

PARIS ALIGNMENT OF EXPORT CREDIT AGENCIES

Case study #3: Japan (NEXI and JBIC)

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Perspectives Climate Research

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Key Messages

- Nippon Export and Investment Insurance (NEXI) and Japan Bank for International Cooperation (JBIC), the official Japanese Export Credit Agencies (ECAs), were assessed with regards to their alignment with the Paris Agreement across five dimensions using the [methodology](#) developed by Perspectives Climate Research. Overall, NEXI and JBIC were rated as **'Unaligned' with the Paris Agreement** (assessment score NEXI: 0.02/3.00 and assessment score JBIC: 0.05/3.00).
- Both NEXI and JBIC were rated as **'Unaligned' across almost all of 18 key questions** within five assessment dimensions, **except for one question** within the 'Climate finance' dimension for NEXI and within the 'Transparency' dimension for JBIC.
- **Japan is one of the main laggards among G7 countries regarding the Paris alignment of its export finance.** It is the only country proactively supporting fossil fuel value chains through its ECAs and shows no progress towards phasing out this support (apart from some limited restrictions on coal support).
- **Japan has no formalized holistic policies for its ECAs to exclude or restrict support to coal, oil, and gas value chains.** Moreover, both ECAs remain alarmingly untransparent with regards to their climate impacts. The only area where there is some progress towards Paris alignment is the increasing engagement in the development of dedicated incentive structures for climate-friendly activities through NEXI's 'Loan Insurance for Green Innovation'. JBIC achieved some progress for its disclosure on climate finance and emission reductions achieved through its 'GREEN' activities.
- A comprehensive **fossil fuel exclusion policy in line with the Paris Agreement** for all fossil fuels and related value chains, a **clear definition of and reporting on climate finance** as well as **enhanced transparency on the climate impact of all activities** would bring NEXI and JBIC closer to becoming Paris-aligned ECAs.

Assessment dimension	Weight	Description	Score NEXI	Score JBIC
1. Transparency	0.2	Financial and non-financial disclosures	0.00/3.00	0.25/3.00
2. Mitigation I	0.4	Ambition of fossil fuel exclusion or restriction policies	0.00/3.00	0.00/3.00
3. Mitigation II	0.2	Climate impact of and emission reduction targets for all activities	0.00/3.00	0.00/3.00
4. Climate finance	0.1	Positive contribution to the global climate transition	0.20/3.00	0.00/3.00
5. Engagement	0.1	Outreach and 'pro-activeness' of the ECA and its governments	0.00/3.00	0.00/3.00
Assessment outcome:		Unaligned	0.02/3.00	0.05/3.00

1. Introduction

Limiting temperature increase to 1.5°C above pre-industrial levels requires massively re-directing financial flows away from carbon-intensive towards low-carbon activities. However, despite commitments made under Article 2.1(c) of the Paris Agreement – in which Parties agreed to making “finance flows consistent with a pathway towards low greenhouse gas emissions [...]” (UNFCCC 2015) – many countries still provide significant financial support to fossil fuel value chains, among others, through their export credit agencies (ECAs). This contributes to a global lock-in of carbon intensive infrastructures and hampers leapfrogging of carbon-intensive development in countries in the global South. DeAngelis and Tucker (2020) estimated that from 2016 to 2018, ECAs of G20 countries provided an annual average of USD 40.1 billion to support fossil fuel projects, while clean energy was supported with only USD 2.9 billion annually. Since 2019, of all public finance institutions (PFIs), G20 ECAs make up the single largest group providing financial support for fossil fuels, which is even higher than (bilateral) public development banks (Oil Change International 2021). An ECA is often decisive in whether a deal can be realised, e.g., by providing risk insurance or improving lending conditions of banks which finance export transactions.

Several recent studies underlined the lack of dedicated climate policies and transparency of ECAs (e.g., Shishlov et al. 2020; Wenidoppler et al. 2017) as well as potential litigation if no action is undertaken (Cook and Viñuales 2021).

Some governments have started making explicit climate commitments for their ECAs – notably foreign ministers from the EU, the UK, and the US. However, many ECAs still lack ambition in terms of speed, scale, and scope of the reforms – for example, most of them are not in line with the latest Net Zero scenario developed by the International Energy Agency (IEA) that calls for immediate end of new fossil fuel supply developments, including natural gas (IEA 2021). Moreover, no systematic benchmarks or approaches exist to comparatively assess and guide ECAs towards Paris alignment. To help bridge these gaps and inform ongoing reform processes, Perspectives Climate Research developed a dedicated methodology to assess the alignment of ECAs with the Paris Agreement (Shishlov et al. 2021). This methodology was initially applied to Germany’s mandated ECA Euler Hermes (Darouich et al. 2021) and is currently being extended to a series of further country case studies including the one presented here.

Text box 1: What are Export Credit Agencies?

ECAs are either private companies that act on behalf of a government or public entities themselves (OECD 2021a). Their *raison d’être* is the promotion of the trade and national export businesses competing for riskier markets abroad (Shishlov et al. 2020; OECD 2021a). ECAs provide, for example, guarantees to hedge against risks of an exporter or lender not being repaid, e.g., due to political instability, expropriation, or unexpected currency fluctuations. They can also act as direct lenders with short-, medium- or long-term loans and may provide earmarked project finance or even equity instruments. In return, they receive risk premiums or interest payments. In the case of repayment loss, ECAs compensate exporters or lenders directly whilst being in the position to draw up a debt settlement arrangement with the Paris Club². Opting for a state-backed transaction can significantly de-risk deals for exporters and crowd in public or private co-finance, especially for large-scale, long-term or particularly risky projects. Many ECAs require exporters or banks to demonstrate that private export credit insurance would not cover the deal. This situation is reflected in the fact that among Berne Union members – the largest association for the export credit and investment insurance industry worldwide – official ECAs predominantly provide long-term commitments and political risk insurance. This represents about one third of total commitments outstanding which were estimated in 2020 at USD 2.77 trillion (Berne Union 2021). About two thirds are short-term commitments which are predominantly insured by private insurers (*ibid.*). However, the fact that ECAs typically support larger and riskier projects that would not have been insured otherwise underlines the rationale of looking into their potentially adverse effects on climate and the environment.

¹ The Paris Club is ‘an informal group of official creditors’ which collects public debt owed by governments to creditor countries. Debt owed by private entities which is guaranteed by the public sector (e.g., through ECAs) is comprised by the definition of public debt (Club de Paris 2021).

2. Officially supported export finance in Japan

Japan has the second largest national economy in Asia and the third largest by nominal GDP globally (World Bank 2021). In 2019, the country was among the five leading export nations in terms of absolute export value worldwide (World Bank 2021a) with exports amounting to 17.6% of its GDP (World Bank 2021b). As Japan's key industries include the manufacturing of automobile, electronics products, machine tools, steel and non-ferrous metals, and ships, it is not surprising that cars and vehicle parts - along with integrated circuits, machinery and passenger and cargo ships - are among the most prominent exports (ITA 2019). The main recipients of these exports in 2019 were the United States (19.9%), China (19.1%), South Korea (6.5%) and Hong Kong (4.7%) (World Bank 2021c). International trade also plays a crucial role in Japan. Ever since the opening of Japan to the rest of the world in the 19th century, general trading companies ('sogo shosha'), i.e., large conglomerates like Marubeni, Mitsubishi, Mitsui and Sumitomo have dominated. These serve as co-ordinators of projects, engaging with government institutions in Japan and abroad, managing financial arrangements and co-ordinating procurement (Chen 2021). Moreover, from the 1970s until the early 1990s, the island state was a major overseas infrastructure financier for the East Asian region, using these investments to transfer Japanese development ideas abroad and gaining legitimacy among those nations (Liao and Katada 2021). Japan also has little arable farmland and lacks many essential raw materials for the industry and energy sectors such as oil, coal, iron ore, copper, and bauxite necessary (Murguia 2015), wherefore high export rates are necessary to maintain trade balance.

The official Japanese export credit agencies Nippon Export and Investment Insurance (NEXI) and the Japan Bank for International Cooperation (JBIC) help to strengthen the domestic export businesses (OECD, n.d.). Both agencies are fully state-owned but work independently from each other. In financial terms, JBIC is slightly more relevant than NEXI (comparison of total commitments outstanding, see Table 1). NEXI's history goes back to the establishment of trade and investment insurance program by the Japanese government in 1950 with the purpose of promoting "*the sound development of international trade and other international transactions through the establishment of a system of insurance of the risk of exchange controls and other risks for which ordinary insurance cannot provide relief, that occurs in international trade and other international transaction*" (Government of Japan 1950). After the change in 2001 from an incorporated administrative agency to a state-owned agency, NEXI is now since 2017 a fully government-owned special stock company (NEXI 2021). Its mandate is to conduct insurance business of covering risks which arise in foreign transactions, and which are not or cannot be covered by private-sector insurance (which is often referred to as 'insurance of last resort') (NEXI 2021a). NEXI is a pure cover ECA i.e., does not issue loans, and covers both political and commercial risks. The ECA distinguishes offered insurances between short-term and medium- to long-term

business. One of the most relevant short-term business insurance types is the Export Credit Insurance². For medium and long-term businesses, NEXI offers Buyer's Credit Insurance³, Overseas Investment Insurance⁴ and Overseas Untied Loan Insurance⁵. Interestingly, NEXI offers an extra insurance product for transactions with natural resources which depending on the project's risk profile can even feature lower premium rates and a wider range of risk coverage compared with their other services (NEXI 2021b). The responsible government counterpart is the Japanese Ministry of Economy, Trade and Industry (METI) (METI 2020).

The second official ECA of Japan is the Japan Bank for International Cooperation (JBIC) - likewise a fully government-owned financial institution but with different mandate and products. JBIC started as a merger of the Export-Import Bank of Japan (JEXIM) and the Overseas Economic Cooperation Fund (OECF) in 1999. In 2012, after internal restructuring JBIC was established in accordance with the Japan Bank for International Cooperation Act (JBIC Act) of 2011. Similar to NEXI's mandate to cover risks which the private sector cannot insure, JBIC states in its operational principles that JBIC "*supplements the financial transactions implemented by private-sector financial institutions*" (JBIC n.d.), i.e., JBIC services are additional and are not supposed to displace those of the private sector. It is also noteworthy that within JBIC's four missions/purposes, the third one relates to "*promoting the overseas business having the purpose of preserving the global environment, such as preventing global warming*" (i.d.), which is why environmental operations are a dedicated engagement sector (JBIC 2021). The financial products offered by the ECA include various types of loans (export loans, import loans, overseas investment loans, untied loans), equity participation and guarantees (JBIC n.d). JBIC is thus not a pure cover ECA. Although NEXI and JBIC operate independently, they often work together: for example, a Japanese commercial bank extends a loan with the help of JBIC and NEXI provides the insurance for the loan through its Buyer's Credit Insurances (NEXI 2021c). JBIC's responsible government counterpart is the Japanese Ministry of Finance (MoF) (JBIC n.d.). Table 1 provides an overview of NEXI and JBIC's organisation and activities.

² Export credit insurance covers losses incurred when a Japanese company undertaking export, intermediary trade, or providing technical cooperation, such as construction work, is unable to export the goods.

³ Buyer's Credit Insurance covers losses suffered by a Japanese commercial bank or other financial institution as a result of providing loans to a foreign importer who purchases goods and services from a Japanese exporter.

⁴ Overseas Investment Insurance covers losses suffered by a Japanese company with a subsidiary or a joint venture in a foreign country (equity, real estate investment etc.).

⁵ Overseas Untied Loan Insurance covers losses suffered by a Japanese company or commercial bank that provided a foreign government or a company with long-term business funds untied to exports from Japan or that purchased bonds issued by a foreign government or a company for the purpose of long-term financing.

Table 1: Overview of the Japanese ECAs NEXI and JBIC

Key facts	NEXI	JBIC
Type of ECA	State-owned, pure cover	State-owned
Main sectors*	Japanese small and medium sized enterprises (SMEs) and organizations related to agriculture, forestry and fisheries (AFF Sector)	Natural resources, Infrastructure, Industry, Mid-Tier Enterprises & SMEs, Environment-related Sector
Geographic activity concentration*	Asia (54.5%), Europe (12.4%). Central America, Middle East, South America, North America	Asia (47%), Europe (25%), Latin America and the Caribbean (11%), North America (10%)
Commitments outstanding*	JPY 12.6 trillion (96.9 billion EUR)	JPY 15.6 trillion (124.1 billion EUR)**
New commitments*	JPY 5.9 trillion (45.4 billion EUR)	JPY 1.68 trillion (13.01 billion EUR) Incl. 'GREEN' operations: JPY 42.9 billion (0.33 billion EUR) (2.5% of total new commitments)
Main instruments of financial support	Export Credit Insurance (76%), Buyer's Credit Insurance (0.3%), Overseas Investment Insurance (10%), Overseas Untied Loan Insurance (7%), Others*** (0.3%)	Overseas Investment Loans (82%), Export Loans (11%), Guarantees (5%), United Loans & Equity Participations (each 1%)
Category A and B projects*	Total screening: 46 15% (7) Category A projects 13% (6) Category B 72% (33) Category C	Total screening****: 51 25% (13) Category A projects 16% (8) Category B 59% (30) Category FI

Note: (*) = Data from FY2019, (**) = Figures as of 31st March 2020, (***) = Others: Trade Insurance for Standing Orders from Specific Buyers, Export Credit Insurance for SMEs and AFF Sector, Comprehensive Export Insurance with Simplified Procedure, Export Bill Insurance, Prepayment Import Insurance, and Reinsurance. (****) = JBIC does not report the figures for Category C projects (JBIC 2021a, JBIC 2015). Definition of Category FI is explained in Chapter 4 under Q1.1. Sources: World Bank (2021d), NEXI (2021d), JBIC (2021a), JBIC (2020)

3. Climate-related policies in officially supported export finance in Japan

In 2021, Japan announced its commitment to reaching carbon neutrality by mid-century (METI 2021) and enhanced its 2030 Paris Agreement emission reduction target from 26% to 46% below 2013 levels (Ono 2021). To achieve these goals, the Asian nation plans to promote innovation and technology, encourage green finance to support their development, and foster greater international cooperation for the business-led adoption of innovative green technologies (METI n.d.). At the same time, the power sector's heavy reliance on imported fossil fuels⁶ (METI 2016) - which accounted for 88% of total primary energy supply in 2019 (IEA 2021a) - and the continued expansion of coal-fired power plants in Japan and abroad (Tabuchi 2020, No Coal Japan n.d.) are threatening these climate targets. Fossil fuels, especially coal and natural gas, still play a significant role in Japan. According to

draft Strategic Energy Plan released July 2021, the country expects to cover approximately 40% of its domestic energy mix in 2030 with fossil fuels (LNG 20%, coal 19% and oil 2%) (Kumagai 2021). Japan therefore also has a strategic interest in promoting fossil fuel projects abroad as this support can ensure that the nation's energy needs can be met. Indeed, the Asian country is the largest provider of fossil fuel finance in overseas business within the G20 (alongside China, South Korea, and Canada) and reportedly provided USD 7.8 billion annually for fossil fuel projects through NEXI and JBIC between 2016 to 2018 (DeAngelis and Tucker 2020b). Latest involvements in overseas fossil fuel projects such as the

⁶ Japan is among the largest fossil fuel importers globally (Kiko Network 2021).

controversial offshore natural gas project in Mozambique or the Vung Ang 2 coal-fired power plant in Vietnam (JBIC 2020a) underpin the important role of the Japanese ECAs as these projects may not have happened without ECA backing.

On the national level, the Japanese government announced in July 2020 a new policy which tightens its lending criteria for overseas coal-fired power plants (Government of Japan 2020). According to this policy “*the government will not provide assistance for new coal projects to those countries where Japan is not fully aware of the local energy situation and challenges or policies for decarbonisation*” (Sheldrick and Obayashi 2020). As highlighted by many NGOs (Kiko Network 2020, Chen 2020), this policy leaves important unanswered questions and loopholes. First, merely having a decarbonisation policy in place implies nothing about its level of ambition. Second, the likelihood that a country with an ambitious decarbonisation strategy will build new coal-fired power plants is low and thus reduces the significance of the policy. Furthermore, considering that the latest science (e.g. IEA 2021) made it clear that no new fossil fuel projects should be developed to meet the 2050 Net Zero target, it is evident that the existence of a decarbonisation strategy (or poor energy access situation) is not enough to legitimise new coal projects. Finally, the policy states that Japan will continue to support high-efficiency coal-fired power generation such as ultra-supercritical (IEA 2021a) or Integrated Gasification Combined Cycle as well as plants for which the support was already agreed upon, locking fossil-fuel-based energy in these countries for decades (JACES 2021, White 2020). In May 2021, during the G7 Summit in Cornwall, Japan, next to Canada, France, Italy, Germany, the UK, and the US, agreed to stop public support for international carbon-intensive fossil fuel energy as soon as possible (except in limited circumstances), phase out of new direct government support for unabated international thermal coal power generation by the end of 2021 and increase funding for the coal transition (Council of the EU and the European Council 2021). Following this summit, the Japanese government announced its plan to halt financial support for new overseas coal-fired power projects without CO₂-reduction technologies. However, details of CO₂-reduction measures that qualify for an exception and

how Japan deals with the shortcomings of the supranational G7 declaration (continuation of projects in the pipeline and non-mentioning of fossil fuel related infrastructure) have not yet been revealed (Obayashi 2021; Oki 2021).

International pressure is raising as more and more countries announce their plans of ending overseas coal support. Front-runners are the UK and the US but also the newly formed European alliance ‘Export Finance for Future’(E3F) which all announced ending support for overseas fossil fuel projects (Ministry of Economy of France 2021, The White House 2021, Prime Minister’s Office 2020). One argument for the low ambition to phase out fossil fuel projects abroad has often been that if an OECD country like Japan does not undertake these projects itself (with the best possible technologies and environmental guidelines in place), then non-OECD countries like China will take over these projects without such standards (Liao 2020). However, with a decision of September 2021, this justification has been weakened, as China announced at the General Assembly of the United Nations that it “*will not build new coal-fired power projects abroad*” (Carbon Pulse 2021). Although the timing of the introduction of the policy and further details are unknown, one can nevertheless speak of a step in the right direction (Volcovici et al. 2021).

Overall, it becomes apparent how much Japan is lagging behind other G7 countries. Being one of the world’s largest economies and influential market players especially in Asia, Japan has the potential to be lighthouse example of re-found climate ambition. The island state was once among the leaders in climate policy but received a huge setback due to the Fukushima nuclear disaster of 2011, which ended its ambition to move away from fossil fuels and expand nuclear to reach its GHG emission reductions targets set under the “Copenhagen pledge” (UNFCCC 2010). The country’s role in international trade related to fossil fuels and its importance within the Asian region make Japan an interesting case study to assess the Paris alignment of its ECAs and provide recommendations on how to start the transition.

Text Boxes 2 and 3 provide an overview of NEXI’s and JBIC’s individual climate-related policies and commitments.



Text Box 2: Nippon Export and Investment Insurance (NEXI): climate-related commitments and practices

- Adherence to the OECD Arrangement on Officially Supported Export Credits.
- Social and Environmental reviews of selected projects according to IFC Performance Standards and EHS Guidelines of the World Bank (only for projects with a repayment period of two years or more) (NEXI 2017).
- “Loan Insurance for Green Innovation”: this insurance covers projects related to the renewable energies and energy conservation businesses, as well as to those which utilize new technologies contributing to environmental sustainability. Benefit is an increased commercial risk coverage rate up to 97.5% compared with usual Buyer’s Credit Insurance or Overseas Untied Loan Insurance (NEXI 2019).
- Establishment of LEAD initiative in 2020, new program to proactively support projects with “Leading Features” (with a focus on contributing to global carbon neutrality, solving social issues, and achieving the SDGs) set out below through NEXI’s Overseas Untied Loan Insurance. The aim is to underwrite insurance of total value of JPY 1 trillion by the end of fiscal 2025 (NEXI 2020a).
- NEXI has expressed its support for the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and joined the TCFD Consortium, a discussion platform set up for promoting approaches for climate-related financial disclosures based on the recommendation (NEXI 2019a).

Text Box 3: Japan Bank for International Cooperation (JBIC): climate-related commitments and practices

- Adherence to the OECD Arrangement on Officially Supported Export Credits.
- Social and Environmental reviews of selected projects according to IFC Performance Standards and EHS Guidelines of the World Bank (JBIC 2015).
- Dedicated environmental operations, “Global action for Reconciling Economic growth and ENvironmental preservation” (“GREEN”): providing support for environmental projects in developing countries in the form of loans, guarantees and equity financing. GREEN projects include renewable energy and energy saving projects as well as development of highly energy-efficient power plants . JBIC developed specific guidelines for the measurement, reporting and verification of GHG emission reductions in its GREEN operations (‘J-MRV Guidelines’) (JBIC 2019, JBIC 2021b).
- In January 2020, launch of the Growth Investment Facility including a ‘Facility Window for the Development of Quality Infrastructure for Environmental Preservation and Sustainable Growth (‘QI-ESG Window’)’. Eligible projects under the QI-ESG Window are those that are “expected to reduce GHG emissions or contribute to protecting the global environment” (JBIC 2020). Please note that these are annual facilities. Since January 2021, there is a new facility called the ‘Post-COVID-19 Growth Facility’, which includes a ‘Decarbonisation Promotion Window’ which has similar eligibility criteria as its predecessor.
- Supporter of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and member of the TCFD Consortium (TCFD 2021, TCFD Consortium 2021).

4. Assessment of Paris alignment of the two official Japanese ECAs: NEXI and JBIC

We assess the ‘Paris alignment’ of each of the two Japanese ECAs, NEXI and JBIC, based on a methodology specifically developed to evaluate the alignment of ECAs with the Paris Agreement (Shishlov et al. 2021). This methodology conceptually and practically builds on existing approaches to ‘Paris alignment’ developed for other financial institutions, such as multilateral development banks (MDBs). Most notably, this

includes the structure and rationale of the Public Development Banks’ Climate Tracker Matrix by environmental think-tank E3G, which, in turn, is based on the six building blocks of the Paris Alignment Working Group (PAWG) by major MDBs. Our Paris Alignment assessment methodology for ECAs differs notably from these two approaches since it transparently underpins each assessment dimension (hereafter referred

to as ‘dimensions’) with specific key questions (three to five questions per dimension, in total 18 questions) as well as specific benchmarks (four benchmarks per question, in total

72 benchmarks). The four benchmarks correspond to four labels of Paris alignment (Figure 1).

Figure 1: Labels of Paris alignment and corresponding score ranges.

Unaligned	0.00 - 0.50
Some Progress	0.50 - 1.50
Paris aligned	1.51 - 2.50
Transformational	2.51 - 3.00

Nippon Export and Investment Insurance (NEXI) received an overall assessment score of 0.02 out of 3.00 and Japan Bank for International Cooperation (JBIC) received an overall assessment score of 0.05 out of 3.00. Therefore, according to our methodology, both Japanese ECAs were scored as ‘Unaligned’ with the Paris Agreement. In the following, the background of each dimension as well as the justification for the evaluation of NEXI and JBIC are presented.

Moreover, the methodology differs from other approaches since it applies a weighting approach to the assessment dimensions. This permits to emphasize some dimensions over others which are based on the rationale that some dimensions are more immanently important to reaching the Paris climate goals (e.g., mitigation vs disclosure). The selection of weights reflects a careful consideration of priorities and is based on the expertise of more than a dozen experts from research and civil society organizations (see Shishlov et al. 2021 for more details about the methodology and the list of organizations that participated in the methodology development process).

Before going into the details of the assessment, we want to note that the Japanese ECAs as well as government representatives either declined to engage with us or did not respond to our enquiry for a dialogue on the topic of Paris Alignment of Japanese officially supported export finance. The information was cross-checked with regionally committed environmental NGOs and scientists, whom we would like to thank here for their support.

4.1. Dimension 1: Financial and non-financial disclosure and transparency

The first dimension is underpinned by four key questions regarding the transparency of financial and non-financial disclosure of the ECA. This dimension is a crucial prerequisite to evaluate the Paris alignment of ECAs in subsequent dimensions and to hold governments accountable for supporting businesses abroad against their commitments under international treaties, such as the Paris Agreement. Furthermore, it is especially important since ECAs were found to be

particularly lacking transparency in the past (Shishlov et al. 2020). The methodology weighs this dimension with a total of 20% recognizing that disclosure cannot be an end in itself. **In this assessment dimension, NEXI and JBIC were rated as ‘Unaligned’.** Due to slightly better disclosure with regards to climate finance, JBIC received a dimension sub-score of 0.25/3.00 but also remains ‘Unaligned’.

Q Nr.	Dimension 1 – key questions	Rating NEXI	Rating JBIC
1.1	To what extent can the GHG intensity of all activities supported by the ECA be assessed based on publicly available data? (Non-financial disclosure)	Unaligned	Unaligned
1.2	In how far can the share of fossil fuel finance over total portfolio be assessed? (Financial disclosure)	Unaligned	Unaligned
1.3	In how far can the share of climate finance over total portfolio be assessed? (Financial disclosure)	Unaligned	Some Progress
1.4	To what extent does the institution adhere to the Recommendations and Supporting Recommended Disclosures of the Task Force on Climate-related Disclosure (TCFD)?	Unaligned	Unaligned

Q1.1: To what extent can the GHG intensity of all activities supported by the ECA be assessed based on publicly available data? (Non-financial disclosure)

Neither NEXI nor JBIC have established a GHG accounting system at portfolio or institutional level. There are also no announced plans for either ECA to assess the GHG intensity of its supported activities in the near future wherefore both, NEXI and JBIC, were rated as 'Unaligned' for Q1.1. In the following, notable developments with regards to GHG intensity of supported activities found for both ECAs are described.

As part of the 'Global action for Reconciling Economic growth and ENvironmental preservation (GREEN)' product scheme (see Text Box 3 above) (JBIC 2019), until July 2018 projects had to measure, report and verify their emission reductions. For this, the JBIC developed its own guidelines (the 'J-MRV Guidelines') with specific criteria and procedures, some of which take into account internationally agreed standards such as global warming potential according to the UNFCCC (JBIC 2021b). These emission reductions as well as information such as JBIC's financial contribution, clients name and some superficial information on the intended use (e.g., 'Renewable Energy Project', 'Energy Efficiency Project') are disclosed on the JBIC website (JBIC 2021d). Since mid-July 2018 however, JBIC no longer requires quantifying GHG emission reductions from projects within the GREEN operations (JBIC 2021b) and the latest published emission reduction from GREEN project goes back to September 2017 (JBIC 2021d).⁸ While this approach can be considered a good initial step to start thinking about the impacts of supported activities, it only covered 2.5% of new commitments in 2019 (JBIC 2020) and the objective is too far away from that of a GHG inventory to be anything other than 'Unaligned'.

Moreover, as many other ECAs, the Japanese ECAs disclose some information on environmental and social considerations for certain projects proposed for support. NEXI discloses information for projects with a repayment period of two years or more, including some basic data such as project name, project site, project outline and reason for category classification of the project into Category A, B and C⁹ (NEXI 2021f). Category A and B projects are subject to environmental review, but an environmental and social impact assessment (ESIA) is only required for Category A projects (NEXI 2017). It is noteworthy, that during a random sampling not all checked ESIA's reported associated GHG emissions of the project.

⁸ It is noteworthy that although transparency regarding GHG emission reductions was reportedly mandatory until July 2018 (as per JBIC 2021b), more projects are listed in the overall list of GREEN projects in the period from 2010 until July 2018 (JBIC 2019) than in the list of projects with published emission reductions (JBIC 2021d).

⁹ Category A projects are projects for which "it is likely to have a significant adverse impact on the environment." A project is classified as Category B if its "potential adverse environmental impact is less adverse than that of Category A projects." For Category C projects "it is likely to have minimal or no adverse environmental impact" and all projects for which the NEXI/JBIC share is not above Special Drawing Rights (SDR) exchange rates of 10 million, "Sectors or projects in which no particular environmental impact is normally expected" and "Cases in which involvement in the project of the borrower or NEXI/JBIC is minor" are principally classified as Category C (JBIC 2015, NEXI 2017)

Disclosure for projects proposed for JBIC financing include some basic data (project name, project site, project outline and reason for category classification of the project into Category A, B, C and FI¹⁰) and the results of an environmental review for all projects of Category A, B and FI (JBIC 2021a). In cases where the project proponent discloses the monitoring report, the report is, in principle, also disclosed on the JBIC website. However, an environmental and social impact assessment is only required for Category A projects (JBIC 2015).

One example for GHG accounting at portfolio level comes from the French ECA Bpifrance which attempted to attribute GHG emissions to six asset classes of its portfolio (Gondjian and Merle 2020; Bpifrance 2020)¹¹. In fact, the Partnership for Carbon Accounting Financials (PCAF) now collaborates with the UN-convened Net Zero Insurance Alliance¹² with the objective of developing a standard to measure insured emissions, which highlights the feasibility of introducing GHG accounting in ECAs (PCAF 2021).

We recommend that both Japanese ECAs take steps to implement GHG accounting (scope 1 - 3) as soon as possible. Moreover, an exchange with pioneers such as the French ECA Bpifrance or PCAF is vital for this. Only through knowledge and transparency about the most important emission sources within the portfolio does one possess a robust and appropriate decision-making basis for the implementation of climate-related policies for officially supported export finance.



¹⁰ Definition for Category A-C projects is the same as for NEXI. JBIC as one extra category, namely Category FI which is for projects for which "JBIC's funding of the project is provided to a financial intermediary etc.; the selection and assessment of the actual sub-projects is substantially undertaken by such an institution after JBIC's approval of the funding, [...] and those sub-projects are expected to have potential impact on the environment." (JBIC 2015)

¹¹ For a general approach to the attribution of emissions to finance actors see Partnership for Carbon Accounting Financials (PCAF 2020)

¹² For more information see: <https://www.unepfi.org/net-zero-insurance/>

Q1.2: In how far can the share of fossil fuel finance over total portfolio be assessed? (Financial disclosure)

With regards to Q1.2, both institutions had to be rated as 'Unaligned'. For NEXI, the share of fossil fuel finance over total portfolio¹³ cannot be assessed as the institution only breaks down its total commitments outstanding as well as new commitments¹⁴ by financial product and by region, not by supported energy type (NEXI 2021d). Announcements to engage in non-financial reporting have not been detected for NEXI. Like NEXI, JBIC also discloses the share of new commitments by financial product and by region (JBIC 2020). In addition, JBIC publicises fossil fuel related financial information for a subset of its portfolio, namely for its Overseas Investment Loans (account for approx. 60-70% of new commitments in FY2017-19). The disclosure contains coal, oil and natural gas for "Energy Resources" and copper ore and concentrate, lead and zinc for "Other Resources" (JBIC 2020). However, no disclosure for either other financial products such as guarantees and export loans or on support for fossil-fuel related value chains was identified. As the disclosure only concerns a part of the portfolio and there is no known announcement for more comprehensive reporting, JBIC and NEXI remain 'Unaligned' with Paris Agreement.

The Dutch ECA Atradius DSB developed a methodology to measure the share of fossil fuel (including their value chains) over the total portfolio and disclosed this informa-

tion as well as the underlying methodology in 2020 demonstrating how this issue can be tackled. It must be noted that the level of transparency for the Dutch example comes with some caveats as project-level information is unavailable for the total portfolio and therefore the 2020 figures cannot be externally verified. Additionally, classification of types of fossil fuels and their associated impact to climate change are dubious (for more information see Censkowsky et al. 2021). However, the Netherlands show a first example of how to transparently give insight into an ECA portfolio which can be considered, in principle, being a best practice at the moment.

We recommend separately disclosing financial information of commitments outstanding (both project stock and flow) of all energy-related value chains. More specifically, we suggest defining the energy sector based on a value chain approach distinguishing into (i) fossil fuel-related value chains; (ii) clean (or more narrowly, renewable) energy-related value chains; and (iii) other primary energy sources (e.g., nuclear). To do so, we recommend following the example of the Netherlands while addressing the caveats of their methodology identified by Censkowsky et al. (2021).

Q1.3: In how far can the share of climate finance over total portfolio be assessed? (Financial disclosure)

Regarding the reporting on climate finance (Q1.3), NEXI was rated as 'Unaligned' while JBIC was rated as 'some progress' with caveats. While both ECAs have product lines which are reportedly designed to have a positive climate impact ('SDG bonds' and 'Loan Insurance for Green Innovation' for NEXI and 'GREEN' operations for JBIC), neither of them (i) provides a clear definition of climate finance, (ii) fully discloses project-level information, or (iii) discloses the share of these operations over the total portfolio.

Since 2019, NEXI has a new financial product called 'Loan Insurance for Green Innovation' which is available to projects related to the renewable energies and energy conservation businesses, as well as to those which utilize new technologies contributing to environmental sustainability (NEXI 2020). These Loan Insurance for Green Innovation are a special clause to Buyer's Credit Insurance or Overseas Untied Loan Insurance and while NEXI discloses their shares over the total portfolio, it does not disclose on the share of the

'Loan Insurance for Green Innovation' within these product lines. NEXI also reports the investment in Sustainable Development Goals (SDG) bonds (NEXI 2020), however, no details on the finance volume of these investments are disclosed. Moreover, buying SDG bonds cannot be considered climate action per se if it is not accompanied with progress of the ECA's own portfolio decarbonization.

As also described in Q1.1, JBIC supports projects which are "expected to have a favourable impact on the protection of the global environment" under its 'GREEN' operations and discloses the projects supported under this product line, including the amount of funding (and emission reductions achieved) for all (for some) projects from 2010 to March 2019 (JBIC 2021d, JBIC 2019). In addition, the share of 'GREEN' operations within new commitments is documented separately in three latest annual reports. However, looking at the eligibility criteria for 'GREEN' projects, it becomes apparent that JBIC considers "Highly Efficient Coal-fired Power Generation" and "Gas-fired Power Generation" as eligible project types for its 'GREEN' operations (JBIC 2021c). This classification is not in line with latest climate science (e.g., IEA 2021) and points to an unscientific and not third-party validated set-up. We therefore rate JBIC as 'some progress' recognizing the initial effort of labeling 'GREEN' projects but highlight the lack of

¹³ Total portfolio (or also called commitments outstanding) is a 'stock parameter' and refers to the total amounts under cover (i.e., insurance, guarantees, loans etc.) at a certain point in time, e.g., at the end of the financial year (Shishlov et al. 2021)

¹⁴ "New commitments" is a 'flow parameter' which refers to the total volume of new insurances, guarantees, loans or other ECA instruments at a given cut-off date (Berne Union 2021).

a methodological background document on 'GREEN' operations and a clear definition of climate finance in line with the latest climate science.

The Dutch ECA Atradius DSB developed a methodology to label transactions in different 'shades of green' depending on their contribution to climate mitigation, adaptation or 'other footprint reduction. While the Dutch approach has its own shortcomings (for more information see Censkowsky et al. 2021), it can still be considered a valuable example for a comprehensive and transparent approach of defining 'green' activities within an ECA portfolio that Japan can build upon.

Within the USD 100 billion climate finance goal, all developed countries report their climate finance figures by source

(bilateral public, multilateral public, export credits and mobilised private) to the OECD on an annual basis (OECD 2021b). The export credit figures submitted to the OECD however are not publicly available.

We recommend that the Japanese government discloses their reported share from export credits for NEXI and JBIC supported activities separately and increase climate related disclosure for the total portfolio. For JBIC in particular, we recommend excluding all fossil fuel related projects from their eligible project types for 'GREEN' operations and disclose a comprehensive methodology including principles and criteria defining a 'GREEN' project.

Q1.4: To what extent does the institution adhere to the Recommendations and Supporting Recommended Disclosures of the Task Force on Climate-related Disclosure (TCFD)?

NEXI and JBIC scored with 'Unaligned' with regards to Q1.4. Both ECAs support the TCFD and joined the "Japan TCFD Consortium", a Japanese initiative which aims at encouraging Japanese private sectors to promote disclosure of the climate-related information (TCFD Consortium 2021, NEXI 2019a). However, no information was found confirming that NEXI or JBIC implements or plans to implement TCFD recommendations. It is worth mentioning that "support", according to TCFD website, means that an organisation believes in the idea and usefulness of the TCFD without committing to specific requirements besides encouraging TCFD implementation (TCFD 2021). In conclusion, merely announcing the support to the TCFD and joining a discussion group does not match our benchmarks for a "some progress" rating.

That ECAs can adopt these recommendations is shown by the Swedish export finance institutions SEK and EKN, which committed to report according to the TCFD as of 2022 at the latest (EKN 2020).

In 2020, the Japanese Ministry of Economy, Trade and Industry (with the support of the above-mentioned Japan TCFD Consortium) published a guidance document to promote implementation of the TCFD recommendations by introducing reference case examples and providing "sector-specific perspectives" to be disclosed by non-financial companies (TCFD Consortium 2020). The guidance document does not cover financial institutions. Therefore, we recommend firstly to the Japanese government (in particular METI) to expand the "Guidance on Climate-related Financial Disclosures 2.0" to financial institutions including ECAs.

As a next step, **we recommend** that NEXI and JBIC follow the best practice example of the Swedish ECAs and set a timeline for when they will start reporting according to the TCFD, and also consider reporting according to the Task Force on Nature-related Financial Disclosure (TNFD)¹⁵ once these recommendations are launched.

4.2. Dimension 2: Ambition of fossil fuel exclusion or restriction policies

The second assessment dimension is underpinned by three key questions covering the ambition of fossil fuel exclusions and/or restriction policies by type of fossil fuel. Very few countries currently have explicit policies in place to transform ECA portfolios, and especially their energy sector portfolios, to the degree necessary to align with the Paris Agreement (Shishlov et al. 2020). The majority of G20 ECAs only make broad statements and commitments related to social and environmental sustainability, e.g., as communicated through their corporate social responsibility (CSR) strategies and reports. Due to the pre-eminent importance – with regards to achieving the Paris climate goals – of rapid phase out of support for fossil fuel value chains, the methodolo-

gy weighs this assessment dimension with 40%. **NEXI and JBIC were rated as 'Unaligned' with a dimension sub-score of 0.00/3.00 each.**

¹⁵ The Taskforce on Nature-related Financial Disclosures (TNFD) is a new market-led worldwide project aimed at providing financial institutions and businesses with a comprehensive overview of their environmental risks and opportunities. Building on the success of the Task Force on Climate-related Financing (TCFD), the TNFD will provide a framework for organizations to report and respond on evolving nature-related risks. For more information: <https://tnfd.info/>

Q Nr.	Dimension 2 – key questions	Rating NEXI	Rating JBIC
2.1	Coal: How ambitious is the ECA regarding exclusions or restrictions for support of coal and related value chain?	Unaligned	Unaligned
2.2	Oil: How ambitious is the ECA regarding exclusions or restrictions for support of oil and related value chain?	Unaligned	Unaligned
2.3	Natural gas: How ambitious is the ECA regarding exclusions or restrictions for support of gas and related value chain?	Unaligned	Unaligned

Q2.1: How ambitious is the ECA regarding exclusions or restrictions for support of coal and related value chain?

Q2.1 was rated with 'Unaligned' for both ECAs, with the potential of becoming 'Some Progress'. As described in Chapter 3, since 2020, there have been three important developments with regards to officially supported Japanese coal export finance. First, in 2020, Japan implemented a new policy that restricts support for overseas coal-fired power plant projects but left significant loopholes such as allowing for high-efficiency coal-fired power plants and projects in the planning stage. Second, in May 2021, Japan signed the G7 declaration to phase out new direct government support for unabated international thermal coal-fired power generation by the end of 2021 which also does not apply to projects already in the planning phase and is not covering the associated value chain (e.g., mining and production of coal upstream, and power production technologies). Third, in June 2021, Japan announced the further tightening of the 2020 policy by halting all financial support for new overseas coal-fired power projects without CO₂-reduction technologies but details are yet unknown. However, these restrictions do not meet our benchmarks for a "Some Progress" rating or better, because they still allow coal projects despite all the stricter regulations and because none of the new regulations touches upon exclusion of projects linked to the coal-related value chain. As neither NEXI nor JBIC have an additional, more ambitious in-house coal (and related value chain) exclusion or restriction policy in place, both institutions were rated 'Unaligned' in Q2.1. At this point one might note that in 2020 it was assumed that JBIC will end its coal support due to an interview statement of JBIC Governor Tadashi Maeda (Sheldrick 2020). However, the ECA has not followed through on its announcement and already confirmed project financ-

ing to the Vung Ang II coal project in Vietnam alongside the Export-Import Bank of Korea (KEXIM) and a group of private lenders (Thompson 2021).

As part of the OECD, Japan is subject to the OECD Arrangement on Officially Supported Export Credits including its restriction on coal finance under the Coal-Fired Electricity Generation Sector Understanding (CFSU). The CFSU rules prohibit OECD ECAs from supporting coal plants unless they use ultra-supercritical technology or are smaller plants in the poorest countries (less than 300 MW for subcritical and less than 500 MW for supercritical) (OECD 2021a). However, concerns were also raised about Japan's compliance with the CFSU. A recent study examined several coal projects supported by the Japanese ECAs for their conformity with the OECD rules and found that more than a few projects either had no or an insufficient environmental and social impact assessments (ESIA) or did not match the technical requirements of the OECD Sector Understanding (DeAngelis 2018).

In June 2021, the Japanese government has pledged to tighten the 2020 policy. Since no details are known yet, we recommend at this point an ambitious intensification of the policy that includes the complete phase out of all projects linked to coal and its value chain. We also recommend NEXI and JBIC to transparently investigate the accusation of violating the OECD CFSU regulations. Most importantly, **we recommend** both Japanese ECAs to formulate ambitious in-house coal and related value chain exclusion policies and cancel support for newly planned coal related projects in accordance with the latest climate science.

Q2.2: How ambitious is the ECA regarding exclusions or restrictions for support of oil and related value chain?

NEXI and JBIC were classified as "not aligned" as no information on existing or planned restrictions or exclusions on oil and the associated value chain was found for neither of them. In autumn 2020, both institutions announced their support for an oil field project in Brazil, highlighting the persistent involvement of the Japanese ECAs in international oil business (JBIC 2020c).

A frontrunner in the field of fossil fuel exclusions is the United Kingdom, which have since early 2021 ceased support for all types of fossil fuels in officially supported export finance following an announcement by Prime Minister Johnson in December 2020 (Prime Minister's Office 2020). Also, the United States issued Executive Orders focused on ending its public finance for fossil fuels, including finance provided

by US EXIM Bank in January 2021 (The White House 2021). These are significant shifts in policy and political sentiment that create potential for accelerating global climate action (E3G and Oil Change International 2021) and should therefore be followed by Japan as well.

We recommend starting a discussion with domestic exporters and energy system experts to come up with a strategy

Q2.3: How ambitious is the ECA regarding exclusions or restrictions for support of gas and related value chain?

No information was found on existing or planned restriction or exclusion of natural gas its related value chain for neither NEXI nor JBIC. On the contrary, in June 2021, JBIC announcing support of USD 199 million to the 'Waitsia 2 gas extraction project' in Australia (JBIC 2021e). Reportedly, JBIC is currently considering supporting two other natural gas projects, namely the "LNG Canada project" in Canada and the "Barossa offshore gas development project" in Australia (Tanabe 2021). Both, NEXI and JBIC have also pledged their support for the highly controversial offshore natural gas project in Mozambique which has been postponed (but not cancelled) due to international pressure on the project developers and financiers (Bavier 2021).

Japan's high engagement in natural gas related projects overseas can be attributed to the undeniable importance of the resource for Japan's energy system. Japan is the world's largest LNG buyer (ITA 2020) and its share within the energy mix amounted to 37% in FY 2019-20 (Kumagai 2021). JBIC, for example, highlighted in the press release regarding its support for the "Waitsia 2 gas extraction project" in Australia that "JBIC will continue to support the development of energy resources by Japanese companies and financially assist in the securing of a stable energy supply for Japan" (JBIC 2021e). Moreover, in the 2020 Annual Report, NEXI justifies its participation in the Mozambique LNG project by saying that "LNG is the most environmentally friendly energy resource

on how to transform the portfolio of Japanese oil related businesses to renewable energy investments (Heller and Muttitt 2021) and in the short-term ending export finance for oil and its related value chain by introducing ambitious exclusion policies.

of fossil fuels due to its less carbon dioxide emission, which is a cause of global warming, compared with that of oil and coal, and the global demand is likely to continue to grow" (NEXI 2021d). These statements suggest that both ECAs have no plans to end or restrict support for natural gas any time soon. In conclusion, NEXI and JBIC were rated as 'Unaligned' for Q2.3.

The latest Net Zero scenario developed by the International Energy Agency (IEA) calls for immediate end of new fossil fuel supply developments, including natural gas (IEA 2021), highlighting that no exceptions for certain fossil fuels can be made. Domestic dependence on imported natural gas cannot serve as a legitimization for continued support of related projects abroad. The UK can be seen as a precedent in this aspect: in 2019, the share of natural gas in the national energy mix amounted to 39.7% (IEA 2020). The country is also significantly dependent on the import of the fuel (Statista 2021), and yet decided in December 2020 to cease support for all types of fossil fuels in officially supported export finance.

We recommend the Japanese government as well as NEXI and JBIC to acknowledge the carbon lock-in potential of natural gas investments and to introduce ambitious exclusion policies which lead to an end export finance for natural gas and its related value chain in the short term.

4.3. Dimension 3: Climate impact of and emission reduction targets for all activities

The third assessment dimension is underpinned by three key questions regarding the climate impact and GHG emissions reduction targets for all ECA activities. To achieve the objectives of the Paris Agreement, not only rapid fossil fuel phase out is required, but other sectors also need to drastically reduce absolute emissions levels (IEA 2021). In the absence of comprehensive GHG accounting the assessment of this dimension is difficult – however, where possible, we look at second-best indicators to proxy the emission intensity of an ECA portfolio (e.g., fossil fuel-related energy sector finance). The methodology assigns this dimension an overall weight of 20%.

NEXI and JBIC were rated as 'Unaligned' with a dimension sub-score of 0.00/3.00 each. Both institutions were found to be 'Unaligned' in each of the three key questions.

Q Nr.	Dimension 3 – key questions	Rating NEXI	Rating JBIC
3.1	Can a declining trend in GHG intensity of the total portfolio be observed? (tCO ₂ e/USD, Scope 1-3 emissions)	Unaligned	Unaligned
3.2	How significant is the fossil fuel financing relative to total energy-related portfolio? (average of the last three years of available data, where available)	Unaligned	Unaligned
3.3	To what extent do all emission-relevant sectors have targeted GHG reduction targets and in how far are GHG reduction targets in line with benchmarks of acceptable 1.5°C pathways?	Unaligned	Unaligned

Q3.1: Can a declining trend in GHG intensity of the total portfolio be observed? (tCO₂e/USD, scope 1-3 emissions)

As neither NEXI nor JBIC operate a GHG accounting system, the trend in GHG intensity cannot be determined. Both institutions were therefore rated as 'Unaligned'.

We recommend undertaking pioneering efforts to assess the GHG intensity of the overall portfolio to capture the trend of decreasing emissions intensity (both in relation to total

outstanding commitments and in absolute terms) of Japan's publicly supported export finance. To do so, NEXI and JBIC should develop a comprehensive methodology to estimate individual project emissions, considering the full value chain and all project stages (construction, operation and, if relevant, decommission).

Q3.2: How significant is the fossil fuel financing relative to total energy-related portfolio? (average of new commitments of the last three years, if available)

Due to the absence of explicit data on energy sector finance, Q3.2 was rated with 'Unaligned'. Neither NEXI nor JBIC report comprehensively provided support by energy source, therefore the significance of fossil fuel finance relative to the total energy-related portfolio cannot be assessed¹⁶. However, according to Oil Change International (2021), the average of NEXI's new fossil fuel commitments from 2017 until 2019 amounted to 64% of the total energy-related transactions identified by OCI. Taking this figure as a proxy for NEXI's fossil fuel financing levels, the institution would still remain 'Unaligned' as an average of less than 30% is required to qualify for "some progress," and zero for "Paris-aligned". Similar holds true for JBIC, whose three-year average equals 86% of energy-related finance for the same time (Oil Change International 2021). At this point, it must be noted that the

"Shift the Subsidies Database" (ibid.) does not claim to be complete, and the figures mentioned should therefore be understood as an approximation.

A pioneer in this area is the Danish ECA Eksport Kredit Fonden (EKF), which holds 70% wind power in its portfolio (EKF 2021) and has supported almost no fossil fuel projects between 2018 and 2020 (Buth 2021).

Following this example, **we recommend** the Japanese ECAs to immediately consider how to significantly reduce the share of fossil fuel financing in its portfolio and take the first steps towards a decarbonizing its energy-related portfolio balance in the near future.

Q3.3: To what extent do all emission-relevant sectors have targeted GHG reduction targets and in how far are GHG reduction targets in line with benchmarks of acceptable 1.5°C pathways?

Neither NEXI nor for JBIC exhibit GHG emission reduction targets in emission-relevant sectors. Both ECAs were thus rated with 'Unaligned' in Q3.3. It is important to note at this point is that apart from the ECA of France, no ECA reports its GHG emissions with the level of detail necessary to provide a comprehensive and comparable assessment of this question. Yet, as awareness grows, pioneering ECAs may start disclos-

ing relevant non-financial information, so the above stated benchmarks can be seen as guidance towards best practices in the future.

We recommend that the two Japanese ECAs first cease their support to unequivocally emissions-intensive or -enabling sectors (i.e., fossil fuel-related), and, as a second step, devel-

¹⁶ As mentioned in Dimension 1 under Q1.2, JBIC discloses fossil fuel related financial information for its Overseas Investment Loans, containing inter alia annual new commitment figures for coal, oil and natural gas. But since support for remaining energy sources (e.g., renewable energies) is not disclosed, the share of fossil fuel financing relative to total energy-related portfolio could not be calculated.

op ambitious GHG reduction targets for all carbon-intensive sectors including a rationale for these targets. Furthermore, we recommend NEXI and JBIC to design 1.5°C scenarios on a conservative and precautionary basis. On a sector-agnostic level this means that only the IPCC P1 illustrative pathways

should be used as reference scenario or the IEA (2021) Net Zero pathway. Additionally, we recommend the ECAs to engage with the Science-Based Targets initiative (SBTi) and set specific sectoral GHG reduction targets for its portfolio.

4.4. Dimension 4: Climate finance: Positive contribution to the global climate transition

The fourth assessment dimension is underpinned by five key questions regarding an ECA's contribution to the climate transition. Rapidly ramping up and improving climate finance is crucial to achieve the objectives of the Paris Agreement and contribute to a green and just post-COVID recovery. Indeed, if ECAs shifted their support from fossil fuel to clean energy activities, their contribution to green finance could be “very

substantial” according to the independent expert group on climate finance (Averchenkova et al. 2020). This dimension is weighted with 10%.

NEXI and JBIC were rated as ‘Unaligned’ with a dimension sub-score of 0.20/3.00 for NEXI and 0.00/3.00 for JBIC.

Q Nr.	Dimension 4 – key questions	Rating NEXI	Rating JBIC
4.1	What is the reported share of climate finance over total portfolio?	Unaligned	Unaligned
4.2	How can the quality/appropriateness of climate finance earmarks be assessed?	Unaligned	Unaligned
4.3	What is the share of clean energy financing over total energy-related financing?	Unaligned	Unaligned
4.4	To what extent does the pricing structure take into account climate impacts of activities?	Some Progress	Unaligned
4.5	In how far does the institution ensure positive sustainable development contributions of its activities?	Unaligned	Unaligned

Q4.1: What is the reported share of climate finance over total portfolio?

Neither NEXI nor JBIC offers a definition of what parts of their portfolio constitute climate finance. From the description of the financial product one can assume that NEXI's “Loan Insurance for Green Innovation” as well as its LEAD-Initiative belong to climate finance as they foster renewable energies and energy conservation activities. However, as explained in Q1.3, their share of new commitments and total portfolio is not accessible for NEXI. JBIC discloses the supported projects under its GREEN operations including the finance amount for all project from 2010 until March 2019. Assuming that GREEN operations represent JBIC climate financing, one can calculate a proxy of the relative amount of climate finance to the total portfolio and arrive at approximately 1.9%¹⁷. For a Paris aligned ECA we expect to see a share of at least 20% and preferably above 50% climate finance over the total portfolio. In conclusion, due to lack of transparency for

NEXI and the minor proxy climate finance share of JBIC (as well as poor transparency), both Japanese ECAs were rated ‘Unaligned’.

In their latest Annual Reports, NEXI as well as JBIC formulated so-called “Medium-Term Business Plans” which both highlight an intended increase in ambition for environment-related business (NEXI: “Exports of advanced environmental and safety technologies / Participation in overseas projects that contribute to greater energy efficiency and a better environment” (NEXI 2021d); JBIC: “To contribute to global efforts for the transition to a low-carbon society” and “To further promote global environmental preservation” (JBIC 2020).

To achieve these goals, **we recommend** that NEXI and JBIC firstly provide a clear definition of climate finance within their portfolio, secondly improve disclosure and transparency to enable third party verification and thirdly, and most importantly, develop financing instruments that are innovative and transformative to significantly increase low carbon exports.

¹⁷ 'GREEN' operations as of March 2019 amount to USD 2.7 billion (own calculation, compared to a total JBIC volume of USD 141.1 billion based on figures from JBIC 2019). It is noteworthy that the sum for 'GREEN' operations is not in line with JBIC's clean energy financing sum (31% less) in the same time period documented in the “Shift the Subsidies Database”, showing that there are potentially climate finance projects in the JBIC portfolio which are not part of the 'GREEN' operations.

Q4.2: How can the quality/appropriateness of climate finance earmarks be assessed?

As described for Q4.1, there is no definition for climate finance and consequently also no earmarking for NEXI and JBIC, which is why Q4.2 also had to be assessed as 'Unaligned'.

We recommend NEXI and JBIC to either adopt a common climate finance earmarking such as the OECD Rio Markers or MDB Joint Approach or to develop a tailor-made method

to count climate finance within the Japanese export finance system. However, to ensure Paris alignment we strongly suggest excluding earmarking retrofits of existing fossil fuel power plants as climate finance as these still cause carbon lock-ins and therefore should not be considered climate finance (Lütkehermöller et al. 2021).

Q4.3: What is the share of clean energy financing over total energy-related financing? (average of new commitments of the last three years, if available)

Due to the absence of explicit data on energy sector finance, Q4.3 was rated with 'Unaligned'. Neither NEXI nor JBIC report comprehensively the shares of provided support by energy source, therefore the significance of clean energy finance relative to the total energy-related portfolio cannot be assessed.

Similar to the share of fossil fuel financing in Q3.2, the data from Oil Change International(2021) was used to calculate proxy values of NEXI's and JBIC's three-year average clean energy finance share. The average of NEXI's new clean energy commitments from 2017 until 2019 amounted to 8% of the total energy-related transactions identified by OCI. For JBIC, the share equalled 13%.

Q4.4: To what extent does the pricing structure take into account climate impacts of activities?

When looking at Q4.4, NEXI was rated as 'Some Progress' and JBIC as 'Unaligned'. One of the policy measures within Japan's '2025 Policy Program for Promotion of Overseas Infrastructure Systems' is related to contributions to achieving climate neutrality. It includes supporting overseas development through public funding (including the export credit agencies) with the target of "*promoting origination of decarbonisation projects utilizing green schemes*". The policy does not mention new 'green schemes' for its ECAs but lists already existing ones such as NEXI's "*Loan Insurance for Green Innovation*" and JBIC's "*Facility Window for the Development of Quality Infrastructure for Environmental Preservation and Sustainable Growth (QI-ESG Window)*" (Government of Japan 2021).

NEXI's 'Loan Insurance for Green Innovation' offers an increased commercial risk coverage rate up to 97.5% compared with usual Buyer's Credit Insurance or Overseas Untied Loan Insurance, therefore this product line qualifies as a climate reward. The second incentive structure for climate-friendly activities is NEXI's LEAD initiative, which started in 2020 and aims to proactively support renewable energy projects and such project "*helping to solve social issues and to achieve SDGs*" (NEXI 2020a). As both products are relatively new, their effectiveness cannot be judged yet. However, NEXI has the potential to achieve a rating of 'Paris aligned' if these products prove to significantly increase the share of climate-friendly

activities supported by the ECA. JBIC has specialised a business on low carbon activities with their GREEN operations and open the so-called 'Facility Window for the Development of Quality Infrastructure for Environmental Preservation and Sustainable Growth' (QI-ESG Window). However, neither of both provide a financial or regulatory incentive for exporters to engage in climate-friendly activities. It was also revealed that JBIC was promoting gas-fired power projects under the QI-ESG Window, labelling them as 'green' activities (Lo 2021). For these reasons, JBIC declared instruments to promote climate-friendly activities cannot be evaluated as such.

We recommend both ECAs to further expand their incentive structures for climate-friendly activities and discuss with domestic exporters their usefulness to further improve the incentive structures as well as increase their demand. For example, the Japanese ECAs could apply a price discrimination for premiums paid by exporters or banks based on the actual or proxied emission intensity of maximum insured/covered values (instead of generically listing eligible project types). While such an approach would ideally require information about the actual emissions of an activity across all scopes, in a less ideal world this can be proxied at the sectoral- or activity-level. We want to not at this point that increasing incentive systems for climate-friendly projects cannot compensate for the continuous support of fossil fuels.

Q4.5: In how far does the institution ensure sustainable development contributions from its activities?

Q4.5 was scored 'Unaligned' for NEXI and JBIC. Both ECAs have almost identical Guidelines on Environmental and Social Considerations. Neither of them is a signatory of the Equator Principles or follows the IFC's Environmental and Social Performance Standards (ESPS). Both state that they

check projects regarding the compliance with the World Bank Safeguard Policies and IFC Performance Standards as well as the EHS Guidelines of the World Bank. We identified repeated 'bad press' or NGO communications on socially and environmentally harmful consequences in the context of of-

financially supported projects in Japanese export finance. This is frequently the case in large-scale infrastructure projects in the energy sector – and particularly fossil fuel related projects – in which Japanese exporters are active, such as the example of support for the controversial natural gas project in Mozambique or the coal project in Vietnam discussed under Q2.1-2.3.

Front runner ECAs in this field are the Swedish and British export finance institutions, which support a transformation of the export finance system towards much stronger con-

tribution to the low carbon and climate resilient transition, e.g., through assuming larger financial risk in climate-related projects, risk premium incentive structures for sustainable projects or green bonds.

We recommend taking a more precautionary approach to avoiding adverse social and environmental consequences by phasing out support to fossil fuel value chains which tend to more frequently stand in conflict with a just climate transition and broader sustainable development goals.

4.5. Dimension 5: Engagement: Outreach and ‘pro-activeness’ of ECAs and their governments

The fifth assessment dimension is underpinned by three key questions aimed at capturing the engagement and ambition of climate and sustainability policies of the government and its ECA in international as well as with national export-

ers and banks. This dimension is weighted with 10%. **NEXI and JBIC were rated as ‘Unaligned’ with a dimension sub-score of 0.00/3.00 each.**

Q Nr.	Dimension 5 – key questions	Rating NEXI	Rating JBIC
5.1	To what extent does the institution itself or its government actively engage in relevant international fora (e.g., E3F, OECD, the Berne Union, WTO, or the World Economic Forum) to liaise with like-minded for ambitious climate policies in the export finance system?	Unaligned	Unaligned
5.2	To what extent does the institution itself or its government actively engage in relevant national fora with view to implementing ambitious climate policies in the (national) export finance system?	Unaligned	Unaligned
5.3	To what extent does the institution or its government actively engage with national companies to transform fossil fuel-related value chains and incentivize low GHG exports?	Unaligned	Unaligned

Q5.1: To what extent does the institution itself or its government actively engage in relevant international fora (e.g., OECD, the Berne Union, WTO, E3F or the World Economic Forum) to liaise with like-minded for ambitious climate policies in the export finance system?

Both Japanese ECAs are rated as ‘Unaligned’ with regards to Q5.1. The reason is that there is some relevant evidence of Japan exerting significant peer pressure against climate-related policy reforms. Japan (next to Canada, France, Italy, Germany, the UK, and the US) agreed in the latest G7 declaration of May 2021 to “phase out new direct government support for international carbon-intensive fossil fuel energy as soon as possible” (with exceptions) as well as “commit now to an end to new direct government support for unabated international thermal coal power generation by the end of 2021” (Council of the EU and the European Council 2021). However, according to environmental NGOs, the Japanese government has repeatedly tried to obstruct the G7 agreement to end over-

seas coal funding and has refused to agree to a phase-out of domestic coal by 2030 (Asaoka 2021, Yi and Taylor 2021, Mathiesen 2021). A Reuters article from May 19, 2021 supports this claim, mentioning that the deputy director of international affairs at Japan’s Ministry of Economy, Trade and Industry said that “the government has no plans to immediately stop oil, gas and coal investments” and that the latest IEA Net Zero Report “provides one suggestion as to how the world can reduce greenhouse gas emissions to net zero by 2050, but it is not necessarily in line with the Japanese government’s policy” (Obayashi and Paul 2021). There are no indications of institutional leadership such as advocating for revisions and additions of fossil fuel-related sector understandings within

the OECD Arrangement or take up a mediator position within the International Working Group on Export Credits (IWG) dispute¹⁸ which could help improve Japan's rating for Q5.1.

We recommend that the Japanese government does not stand in the way of climate-related policy reforms in the global export finance system and finds ways to reconcile national interests with the need to stay below 1.5°C global warming. Moreover, we recommend the Japanese government to actively engage in achieving a transformative climate-related reform of the OECD Arrangement; to seek support from other highly ambitious G7 members and to raise the ambition of the G7 Cornwall Declaration;

1. Seek support from other highly ambitious G7 members and raise the ambition of the G7 Cornwall Declaration.
2. Deepen and publicly report on negotiations at the OECD level.

Q5.2: To what extent does the institution itself or its government actively engage in relevant national fora with view to implementing ambitious climate policies in the (national) export finance system?

Q5.2 was rated 'Unaligned' because no relevant engagement of NEXI and JBIC or the Japanese government in national fora aiming at the implementation of export finance-related climate policies was identified. As mentioned in Q1.4, there is the Japan TCFD Consortium which aims at encouraging Japanese private sector to promote disclosure of the climate-related information (TCFD Consortium 2021). In this context, the METI published a guidance document to promote implementation of the TCFD recommendations by introducing reference case examples and providing "sector-specific perspectives" to be disclosed by non-financial companies (TCFD Consortium 2020). However, both initiatives are not directly

3. Strategize with like-minded OECD Arrangement participants about how to leapfrog gradual changes and achieve a transformative climate-related policy reform of the Arrangement.
4. Enhance and publicly report on progress on climate- and environmental diplomacy between the OECD and non-OECD members of the export finance system, through the International Working Group on Export Credits (IWG).
5. Deliberate with like-minded countries about forming a new 'level playing field' outside the OECD Arrangement to accelerate progress and typify the design of a Paris-aligned and sustainable international export finance regulation.

contributing to transforming Japanese export finance and aligning it with the Paris Agreement.

We recommend that the Japanese government elaborates a broader national-level and government-wide strategy to fully align its entire export sector with the Paris Agreement, including – but not limited to – officially supported export finance. NEXI and JBIC should also collaborate more closely with other relevant actors, such as the Development Bank of Japan and the Japan International Cooperation Agency to align their approaches and work on a common set of climate targets.

Q5.3: To what extent does the institution or its government actively engage with national companies to incentivize low GHG exports with no risk of carbon lock-in?

Q5.3 was graded 'Unaligned' for both ECAs. No evidence was found that the Japanese government proactively tries to intervene in the demand-side for its officially supported insurance policies. To the contrary, both Japanese ECAs indicate that they will continue promoting fossil fuel-based energy and natural resource projects (e.g., expanding LNG market, promoting value chain projects such as Gas-to-Power and LNG receiving terminals etc.) justifying it as a contribution to Japan's energy security, but thereby locking in fossil fuel-based energy for decades.

ECAs are typically perceived as only demand driven. However, this is no 'given' and we recommend that both ECAs and the Japanese government engage with their clients, in particular with businesses related to the fossil fuel industry, to identify ways and means of transforming their export businesses and putting in place complementary policy measures to compensate for short-term economic and social losses, such as employment transition or compensation management. Specifically, we urge the Japanese government to conduct national-level surveying among exporters with regards to identifying the opinions, needs and opportunities in the private export sector about ambitious plans to phase out support for fossil fuel value chains. This should include, for instance, general questions about the attitude of Japanese exporters towards taking part in the transition (for an example see a study by Bright Blue (2021) on the UK) as well as specific questions regarding anticipated job or sales losses (e.g., see the Swedish ECA EKN (2020) which conducted similar assessments with major exporters). Moreover, next to li-

¹⁸ The IWG, which was founded in 2012, is an international forum tasked with establishing a set of standard regulations on Export Credits that will be shared by both OECD and non-OECD nations such as Brazil, China, India, and South Africa. The IWG is attended by delegates from 18 nations (including the EU) who represent respective ministries, ECAs, and Eximbanks. Japan, the EU, Australia, Brazil, Canada, Korea, New Zealand, Norway, Switzerland, Turkey, and the United States decided in November 2020 to temporarily suspend their participation in technical negotiations in the IWG for a year until a higher level of commitment is reached by all members of the working group on certain core issues, including in particular transparency into the terms offered in export finance transactions (European Commission 2020).

alignment with companies, we recommend engaging with national and international research institutions and establishing a scientific advisory council on climate change and export finance also following the Swedish example (*ibid.*). This is

highly relevant to take the most recent developments at the frontier of climate science into account in the ambition of Japanese policies in officially supported export finance.

5. Conclusions and recommendations

This study applied a new and innovative Paris Alignment assessment methodology for ECAs to the relevant agencies of Japan, namely Nippon Export and Investment Insurance (NEXI) and the Japan Bank for International Cooperation (JBIC). The analysis showed that the Japan officially supported export finance system is alarmingly unaligned with the Paris Agreement: out of 18 key questions within five assessment dimensions, NEXI and JBIC were rated 'Unaligned' for all but one question each. JBIC and NEXI showed some minimal progress in the transparency and climate finance dimensions respectively, but overall remained critically unaligned with the Paris Agreement. Remarkable for Japan is its asserted and firm position on the continuation of the promotion of fossil fuel projects through its ECAs, which is clearly unaligned with the latest climate science. We therefore strongly urge the only Asian G7 country to review this position and significantly scale up its ambition regarding fossil fuel exclusion or restriction policies and show climate leadership in the region, especially given the recent announcements by China to stop funding coal-fired power plants overseas. Furthermore, the lack of clear definitions for climate finance as well as the absence of publicly available information related to the Japanese ECAs' support to carbon-intensive activities and associated GHG emissions of their portfolios need to be

rectified in the very short term in order to get closer to Paris alignment. Comparing the Japanese ECAs to their peer institutions, of which some act as real frontrunners in specific areas – France for engaging in GHG accounting, Sweden for its commitment to the TCFD or the UK with their strict exclusion of all fossil fuel export financing – it becomes apparent that Japan is a clear laggard in terms of Paris Alignment of its export finance system. At the same time, given its weight in international trade as well as the clean technology innovation potential, Japan is in the unique position to step up as the Asian leader showing other countries such as China, Korea or Indonesia the way to align their ECAs with the Paris Agreement.

We plan to expand this type of study to other major G20 ECAs, including non-OECD countries such as China, to illuminate the gaps in alignment of ECAs with the Paris Agreement and identify potential for improvement in each G20 country. The results of these assessments can serve as a foundation for discussions to reform the export finance system – both on the international level, e.g., through the OECD, and on the level of national ECA policies – and fully align it with the objectives of the Paris Agreement.



Table 4: Summary of key recommendations per assessment dimension

Key recommendations for the 'Paris alignment' of officially supported Japanese export finance	
Financial and non-financial disclosure and transparency (Dimension 1)	<ul style="list-style-type: none"> • Disclosure of financial information of commitments outstanding (both project stock and flow) of all energy-related value chains. • Develop a comprehensive methodology and documentation of what constitutes fossil fuel finance and what is climate finance in the ECA portfolio. • Fully support and report according to the recommendations made by the TCFD or, prospectively, the TCND.
Ambition of fossil fuel exclusion or restriction policies (Dimension 2)	<ul style="list-style-type: none"> • Significantly increase ambition in revised coal restriction policy and fully phase out support to coal and related value chain. • Develop ambitious phase out policies for oil and natural gas and their related value chains.
Climate impact of and emission reduction targets for all activities (Dimension 3)	<ul style="list-style-type: none"> • Implement GHG accounting (scope 1 - 3) as soon as possible. • Design 1.5°C scenarios for NEXI and JBIC on a conservative and precautionary basis with reference scenarios from the IEA Net Zero or IPCC P1 pathways.
Contribution to a just climate transition and sustainable development (Dimension 4)	<ul style="list-style-type: none"> • Develop and disclose a clear definition of climate finance. • Adopt a common climate finance earmarking or develop a tailor-made approach. • Report 'green' activities as a share of total portfolio (project stock) and new activities per year (project flow). • Take a more precautionary approach to contributions to the climate transition and broader sustainable development by ceasing support to fossil fuel value chains.
Outreach and 'pro-active-ness' of the ECA and its governments (Dimension 5)	<ul style="list-style-type: none"> • Stop exerting peer pressure against climate-related policy reforms. • Strengthen Japanese engagement at various international policy levels for ambitious climate-related reforms, especially the OECD Arrangement. • Elaborate a broader strategy to fully align the entire export sector, including officially supported export finance, with the Paris Agreement. • Work in tandem with export businesses and design complementary policies to cope with potential short-term economic challenges ensuing rapid fossil fuel phase out, such as employment transition or compensation management. • Establish a scientific advisory council on climate change.

Note: Please refer to the respective sections above for fully detailed recommendations.

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