First Investment focused event under the SeS Mitigation Ambition and Implementation WP (In conjunction with SB58) - June 5, 2023; full day

Notes submitted by: Archer H. Christian (ahchristian.climate@gmail.com)

I. Background

(Annotated agenda for June 3-5)

The Sharm el-Sheikh mitigation ambition and implementation work programme (MWP) was established by CMA3 to urgently scale up mitigation ambition and implementation and as a complement to the GST. CMA4 articulated the MWP elements, including holding at least 2 global dialogues every year and investment-focused events, the topics of which are decided by the SB-appointed co-chairs. The first of each of these events is being held at SB58, informed by submissions on the chosen topic of "accelerating just energy transitions" (JETs). The global dialogue occurred June 3-4. These notes cover the full-day investment-focused event held June 5.

II. Systemic issues highlighted + Key Takeaways

- Enabling environments are needed to reduce risks: must address capacity building needs, (including project prep grants), technology for learning/doing; modest concessional financing can leverage large private capital in right environment; power purchase agreements on new RE sources are bankable for private investment.
- Evolving engagement with/within governments and smaller institutions: MDBs shifting to upstream perspective; greater inter-ministerial coordination in developing countries for systemic approach to NDCs/$$ planning/SDG7; whole of economy approach brings in other stakeholders (e.g., community banks)
- Reform Multi-lat financial institutions: e.g., not addressing structural limits, expanded partnerships, linking NDCs to investment; also serious access issues. Some suggest need for global climate finance structure overhaul. (Also connects to concern about over-focus on sufficiently resourced existing technologies.)
- GCF action: a) attention/action to prevent triangulation of interests in developing countries subject to deep penetration by fossil fuel industry over time; and b) complete the shift from Country programme approach to assistance in translating NAPs and NDCs into investment plans, bring country ambitions into planning and ultimately into GCF pipeline.
- Private finance: Absence of discussion on this throughout this SeS 3-day event, including not exploring appropriate incentives for oil & gas sector to assist in shift in investments to JET. Structural limits in LDCs (absence of necessary 1st-investment energy infrastructure and right legal environment = barrier to private investment, especially into emerging energy technologies. + Difficult to mobilize private finance when NDCs in revision.
- Fossil fuel investments: National circumstances/energy security/absence of physical and legal infrastructure in developing countries/regions/clean cooking via LPG – all support natural gas as bridge fuel, despite science-based imperative to phase them out ASAP. Financing can help de-escalate fossil fuel investment (+ see MDB reform point). Opportunity for MWP to feature pertinent initiatives and emphasize fossil fuel exit strategies at COP28.
- SIDS and LDCs = unique challenges: SIDS= absence of forests limits C-market access; Broadly = forests subject to climate change; negative impacts of C-pricing in developing countries.
- Asia-Pacific region disaggregation: Flows to Pacific region very small compared to overall Asia-Pacific flows, among many other issues. Different needs and different solutions.

III. Notes

Session I: Opening and scene setting

Following opening remarks from the COP27 and COP28 Presidencies, and introductory remarks from the co-chairs of the MWP (Amr Osama-Aziz [Egypt], Lola Vallejo [Fr]), 5 panelists shared perspectives on solutions to unlock finance to accelerate the just energy transition.

- F. La Camera, IRENA – Drawing on IRENA World Energy Transitions Outlook 2023 preview
  - Record 295 GW of RE added last yr. (83% of new capacity). Global investment in the energy transition up 70% from pre-pandemic to $1.3 bill, with >2/3 from private capital. Deployment mainly in power sector and in developed world.
  - Grants and concessional loans= only 1% of total. More than ½ of world population received only 15% of investments from 2015-2021, with disparities growing exponentially.
  - Energy transition must shape more equitable and inclusive energy system. Need policy, infrastructure, strategic shift in institutional capacity.
  - IRENA Project facilitation with short-term work programme goal of 1K MW in 2023; Energy Transition Accelerator Financing Platform (ETAF) with many players and $ = key instrument.
- S. Wrighter, GCF – Accelerating investment for the JET. Concrete case studies.
  - $12 bill committed to date, 128 countries, $45B in portfolio value (including co-financing). Many energy investments enhance adaptation (resilience). GCF energy Portfolio= $3B in energy generation & access; $1.7B in buildings, cities, industries and appliances.
  - De-risking = essential for private sector willingness. Using GCF concessional capital to unlock energy transition, and adaptation: GCF sector guides to help applicants. (Energy sector guides i.d. pathways on energy access and power generation.) Plus, brief primer on accessing GCF. Access being enhanced through codifying and streamlining processes and providing guidance + different access modalities to help applicants through all the steps.
  - GCF occupies Scaling/Market Creation role: 1) Help establish enabling environments, 2) Catalyze innovation, 3) De-risk and mobilize finance at scale, and 4) Help national financial institutions drive uptake. Gave multiple examples of GCF accelerating the energy transition.
- T. Gould, IEA - Presented the World Energy Investment Outlook 2023
  - Local capital flows into the energy sector= dynamic. Ratio of clean energy to fossil fuel annual investment up (~ 1-to-1 in 2018; 1.7 times in 2023). >$1.7B
  - Emerging clean energy economy driving changes in costs, policies, elements of industrial strategy. Many barriers and more difficult macro environment due to financing costs. Need renewed international effort to support access to financing around the world.
  - Key issues = grids (requires longer term process) and geographical distribution (>90 % in clean energy investment in advanced economies and China (especially) since 2021.
  - A growing pipeline of low emission fuels: Hydrogen electrolysis and CCUS.
  - Over last 5 years, 78% of Sustainable debt issuances concentrated in advanced economies + 84% of clean energy spending concentrated in advanced economies and China.

Two case studies:

- N. Syaifudin, Indonesia's Just energy transition mechanism
  - Climate change economic losses could be 3.45%of GDP by 2030. Sea level rise and hydrometeorological disasters. Projected mitigation costs 2018-2030=$281 bill/yr

- Roadmap to net zero: -1.526 mill T CO2e by 2060. Energy Transition Mechanism goals: 2050=zero coal, RE=66% power generation. Roadmaps: Energy Transition, C market, C tax.
- Capacity building and financing essential. Just Energy Transition Partnership (JETP) + CIF funds. Retire 1 GW coal by 2030. Blended finance: Govt funds; Commercial/INA Sovereign Wealth Fund; multi-lats, bi-lats, CIF, + others; $20 bill (USD): 50%public, 50%private

- K. Hamza, EBDR (European Bank for Reconstruction and Deployment) on Egypt NWFE project
  - Egypt is potential RE superpower- wind & solar resources. Updated NDC by end of June 2023-> Increase to 42% RE electricity by 2030.
  - NWFE-EP: Nexus for Water Food & Energy – Energy Pillar. EBRD = Egypt's lead partner – lead/coordinate implementation, ensure multi-stakeholder engagements, coordinate and support climate finance mobilization and priv investments (+ tech support and cooperation)
  - Plan: decommission 5GW of fossil fuel power plants; add 10 GW RE ($10 bill private capital grid investment) + Mobilize $500 mill in institutional support for transmission investment, decommissioning (save 7 mill T CO2e/yr), just transition and supply chain development.
  - Getting to 10 GW: RE tenders; long-term offtake agreements by transmission company; bi-lat priv-to-priv procurement for renewable H and derivatives. Thru 2028.

<u>Session II: From concept to finance: prep & planning for subsequent Investment-focused events</u>

- Dr. Mahmoud Mohieldin, HLC, COP27 Presidency - *Not avail virtually as planned.*
- K. Hamza, Dir, EBRD-Egypt (European Bank for Reconstruction & Dev)
  - Building blocks & lessons learned in NWFE-EP: 1) Country-ownership; 2) Leverage in-country experience; 3) Catalyze market forces; 4) Energy systems (not sector) transition; 6) Coordination. Economic challenges on the ground, but will report notable results by COP28
- K. Hughes, Sr cli Change Specialist, ADB (ADB ambition targets/initiatives <- see webcast)
  - Elements of climate finance flows: Sources->Channels->Modalities (encourage early engagement)->Requirements->Recipients.
  - Enabling env for climate Investment= match mobilization to national context- links btw policy and institutional barriers; utilize policy-based loans; long-term pathways
  - Lessons: i) investments in JT must come ahead of mitigation investments; ii) shared responsibility on social protection; iii) bring together demand and supply sides.
- C. Lypiridis, World Bank Group
  - WBG Climate Change Action Plan- focus on greening economies rather than projects.
  - Ambitious targets/mainstreaming climate in all dev work. Linking Investments to NDCs and LT Strategies (Country Climate & Dev Reports = core tool), + developing Operational and Funding Partnerships post funding decision: Mobilizing Trust Funds, Scaling climate action by Lowering Emissions, Partnership for Mkt Implementation Facility, Climate Support Facility. Financial sector innovation supports climate investment (sust. development bonds).

<u>Session III: Regional opportunities for mobilizing investment</u>

A. Focus on Africa and Middle East & North Africa (MENA)

- J. Murombedzi, UN Economic Commission for Africa (UNECA)
  - Africa's energy paradox: low consumption, installed energy capacity and distribution (aside from So Africa and North African countries), yet abundant energy resources.

- JET in Africa- defined and led by Africa, under African continent agreements/ positions/initiatives → deploy of all forms of energy resources (including natural gas, green & low-C hydrogen, nuclear in short-med term). Critical minerals for battery develop.

- R. Sedaoui, UN Economic and Social Commission of West Africa (UNESCWA)- for Arab region.
  - Climate finance gap = $570 bill for 11 Arab States until 2030 (Egypt and Morocco =huge advantage; others= capacity issues); Excessive debt financing + not mobilizing priv sector $.
  - Finance = address region's needs + support global energy security. High potential for RE and clean H. New climate finance policy recommendations to supplement existing.
- G. Phillips, ADB
  - Technologies for net zero: transmission (& storage) + inter-connections, RE (ADB focus), green-H (C credit potential), clean cooking (fundable adaptation solution, too), nat gas for 1 generation (Africa & MENA must utilize as transition to RE due to capacity limits), CCUS (not forests/soil <- can be reversed), sensitive fossil fuel subsidy phase out.
  - $$ are there, but not enough bankable projects. Solutions: Project prep grants & concessional loans (though access issues remain), Importance of LT strategies, NDC and NAPs, MDB reform (SeS cover dec, new instruments, debt restructuring, creative guarantee instruments)), Mobilize private sector (supply chains deep into African/MENA economies).

B. Focus on Asia-Pacific

- M. Williamson, UN Economic and Social Commission for Asia & the Pacific (UNESCAP)
  - 39 members states have zero C or C neutrality goals. New financing and policy approaches for energy & financial systems. Annual energy investment needs= $2.2-$2.4 trillion by 2030 (90% toward clean energy) most from private sources.
  - JETPs in Indonesia & Viet Nam (public + private $) and So Africa (public $) = $42.5 bill. Very small related to what's needed- but can catalyze investment & deployment.
  - Must ensure transitions are just and inclusive: reskilling and retraining in coal regions; local economic diversification; environmental rehab for closed mines, land and infrastructure.

C. Focus on Latin America and Caribbean

- S.L. Alonso, UN Economic Commission for Latin America & the Caribbean (UNECLAC)
  - Climate finance steady for nearly a decade (< $25mill). Green bonds and sustainable loans grew, other sources (e.g., national dev banks) declined. Needs= $0.47-$1.3 trillion/yr
  - Challenges: Middle income region, so less a climate finance priority. Yet highly vulnerable. Hydro capacity large, but water levels decreasing. Only 19% of GDP in fixed capital formation (lowest of all regions). Tax rate is low and $ flow to North (family members in US). Financial system challenges, but have actions/tools to make change. Need to address debt management, rely on own capital markets, tap into regional and global initiatives.
  - Priorities= adaptation and resilience funding, but because LAC is highly urbanized region, mitigation investment (especially in transport) also important (air quality issue) Border C tax is key.
  - Key point: Must change the way the international financial system works. Caribbean contributed so little to cc, but very highly vulnerable. Assigned 1% GDP on rating, because of this vulnerability, so considered unreliable and more potential for default. This is the Punishment that international financial system imposes.