zero-target-evaluations/

**20** https://pccommissionflo.imgix.net/uploads/images/A-Just-Transition-Framework-for-South-Africa-2022.pdf

## QUESTION 8

### Does the three-step process capture the right stages and considerations for financing for a coal phaseout plan from a financial institution's perspective?

"Step A: Ensuring credibility of energy transition and coal MPO plans" sets out three important levels of consideration. The country level is however particularly fundamental to addressing moral hazard. **While as the description notes the three levels are interdependent, they are not equally important with the most important considerations being at the country level, then on the entity level, with the asset level being the least important.** Asset level credibility of energy transition and coal MPO plans cannot replace or represent a proxy for the country level, nor can an entity level be sufficient without country-level commitments to no new CFPP and an overall MPO. As noted on page 8, "to have the highest confidence [emission leakage is avoided] … there would need to be both a commitment to (1) no new coal and (2) a coal phase out date."

**Step A proposes that confidence in CFPP phaseout plans can be drawn from commitment in line with "relevant science-based pathways" (page 38 and repeated under Recommendation 1), however ambiguity around the phrasing leaves room for interpretation.** The phrasing should instead refer to 1.5°C-compatible science-aligned pathways and reference examples of credible pathways (e.g., IEA NZE – as referenced on page 33). Lack of a standardised approach leaves ample room for interpretation by third parties as methodological assumptions have implications on credible short and long-term decarbonisation targets. For this reason, verification of entity-level targets by credible third parties (referenced in Recommendation 3) is not enough to ensure the credibility of coal transition plans and avoid emission leakage. Even in countries with national science-aligned targets, FIs should reject MPOs without government commitment to no new coal policies – as the IEA NZE calls for no new fossil fuel infrastructure[21].

**The credibility of plans outlined in Step A should not only rest on compatibility with science-aligned targets (as referred to on page 33), but account for the three dimensions of impact outlined in Step B.** The three-step process and Figure 6 imply a linear process which begins with a credibility assessment. However, credibility should be based not only on alignment with scientific pathways, but on potential climate impact, socio-economic impact, and financial viability. Figure 6 does not indicate a prioritisation or order to assess impact, but the text advises prioritising CFPPs "that create the largest climate impact, after taking into account financial viability and socio-economic impacts" (page 41). Reorganising Step B so that just transition considerations and financial viability are discussed before climate impact would drive this point home. While the highest impact plans should ultimately be funded, their success and credibility are reliant on addressing socioeconomic challenges and advancing opportunities (page 48) and financial viability.

**21**
https://www.iea.org/reports/net-zero-by-2050

Under Step C, the document refers to entities and counterparties. Here it is important to include the overall picture of the context in which counterparties exist including potential parent companies and other major investors. Such counterparties do not exist in a vacuum and especially when the key components of the GFANZ NZTP framework are not fulfilled, there are a number of relevant actors with which FI's can engage to improve.

## QUESTION 9

## Do the ten recommendations cover the most important considerations for determining whether to participate in the financing of an MPO project? What other areas should a CFPP MPO plan include to support assessment of the plan's:

### A Climate impact

**Recommendations:**

While "Recommendation 4" itself refers only to moral hazard, the explanation refers to moral hazard and leakage. The proposed cut off points from the CBI/CPI/RMI guideline and the ASEAN Taxonomy go some way to addressing moral hazard, but not leakage. Further measures should be considered to ensure that retired CFPP generation is replaced with renewables and not other fossil fuel plants as this may significantly reduce the achieved emissions mitigation impact.

"Recommendation 5" assumes that a positive fair value can indicate CFPP's expected profitability and whether finance is needed to accelerate phaseout. However vested interests can skew estimates of fair value. No threshold or guidance is provided on how to judge the potential additionality of phaseout plans. There is risk that a plant which is likely to close in the short term but maintains a positive fair value is judged to have a genuine finance need and contribute to significant emission reductions.

While "Recommendation 6" on climate impact is a good high-level recommendation, the recommendation should be more specific as stakeholders may not agree on a number of points including: What "a science-based pathway" is or which one to use; What "as ambitious as possible" means – as it leaves room for interpretation; the role and impartiality of "independent verifiers"; as well as what "internationally recognized bodies" refers to.

**Other areas:**

JETPs and the ADB ETM, the "international bodies or programmes" referred to on page 42 are not qualified or positioned to "independently verify or acknowledge" emissions savings. These institutions should not be responsible for verifying emissions savings. This should rather be carried out by independent non-state

actors which may equally be subject to bias, but which should be required to transparently present all relevant assumptions from an alternative scenario and the robustness of Measuring Monitoring Reporting and Verification approaches taken.

## B Financial viability

**Other areas:**

The financial viability section should include guidance to FIs to consider in their holistic analyses the unique opportunities provided by the interest rate environment and prevailing phases of monetary tightening or loosening. Institutional investors and underwriters hold significant equity in coal industry companies as well as associated debt and are subject to portfolio exposure while CFPP owners might want to "lock in value and refinancing while interest rates are low to mitigate future losses (page 66). In engagements with CFPPs seeking to refinance, FIs can leverage their role and make access to lower costs of capital conditional on credible MPO plans and early phaseout.

A critical time is just before entities' debt matures and they seek to return to debt markets to raise new capital. This is an important time to engage, and further debt issuance, including underwriting services should be denied until credible entities develop credible MPO plans.

## C Socioeconomic considerations

**Recommendations:**

Recommendation 2 should guide FIs to assess whether government energy transition plans consider investments needed to ensure a just transition in the country in which the CFPP is located. This is referred to on page 46 in relation to energy security and reliability but should be explicitly mentioned in Recommendation 2 and expanded to consider socio-economic and environmental considerations needed to support a successful energy transition.

Recommendation 7 should also consider adaptation and resiliency aspects and to what extent continued reliance on thermal plants may undermine medium to long term energy security considering the vulnerability of thermal plants to the availability of cooling water and future water stress (see above).

Lastly, as noted above, Recommendation 8 should not only focus on measures which mitigate negative impact but also those that facilitate positive impact and that address existing inequalities (e.g., job creation, decent work, etc.) (Box 17).

## D Accountability

The CFPP phaseout plan should be subject to third-party verification by independent non-state actors. It is mentioned in Recommendation 3 as a possible way to gain confidence that a coal phaseout plan will be implemented yet, in addition to the

key components of the GFANZ NZTP framework, it should also be highlighted as part of Recommendation 10. As mentioned above there are potential concerns of verification bias which require transparency.

## QUESTION 10

## Does the guidance, when taken together, strike the right balance between facilitating early transactions that could help accelerate peak coal emissions in APAC, and ensuring that each transaction has sufficiently positive impact?

**Focusing on transactions having a "sufficiently positive impact" without setting or giving guidance on "sufficient" additionality thresholds risks early phaseout of low hanging fruit (i.e., phase out close to technical retirement) which is a questionable use of limited resources.** High emission plants which are not close to technical or economic retirement should be prioritized. Country context will influence which plants are targeted, however, as noted on page 33, a government-level plan and sequencing of CFPP retirement should ideally inform selection. As mentioned above, positive impact should cover not only climate impact but socio-economic and environmental opportunities that are equally necessary to ensure long-term success.

**To accelerate peak coal emissions in APAC and ensure lasting impact, commitment to coal phaseout is a prerequisite**. While the guidance states this in several places throughout the report, the guidance should recommend FIs to not enter financial transactions in countries without such commitments as emission reductions could be wholly or partially reversed in the future which would require additional funds to address.

## QUESTION 11

## This report refers to additional guidance, benchmarks and thresholds that could inform assessments on aspects such as the credibility and impact of coal phaseout plans. Is there additional existing guidance that could be provided? What are the merits/issues of the different options set out?

**Additional Guidance**

RMI's recently published brief, Power Sector Implementation of a Country Coal-to-Clean Transition[22], outlines considerations for securing financing for transition plans and highlights questions that should be considered at the plant and system level related to coal transition. The various planning steps outlined could be helpful for FIs to consider when assessing the credibility of plant and country level commitment to phaseout. Stage 4, developing a system level transition financing plan, is not mentioned in the GFANZ report but an important step to engage FIs.

**22** https://rmi.org/insight/power-sector-implementation-of-a-country-coal-to-clean-transition/

**ADB ETM Pre-feasibility Multi-criteria Analysis (Box 3):**

**The ADB ETM Pre-feasibility Analysis focuses on energy security, cost (financial viability), and carbon emission reduction potential of CFPPs but fails to adequately address socio-economic and environmental considerations of early retirement that are equally important in ranking CFPPs.** The ADB guidance lacks consideration of the localised impact of CFPP retirement, which would need further attention after "pre-feasibility" assessments. Addressing negative socio-economic impacts is crucial for success (as noted on page 48) and should be an additional pillar in the ranking or woven throughout the three outlined criteria. The guidance should also consider estimated air pollution exposure reduction. Pollution represents an additional driver for early retirement in emerging economies where it can lead to high health, environmental, and economic costs.

ADB ETM's prioritisation of CFPPs criteria mention that the final decision on how to rank CFPPs in terms of the three criteria of security, cost, and carbon is "dependent on a government's priorities, where a combination of scores can be weighted if desired". As government priorities might be different depending on local context, further guidance on how such weighting could be performed while still ensuring long-term emission reductions may be needed.

**CBI/CPI/RMI Guidelines for Financing a Credible Coal Transition**

The CBI/CPI/RMI guidelines notes, "commitments would not necessarily be expected to be fully aligned with 1.5C... [but] would support a ratcheting process... over time" (Box 4). This guidance speaks to the reality in APAC where few jurisdictions are 1.5°C-aligned. Importantly, it calls for legally binding commitments or laws that reduce power system emissions and no new coal. Under Guideline 2 on financing coal plant owners, the CBI/CPI/RMI report additionally recommends a commitment to not increase the capacity or life of existing plants. This caveat should be added to the discussion on entity-level commitments in Box 7.

Lastly, to mitigate emissions leakage, guidelines suggest pursuing a phaseout and replacement strategy where coal is replaced with "clean resources" (Box 15). It defines clean resources in line with the EU Taxonomy which greenlights gas. EU taxonomy is not in line with IEA guidance for no new fossil infrastructure.

**ASEAN Taxonomy for Sustainable Finance, Version 2**

It is beneficial that the ASEAN Taxonomy Technical Screening guidance sets a cut off for funding which dissuades moral hazard and pushes a coal phaseout date (Box 6). The screening notes that qualifying plants should be "independently verified... as having demonstrated substantial absolute positive emission savings over their expected lifetime compared to case without a transition mechanism." However, stakeholders might not agree on the impartiality of independent verifiers or the threshold for "substantial absolute positive emission savings". Further guidance

and transparency are needed. In addition to emission savings, the financial viability of plans should be considered to avoid funding plants that would be phased out by market forces (as suggested in Recommendation 5).

**RMI Working Paper on Managed Coal Phaseout: Metrics and Targets (Box 12)**

In addition to emission savings, air pollution avoided through early retirement should be estimated. Tackling air pollution is an important priority of emerging economies because of negative health, environmental, and economic impacts.

Further guidance on how to estimate years that retirement timeline has been accelerated would be needed to ensure such impact is comparable between CFPPs and transparently calculated based on the most accurate baseline.

## QUESTION 12

## What are the relative roles for private sector, policymakers, and standard setters to develop more granular guidelines (e.g., thresholds and conditions) on financing MPOs at this time? Would regulatory standards for MPO help incentivize FIs participation in transitions?

**Regulatory standards could help encourage FIs participation by enhancing the comparability of MPOs and establishing ambition benchmarks.** Broad endorsement of minimum MPO standards would send a clear signal to the market and give confidence to FIs. The standards would need to be sufficiently ambitious, or they risk setting a low bar for MPOs. Minimum standards could include guidance on additionality, age limits for funding, socio-economic impact assessments, and require commitment to no new coal. FIs' thermal coal lending guidance could then build upon regulatory standards, especially when no Paris-aligned coal exit policies are in place yet.

Policymakers can contribute to granular guidelines on MPO plans by aligning standards with government-level commitments (e.g., coal phaseout date and to no new coal infrastructure). Policymakers play an important role in ensuring just transition considerations are adequately addressed in MPO financing. The private sector can contribute to granular guidelines for MPOs by developing clear asks and conditions for MPO financing (e.g., safeguards against emission leakage). Finally, standard setters can require increased transparency on methodology for calculating additionality (e.g., robust guidelines to calculate avoided emissions as mentioned p. 39), socioeconomic impact, financial viability, etc.

# PART 3: FINANCING MECHANISMS

## QUESTION 13

### Are there other ways financing mechanisms for a coal phaseout plan can lower the cost of capital? Which elements are likely to be most impactful at reducing risk / crowding in private finance?

No response.

## QUESTION 14

### What are the most important alternative revenue streams for APAC coal phaseout plans? What other alternative revenue streams are possible from coal closure? What real examples of these provide the most instructive case studies?

**The most important alternative revenue streams include expanding renewable and energy storage portfolio in conjunction with retiring coal assets and repurposing land and infrastructure (as noted on page 5).** In repurposing land for alternative revenue, zero emission electricity generation should be prioritised. Oil, biomass, and BECCS excluded and flexible peaking gas only in extremely exceptional circumstances. In South Africa, Eskom signed land lease agreements with private sector firms to build out wind, solar, and battery storage facilities on over 6000 hectares of land around coal power stations[23]. The agreement's benefits are twofold: (1) renewables and storage are built next to coal plants that have established grid connections and (2) new generation capacity is unlocked for the utility with existing assets.

**Carbon credits for coal phaseout should not be pursued as an alternative revenue stream because they shift emissions elsewhere and do not contribute to an overall mitigation of GHG.** Coal retirement is influenced by political, economic, and societal factors which complicates estimating the additionality of emission reductions[24].Without additionality, carbon credit buyers offset their emissions without any environmental benefit. Questions surround which plants should be eligible – plants that are uneconomical and have low utilisation rates should be excluded. Carbon credits for coal retirement also have inherent conflicts of interest in terms of estimating reductions (this is covered in more detail in question 16).

**23**
https://www.eskom.co.za/eskom-signs-land-lease-agreements-with-independent-clean-power-generators/

**24**
https://carbonmarketwatch.org/publications/gold-standard-consultation-early-coal-plant-retirement/

## QUESTION 15

### Early retirement may pose particular challenges with respect to writing down the value of CFPP assets or associated financing. What additional considerations could be useful in the final guidance with respect to write downs? How important is this to consider in structuring transactions?

An additional consideration that should be included in the finance guidance on write downs is FIs **historical responsibility for financing coal related assets / providing financial services that have enabled coal related assets.** The coal industry is reliant on "relationship-based bank-intermediated borrowing" which makes it difficult for companies to find replacement capital when historic lenders enact strict divestment policies[25]. Existing relationships with entities (e.g., through equity positions, loans, etc.) can be leveraged to push for greater ambition in MPO plans. Here, strong coal exit policies on behalf of the FIs are crucial to facilitate phaseout.

**25** https://www.hbs.edu/ris/Publication%20Files/draft_Coal_divestment_6_16_23_nber_discussant_cc336800-26bb-4073-99d9-85e8849a4c90.pdf

## QUESTION 16

### Are the proposed safeguards for financing mechanisms the right ones? Are they sufficient?

**Blended Capital**

Ultimately non-commercial financing should be prioritised to support the development of countries' just transition pathways and be used for policy reforms that would eventually attract private capital. In addition to supporting Just Transition elements as mentioned on page 53, "development finance institutions' and MDBs' resources could usefully focus on addressing the severe economic and social consequences of the early retirement of high-emitting assets for all the actors in the supply chain" and "any use of public funds to compensate owners and secure early retirements on climate grounds needs to be carefully assessed to ensure that funding is focused on assets that are unlikely to be retired on their own." as recommended in the OECD guidance on transition finance.

**Outcome-based/ KPI-linked investments**

The report notes under key considerations that for such investments, "Issuers can restrict use of proceeds to discourage leakage and reinvestment into coal projects for other structures" (page 37). However, because funds are fungible, risk remains that the IPP or utility continues to support coal projects with other funds – notably funds freed up from financing for specific revenue streams. In addition to the proposed safeguards, commitment to not extend the life of the asset and to no new coal is crucial to avoid emission leakage risks.

The ENGIE Energia Chile example of carbon reduction bonus loan provided in this section does not illustrate the highest impact possible through this kind of mechanisms. It contributed to the disconnection of coal power plant units that were already scheduled to close in the medium term (closure brought forward by 18 months only), according to a research study by Climate & Company.

**Carbon credits**

As noted above, carbon credits for phase out should be scrutinized. Phaseout is impacted by a complex array of geopolitical factors, in addition to domestic policy. This leads to concerns with calculating additionality and attributing emission reductions to finance alone. The scheme also presents a moral hazard risk that incentivises CFPP owners to exaggerate potential emission reductions and the finance required. Carbon credits would shift emissions and not result in behaviour change and emissions reduction on behalf of the purchaser. To ensure emission leakage is avoided entirely, there should be a commitment to no new coal and to avoid simply increasing generation from existing plants. This is particularly important in countries like Indonesia where their coal fleet operates at capacity factors well below their technical potential. The Carbon Market Watch's response to the Gold Standard Consultation on early coal plant retirement provides a helpful summary of key concerns that need to be addressed[26].

**26**
https://carbonmarketwatch.org/publications/gold-standard-consultation-early-coal-plant-retirement/

# PART 4: ENABLING FINANCIAL INSTITUTIONS TO TAKE ACTION

## QUESTION 17

### GFANZ seeks inputs on how internal financial institution policies and conditions may impact financing of coal phaseout plans, while at all times remaining cautious of identifying any non-public, commercially sensitive information. In particular, the following would be helpful:

**A** **Specific wording around coal transactions (e.g., what types of coal transactions are allowed or not)**

Internal divestment strategies that target reduced portfolio emissions can lead banks to avoid financing phaseout. FIs should address early phaseout financing in their lend guidance for thermal coal and set out guidelines for funding. Stakeholder commitment to no new coal and assurance that the investment will not extend the lifetime of the asset should be a minimum. As outlined in Part 2 of the report, financed transactions should have credible (i.e., 1.5-aligned) phaseout plans, support just transitions, lead to significant emission reduction, and be financially viable.

**B** **How financed emissions from MPO exposures are treated in the broader context of net-zero target setting.**

Existing net-zero target setting frameworks need to account for additional metrics and disclosure around financed emissions from MPO exposures, allowing full understanding of progress towards real-economy decarbonisation. Targets set by financial institutions should also include contribution to a country's decarbonisation and resilience development pathways, to accommodate MPO exposure.

## QUESTION 18

### Given the potential for widely used financed emissions targets to disincentive financing of coal phaseout plans, should coal phaseout plans be treated separately? Can this be achieved through greater transparency or do MPO transactions need to be fully carved out from financed emission targets? Does the need to finance coal phaseout justify amendments to financial institutions' emissions reduction targets?

**Yes, coal phaseout funding should be carved out and separated from coal policies meant to exclude funding for new coal/fossil fuel expansion.** To the extent that existing guidance discourages engagement for early fossil fuel phase out, this should be reformed. Greater transparency of phaseout financing is necessary to scrutinise investments and ensure plant lifetimes are not extended.

**FIs should generally move away from financed emissions targets and towards exclusion policies for new fossil fuel expansion with separate polices for how to engage for early fossil fuel retirement and transition corporate finance.** Portfolio targets reflecting financed emissions are not a proxy for impact on GHG in the real economy.

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