

ENERGY TRANSITION MECHANISM: OVERVIEW

The world can only realize its climate goals if it supports developing countries in transitioning away from coal in the near term. To accelerate this transition in its developing member countries in Asia and the Pacific region, where coal remains a primary electricity source, the Asian Development Bank (ADB) is working with its regional and international partners to support, study, and pilot the Energy Transition Mechanism (ETM).

What is the ETM?

The ETM is a scalable, collaborative initiative developed in partnership with developing countries that will leverage an equitable and replicable market-based method to *accelerate* the transition from fossil fuels to clean energy.¹

The ETM is a transformative blended finance approach that seeks to retire existing coal-fired power plants on an accelerated schedule and replace them with clean power capacity. It will include two financing vehicles: (i) a carbon reduction fund, which will be devoted to early retirement or repurposing of coal-fired power plants on an accelerated timeline; and (ii) a clean energy fund,² which will be focused on new clean energy investments in generation, storage, and grid upgrades. It is envisioned that multilateral banks, private sector institutional investors, philanthropic organizations, and long-term investors will provide capital for the ETM.

Benefits of the ETM

The ETM is a win for local communities, a win for developing economies, and a win for the climate. It will mean significantly shortening the life of coal-fired power plants, and significantly unlocking new investments in sustainable and renewable energy.

Accelerating climate action. Countries participating in the ETM will be able to reach more ambitious emissions targets than their current commitments.

Reducing energy costs. Speeding up the retirement of coal-fired electricity will increase the demand for clean energy by 2–3 times, lowering overall energy generation costs in the long run.

Driving investments in renewables. The ETM will unlock investments in cost-effective renewable alternatives, such as carbon storage, hydrogen, electric vehicles, and other clean technologies.

Providing a scalable model. The ETM's potential to be scaled up to other Asian, Latin American, and African countries could drive significant reductions in global emissions.

Progress to Date and Next Steps

In September 2021, ADB concluded a pre-feasibility study that involved initial system-level analysis, plant-level modeling, and regulatory and policy review in Indonesia, the Philippines, and Viet Nam.³ The results identified dependence on coal, lack of incentives for renewable energy, and lack of clear regulatory policy as key challenges to the ETM's implementation. Of

¹ The concept of the ETM was introduced in 2018 under the World Economic Forum umbrella.

² The clean energy fund to be established under the ETM will be a separate vehicle from the Clean Energy Fund, which was set up in 2007 under the Clean Energy Financing Partnership Facility.

³ Carbon Trust, Asia Group Advisors, and Climate Smart Ventures. 2021. [Opportunities to Accelerate Coal to Clean Power Transition in Selected Southeast Asian Developing Member Countries: Final Report](#). September.

these three countries, only Indonesia has a policy framework for transferring state assets to special purpose vehicles. Filling the policy void in the Philippines and Viet Nam requires amending power and energy road maps, reviewing contracting structures, and revisiting fuel incentives. The value of the coal-fired power plants that serve as samples for the pilot ETM totals

\$6 billion, and it will cost \$27 billion to retire 44% of all coal plants in these countries.

An in-depth feasibility study, initially focused on Indonesia and the Philippines, was launched in November 2021. Throughout this process, ADB has been collaborating with its long-standing and valued international and country-based partners and other local stakeholders to determine the best path forward for ETM development in these countries.

Energy Transition Mechanism Partnership Trust Fund

To mobilize resources in support of ETM activities, ADB will set up a new trust fund, the Energy Transition Mechanism Partnership Trust Fund (ETMPTF), under its Clean Energy Financing Partnership Facility. The ETMPTF will support the ETM activities for the early retirement of coal-based generation assets,⁴ and the transition to clean energy in developing member countries to reduce greenhouse gases.