Principles for Financing a Just and Urgent Energy Transition

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WORLD ECONOMIC FORUM

The world faces simultaneous imperatives of economic and social development and environmental sustainability. To achieve the United Nations Sustainable Development Goals (SDGs) and to keep the Paris Agreement 1.5ºC target within reach, developing countries must be able to finance the transition of their electricity generation systems away from fossil fuels while providing their citizens access to affordable and reliable energy.

Urgent

The sixth report of the Intergovernmental Panel on Climate Change (IPCC) calls for "immediate, rapid and large-scale reductions in emissions". According to the IPCC, further cumulative carbon emissions must not exceed 300 gigatons worldwide if the world is to limit global temperature rise to 1.5ºC with high probability (83%). Yet currently, global emissions are about 35 gigatons annually, meaning dramatic reductions are required this decade.

Coal-fired power plants generated 9 billion tons of carbon emissions in 2020. This represents 26% of total global carbon emissions, and nearly three-quarters of emissions from the electricity sector.

The United Nations Secretary-General has described phasing out coal from the electricity sector as the single most important step to get in line with the 1.5-degree goal of the Paris Agreement, while the IPCC has called for coal-fired electricity to decline from 32% of total electricity generation in 2020 to 9% by 2030 and below 1% by 2050. However, the world is not on track to achieve this energy transition despite almost daily reminders of the severity and destructive power of the growing climate crisis, including floods, wildfires, heatwaves, droughts and other disasters that have claimed lives, destroyed livelihoods and displaced tens of millions of people.

Just

The majority of existing and planned coal-fired electricity capacity can be found in developing countries, and so achieving global energy transition targets hinges on their ability to phase out and replace coal power. Yet the energy transition is an especially daunting challenge for these countries: lack of fiscal capacity along with the need to invest in fundamental development priorities (e.g. basic infrastructure, healthcare and education) constrain their ability to fund energy transition plans. Adequate, clean and affordable energy infrastructure is essential for further development and climate-target aligned development financing is therefore needed. It is no surprise that, from 2011-2020, low-income and lower-middle income countries, combined, accounted for only 5% of the global investment in energy transition, even as they represented about half of global population.[1]

These countries have relatively low emissions per capita, yet those levels are projected to increase with continued economic development. In coming decades, developing countries are likely to generate the bulk of the growth in global emissions unless there is immediate, large-scale investment to equip them to transform their energy systems. In light of fiscal constraints, which have been exacerbated by the costs of the COVID-19 pandemic, developing countries need assistance from the international community in the form of funding, technology transfer and capacity building to help enable:

- rapid, wide-scale development and deployment of renewable energy infrastructure
- lower financing costs through de-risking and clear, reliable pricing of emissions reduction
- a just transition for affected workers and communities, including the creation of "green" jobs that position them to build a productive and sustainable future that leaves no one behind

Commitment

Collectively, we acknowledge the responsibility to make the most of the current window of opportunity and aspire to a higher level of ambition for a market transformation that generates value for people and the planet. A just energy transition is an enormous undertaking. It cannot be solved by any one country, company or institution, and it is imperative to have the support of governments and corresponding policies to help enable the financing and investment for energy transition. Time is of the essence, and we now have an opportunity to take advantage of historically low borrowing costs to finance this transition.

To accelerate a just transition from coal to clean energy in developing countries, we commit to support financing and investment based on these eight principles ("Principles"), and we call on the Parties at COP26 to implement key enablers of this transition ("Call to Action").

Principles

1. **Country plans:** Actively supporting the development of national plans to retire and replace coal-fired power capacity in order to meet the goals of the Paris Agreement.

2. **Just transition:** Investing in programmes designed in collaboration with stakeholders that help ensure a just transition for affected consumers, workers and communities (e.g. worker reskilling and assistance).

3. **No leakage:** Structuring financing with conditions to ensure that retirement of coal-fired generation capacity is replaced by new domestic or cross-border low-emission generation capacity.

4. **Recycle investment:** Creating opportunities for owners of coal-fired plants to recycle any proceeds related to their retirement into the development of renewables (e.g. solar and wind) and supporting infrastructure (e.g. grids). No proceeds should go into coal-fired power.

5. **Technology transfer and technical assistance:** Providing technology transfer and technical assistance to enable large-scale expansion of renewable energy capacity in these countries.

6. **Tailored large-scale financial solutions:** Contributing to the development of large-scale, bespoke energy transition financing solutions that are adapted to specific country needs. These mechanisms may include public and private investment from international and local sources.

7. **Leveraging carbon markets:** Promoting the establishment of fair carbon prices to capture the environmental and health costs of coal-fired power plants.

8. **No time to lose:** Urgently drive large-scale investment into existing renewable energy technologies and solutions that are proven to be cost effective and scalable now.

Call to Action

To enable a just and accelerated transition from coal to clean energy in developing countries, we call for bold leadership from all the Parties at the COP26 UN Climate Change Conference to:

Establish policies and plans to phase out coal fired power, as illustrated by the IEA[2, 3] and consistent with a just transition and a science-based pathway to net zero, and support early action in the development and financing of renewable energy and related infrastructure

Ratify Article 6 of the Paris Agreement

Mobilize from developed countries to developing countries at least $10 billion of incremental public capital per year over this decade to directly fund and catalyse additional private capital investment in a just and urgent energy transition

Signatories

We invite public and private financial organizations (including banks, insurance companies, asset managers, multilateral agencies, philanthropic organizations and family offices) to sign the Principles and the Call to Action. You can endorse the JUET Principles as a Signatory here.

Supported by

We invite all other key stakeholders in the energy transition ecosystem (including international organizations and organizations representing labour, consumers and the environment, as well as energy companies) to support the Principles and the Call to Action. You can endorse the JUET Principles as a Signatory here.

Brought to you by

SDIP Sustainable Development Investment Partnership

A platform of the World Economic Forum and Organisation for Economic Co-operation and Development (OECD), supporting public and private sector financiers and investors to innovate and scale investment for developing countries' transition to greener, more resilient and more sustainable economies. SDIP

The World Economic Forum's Platform for Shaping the Future of Energy, Materials and Infrastructure, focusing on accelerating the effective transition of energy, materials and infrastructure to build the foundations of a sustainable, resilient and inclusive society.

The World Economic Forum's Civil Society Community team, bringing the voices of NGOs, labour leaders and religious actors together to collaborate with government and business leaders on finding and advocating solutions to global challenges in order to create a more inclusive, equitable world.

Neel Tamhane

Examples of financing initiatives

Replicating and scaling up innovative financing mechanisms and initiatives are critical to accelerating energy transition this decade. Many transformational ideas are emerging from public and private actors. Here are some examples:

- **Energy transition mechanism (ETM):** a scalable public-private partnership that can be used to acquire and then retire coal-fired power plants in an orderly and just way – and well before their useful life – once sufficient clean power capacity has been built to meet energy needs, and plans to enable a just transition for workers and consumers have been implemented. The structure should include appropriate safeguards for environmental and social equity, the pricing of assets, and replacement of coal by renewables.

- **Transition bond:** a capital markets instrument that an energy company can use to help finance their transition to clean energy by embedding incentives to meet predetermined sustainability and transition targets. It has been used by Tauron Polska Energia, a leading Polish electricity producer and distributor, to raise a PLN 1 billion bond in November 2020 for increased renewable capacity and grid upgrades. In this case, embedded in the programme was support from the European Bank for Reconstruction and Development (EBRD) for social impact from the closure of certain coal-powered plants, including certified worker training in partnership with local education providers.

- **Blended finance:** a structure that includes concessional finance to de-risk and crowd in investment from commercial funders. An example transaction in energy transition is ENGIE Energía Chile's $125 million 151 MW wind farm financing in February 2021, which includes an incentive for the early closure of coal-fired power plants by establishing a minimum price for the greenhouse gas (GHG) emissions displaced by clean power. These individual transactions are often catalytic to larger scale mobilization of capital. As an example, blended finance at scale is being considered under a collaborative platform, Tri Hita Karana, which calls for a "blended billion for planetary health" from sustainability conscious investors, businesses, foundations and family offices.

- **FAST-Infra:** a public-private partnership that proposes practical solutions aimed at establishing sustainable infrastructure as an asset class, at embedding sustainability across the life cycle of infrastructure projects and at crowding in private investment. Its solutions include the FAST-Infra sustainable infrastructure label, the FAST-Infra technology-enabled platform and various de-risking mechanisms.

- **Universal energy facility:** a large-scale multi-donor results-based financing facility managed by Sustainable Energy for All (SEforALL) with the goal to significantly speed up and scale up access to energy by providing incentive payments for verified new energy connections. The universal energy facility is designed to rapidly connect households, businesses and social institutions to new clean and affordable decentralized energy, as a significant contribution to SDG7 (ensure access to affordable, reliable, sustainable and modern energy for all) in line with the Paris Agreement on climate change.

- **Early-stage capital and development capital:** the Private Infrastructure Development Group (PIDG) is an infrastructure project developer and investor that mobilizes private investment in sustainable and inclusive infrastructure in Africa and Asia. PIDG uses blended finance to de-risk infrastructure projects into commercially viable, sustainable and climate resilient assets. PIDG works over the entire project lifecycle and across the capital structure by deploying bundled solutions with grants, equity, long-term debt and guarantees in both hard and local currencies, building local capacity, raising standards and developing local capital markets for infrastructure.

- **Energy compacts:** Sustainable Energy for All (SEforALL) has created energy compacts to help accelerate action on SDG7. Companies are invited to register their own energy compacts with SEforALL in the lead up to COP26.

Reference

1 "Unlocking Private Climate Finance in Emerging Markets – Private Sector Considerations for Policymakers", page 6, Climate Finance Leadership Initiative, April 2021.

2 "Net Zero by 2050 - A Roadmap for the Global Energy Sector", International Energy Agency, May 2021

3 "Financing Clean Energy Transitions in Emerging and Developing Economies" International Energy Agency, June 2021

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