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sustainable japan

RI Japan forum looks at future of transition finance

Media partner

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Institutional investors from around the world gathered on May 22 and 23 in Tokyo to discuss what responsible investors can do to encourage a greener society.

The annual conference, RI Japan, attracted about 1,000 attendees, the most ever, from a wide range of countries including Australia, Hong Kong, South Korea, Japan, the United States and the United Kingdom.

In the first plenary session, on the subject of "the future role of transition finance in sustainable investing," speakers exchanged opinions about the role of private-sector financial institutions in accelerating the transition to a zero-emission sustainable society.

"Investors are now increasingly looking to understand and manage the external impact of their investment decisions because ultimate financial returns and economic growth rely on the stability, resilience and prosperity of the natural, social and economic systems in which they operate. This is why looking at sustainability outcomes increasingly matters for investors," said Margarita Pirovska, director of policy for Principles for Responsible Investment (PRI) and moderator of the panel discussion. PRI is a United Nations-backed network of institutional investors.

Behind the global trend is the adoption of the Paris Agreement in 2015, which requires signatories to set up long-term goals to reduce greenhouse gas emissions, and the sustainable development goals agreed upon at the United Nations in the same year, she said.

The first panel discussion focused on the challenge of transforming the world's fossil-fuel-powered economy to one with net-zero emissions. Bhargav Dasgupta, vice president for the Asian Development Bank (ADB), kicked off the discussion by pointing out the criticality of current climate change and the need for financing to tackle it.

According to an ADB estimate, Asia needs as much as $1 trillion every year to transform toward net zero, he said, adding that he himself, who lives in Manila, feels the severity of global warming, such as when he witnessed melting roads in the region due to a record heat wave in the region.

"During this decade between 2019 and 2030, we will invest $100 billion of our own balance for climate action," Dasgupta said. The other objective of the ADB is to work with other partners to add to the amount of financing. So it is critical to collaborate with other parts of the ecosystem — policymakers in the public sector and financial institutions in the private sector — to induce more capital for the net-zero transition and overall climate financing, he said.

About 1,000 delegates registered for RI Japan 2024. RI JAPAN

Helena Fung, head of sustainable finance and investment in the Asia-Pacific region for the London Stock Exchange Group, echoed that and pointed to the serious financing needed for Asia to follow a net-zero pathway. "Asia is one of the regions where the transition is going to be most critical," she said.

Plenary 1 moderator and panelists, from left: Margarita Pirovska, Bhargav Dasgupta, Leong Wai Leng, Hideki Takada, Helena Fung and Fumihiro Kajikawa RI JAPAN

Fung also pointed out the importance of looking at economy-wide transition projects, not only individual green activities. "We need to think of it from both the use of proceeds at an activity level, but also at the entities themselves, and understand what they're doing to transition," she said.

While a number of taxonomies and definitions for sustainability investments that have emerged in the past decade are important, including those in the EU and Singapore, investors also need to look at what constitutes transition activities, which should show them what has the best performance and clearest pathway to net zero.

In terms of transition planning, she said, one significant work is the guidance released by the U.K.'s Transition Plan Taskforce earlier this year.

Investors should not focus only on heavily emitting and hard-to-abate sectors like iron and steel or chemicals, as other sectors also have large reduction potentials, Fung said. "There are some sectors where we still need to see scalable technological solutions development that obviously requires financing and support."

From the policy side, two Japanese officials explained the role of the government.

Fumihiro Kajikawa, director of the Ministry of Economy, Trade and Industry's office for green transformation financing, said there are three important points to consider. One is that the business sector needs to conduct research and development, as well as use capital spending, for lower emissions. The second is that financial institutions should provide enough support to projects that require huge amounts of money. The last is to create an environment in which net-zero and low-carbon financial products are welcomed by the financial market, in order to create a virtuous cycle from all of these. "What we have to do is to move forward these three things, together with other [ministries and] sectors," he said.

For example, about half of the proceeds raised by Japan's first climate transition bonds, worth about ¥1.6 trillion ($10 billion), is to be spent for industrial research and development.

Kajikawa said investments for green transformation are critical for Japan, whose energy self-sufficiency rate is merely 13% and which therefore relies heavily on imported fossil fuels, including coal, oil and natural gas. Rising prices for imported energy affect the country's trade, he said, by offsetting exports of automobiles, semiconductors and other machinery.

Japan is also looking into intellectual properties related to lowering carbon emissions, Kajikawa said.

Hideki Takada, the director for strategy development at the Financial Services Agency, explained the background of the country's launch of the Asia GX Consortium — the "GX" is short for "green transition" — in March. Aligning with public and private financial institutions — the ADB, the Association of Southeast Asian Nations and Glasgow Financial Alliance for Net Zero — the agency sought potential projects based on case studies of transition finance in Asia.

"Unfortunately, most of the existing industries and technologies in the world are not yet green. We need to provide finance to turn them greener and decarbonize the economy as a whole. That is the role of transition finance," Takada said.

He echoed Fung's comment that transition finance aims to support high-level approaches, not only individual projects, and that it is a concept for dynamic change in society. Based on the philosophy of transition finance, the consortium discusses not only concepts of transition finance but projects that can move the transition forward, he said.

Andrew Wolff, representative director of the PEI Group in Japan, gives the opening remarks. RI JAPAN

Leong Wai Leng, managing director and Asia-Pacific head for pension funds for CDPQ Global, based in Singapore, stressed the importance of "blended finance" because the huge amount of investments needed to turn the world greener requires cooperation among governments and the private sector, including pension funds, wealth funds and philanthropic groups.

The first day of the event also spotlighted human rights in sustainable business operations, a serious but difficult issue for companies to tackle.

Ryusuke Tanaka, the program officer at the International Labour Organization's office for Japan, said in a panel discussion on business and human rights that the difficulty of the issue comes from a lack of clear solutions as to how much companies have available to invest in solving the issue and how much return the investment would bring about. Companies are also uncertain if they ever have to prioritize the issue.

He insisted that forced labor and child labor persist or are even increasing in supply chains, despite the significance of human rights agendas being well acknowledged across the globe.

"I want investors to acknowledge the agenda, as they are the ones who have an effective impact on companies," Tanaka said, stressing that respect for human rights helps individuals' dignity and thus empowers them.

Accelerating Japan's path to achieving decarbonization

ESG/SDGs

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One of the major themes on the second day of the conference was how to back Japan's transition to net-zero carbon emissions.

Under the topic of "accelerating Japan's path to decarbonization," panelists discussed how to support the country in changing from its heavy reliance on imported fossil fuels.

Yukari Takamura, a professor at the Institute for Future Initiatives at the University of Tokyo, said Japan is currently facing the challenging task of crafting reliable plans to reduce carbon emissions and deal with energy security at the same time.

While discussions for the country's new strategic energy plan began last month, Japan is also working on the target for reducing emissions beyond 2030 that it is required under the Paris Agreement to submit next year. That means the country needs to seek solutions for reducing its consumption of fossil fuels, which currently account for about 85% of its greenhouse gas emissions.

The country pledged under former Prime Minister Yoshihide Suga in 2020 to aim for net-zero carbon emissions by 2050 in order to help reach the global target of limiting the temperature rise to 1.5 degrees Celsius. "The national energy plan is important not only for climate change, but for the country's energy security as well as its energy costs and trade," Takamura said.

She pointed out that Japan's energy self-sufficiency rate is 13%, lower than those of other developed nations, and its trade balance shows that exports of automobiles and other machinery are offset by imports of fossil fuel.

"What Japan should do is curb energy demand, and at the same time increase renewable energy. It must create an energy system by combining multiple energy sources in a flexible way," she said.

That is not an easy task because the country gets 70% of its energy from fossil fuels, of which 31% is from coal-fired power plants, Takamura continued. "To solve climate change issues and help companies and investors work on energy transition and decarbonization, we need a clear and ambitious target, and measures to support it."

As for renewable energy, things have changed in recent years, said Kae Takase, the senior coordinator at the Renewable Energy Institute and moderator of the panel discussion. Technological developments in large-scale batteries and artificial intelligence make it easier to provide renewables more steadily, she said.

However, there is increasing uncertainty over the energy outlook. The geopolitical risks in part of Europe and the Middle East as well as the yen's slump against major currencies worry Japanese energy importers, said Hiroshi Fujikawa, the chief sustainability officer for Kirin Holdings Co.

Therefore, Fujikawa urged policymakers to craft comprehensive national energy plans with clear blueprints for an economically efficient energy mix, taking into account the outlook for costs of renewables and other energy sources and the roles of the public and private sectors in the market.

Also, he stressed the importance of holistic approaches on not only zero emissions but biodiversity and ocean plastic as well, since a food company like Kirin has to deal with these and all sorts of other issues affecting food, alcohol and water.

Kenji Fujii, the Japan chapter lead for the Glasgow Financial Alliance for Net Zero, bringing together banks, insurance companies and asset managers from across the world, explained the alliance's four transition financing strategies, launched in 2022 to support decarbonization in the world economy.

First is "climate solutions," to finance technologies and services. This is followed by "aligned" and "aligning," to finance companies that either are already aligned to a 1.5-degree pathway or are committed to transitioning to that pathway. The last strategy is "managed phaseout," financing to accelerate the gradual shutdown of companies' high-emitting facilities. In December, the alliance released a report giving step-by-step guidance for phasing out coal-fired power plants in the Asia-Pacific region.

However, financial institutions are not the only players tackling decarbonization. Others include governments and companies themselves. "Unless all players do their best in taking their roles and creating cooperation with each other, there is no way to achieve net zero," Fujii said.

At the end of the panel discussion, Alexander Pui, an adjunct lecturer at the University of New South Wales, warned that Japan and other parts of the world must take into account the risk of devastating natural disasters due global warming when talking about the importance of renewable energy.

"We shouldn't really be separating physical risk from transitional risk, because they're interdependent," he said.

While governments should support nascent technologies for renewables, they should also provide subsidies for disaster insurance and sponsor academia-industry collaboration to better understand such disasters. New financial products will be necessary, such as "parametric" insurance based on certain parameters being met, such as a flood or blackout, without requiring on-site verification of loss, and catastrophe bonds that financial institutions can invest in, Pui said.

Plenary 6 moderator and panelists, from left: Kae Takase, Kenji Fujii, Hiroshi Fujikawa, Yukari Takamura and Alexander Pui RI JAPAN

Attendees take a chance to network between sessions. RI JAPAN

Driving more institutional capital toward sustainable investment

ESG/SDGs

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The last session on the second day of the RI Japan event was plenary 7, which focused on what Japan can do to attract more institutional capital into sustainable investment amid a global sense of emergency that something must be done to solve climate and social issues for the sake of our future. Joining the session were Yoko Monoe, a senior consultant at Mercer and the moderator of the session, Takeshi Kimura, a special adviser to the board at Nippon Life Insurance, Hiroyuki Nomura, an operating officer and senior general manager at Japan Post Insurance, and Yasunari Iwatate, the executive director for Higo Bank, who is also the chairman of the Higo Corporate Bank Pension Fund.

The latest statistics show an increasing trend toward sustainable investment except in the United States, which is suffering from a backlash over environmental, social and governance (ESG) issues. According to the Global Sustainable Investment Alliance's latest report, the overall sustainable investment in 2022 reached $30 trillion, up 20% from 2020. In Japan it rose 59%, extending a rising trend since 2016, said Monoe. She said many countries define sustainable investment as including engagement activities, implementation of shareholder rights, ESG integration policy and "negative screening," which excludes potential investee companies that do not meet investment criteria.

The agenda of the panel discussion gained a spotlight because asset management reform is one of the major pillars of Prime Minister Fumio Kishida's strategy released last year to improve the governance of asset managers and owners and encourage new entrants to spur competition.

Asked by the moderator about any recent changes in asset owners' investment stances on sustainability issues, Kimura said a trend is emerging among institutional investors to take a more proactive approach in helping to create a better future society.

"In the last few years, there has been a shift to a so-called 'inside-out' investment approach, from the 'outside-in' approach that used to be the main one," he said.

Plenary 7 moderator and panelists, from left: Yoko Monoe, Takeshi Kimura, Hiroyuki Nomura and Yasunari Iwatate RI JAPAN

In the past, the mainstream strategy for sustainable investment was to analyze companies' future risks and opportunities in case global warming accelerated. Investors also required companies to disclose nonfinancial information related to ESG issues. As for hard-to-abate sectors like steel and chemicals, investors urge companies to collaborate on the pathway to net-zero emissions through transition finance.

In the "inside-out" investment approach, on the other hand, what is important is "field building" to consolidate a foundation that makes it easier for all parties related to investments to take action, Kimura said. "This means urging stakeholders to make changes to achieve best practices for society and investment," he added.

For example, policy engagement such as signing the United Nations-backed Principles for Responsible Investment is part of field building, said Kimura, who is also a PRI board director. PRI is a voluntary set of principles for institutional investors to help incorporate ESG issues into investment decisions.

Nomura said he feels the need to do a reality check now that the ESG investment approach has spread widely among institutional investors.

"In Japan, ESG integration has become standard," Nomura said. "However, I'm not sure if the investment had an impact on the achievement of the SDGs (the U.N.'s sustainable development goals) and the creation of innovation and contributions to technological development that could help address social issues and create an evolution of business models."

Therefore, Japan Post Insurance took a step further from the conventional ESG investment approach and in 2022 started to increase "impact-driven investment," which aims to directly contribute to the creation of impacts that help lead to solutions to social issues. Another new step is to collaborate with academic research promising huge technological developments and broaden investment in startups born on campus.

"We plan to actively work on the realization of a sustainable society, the achievement of the SDGs and the activation of capital markets while securing stable profits from the standpoint of a responsible investor," Nomura said.

Compared to giant life insurers such as Nippon Life and Japan Post, smaller entities have different issues. Iwatate said that one of their problems is a lack of human resources. To overcome this, Higo Bank, one of the local Japanese banks that actively promote sustainability, uses such investments to support its corporate pension fund, he said, adding that 55% of its pension fund currently stays in ESG investment.

Nippon Life's Kimura said that whether the country's asset management reform succeeds or not depends on how much each asset owner understands the reason for the government reform. "What is most important for asset owners is to think about what the maximum benefit for fiduciaries is," he said. "In order to do that, the top of the list is to listen to the voice of citizens, or in this case, fiduciaries."

"What they want is not only an economic return. They want their pension fund to contribute to the achievement of the SDGs and solutions to social issues," Kimura said.

Aiming to highlight issues related to a sustainable society, The Japan Times gave its support to this event by becoming a media partner.