THEME REPORT ON
FINANCE AND INVESTMENT
TOWARDS THE ACHIEVEMENT OF SDG 7 AND NET-ZERO EMISSIONS

EXECUTIVE SUMMARY
Reaching SDG 7 and net-zero emissions requires an urgent and steep rise in clean energy investment and finance. Worldwide investment in clean energy and energy-efficiency will need to triple over the next ten years to put the world on track for net-zero emissions by 2050, with a priority focus on the needs of the world’s least-developed countries and universal access to electricity and clean cooking by 2030.

This is a massive opportunity and one that requires concerted policy interventions, public finance, and private initiatives to be realized at the required scale. The key recommendations set out below offer a way to scale up these financial flows. They correspond to four priority areas:

• Progress towards an inclusive and sustainable recovery and financial resource mobilization for developed and developing markets

• The alignment of finance flows with the Paris Agreement, SDG 7, and net-zero objectives

• Support of local financial markets and intermediaries in many countries, and public- and private-sector collaboration

• Ensuring a robust pipeline of de-risked clean energy projects that can attract private capital

**RECOMMENDATION 1**

*Accelerate delivery of public finance in support of sustainable energy goals.*

Countries are urged to use COVID-19 recovery strategies to boost investment in sustainable energy worldwide, including provision of increased support to developing countries where resources are too limited to achieve SDG 7 by 2030. Countries with the means to mobilize stimulus packages should ensure that the packages are aligned with the needs of the energy transition in each country and respect the ‘do-no-significant-harm’ principle.

**RECOMMENDATION 2**

*Regain the momentum lost on energy-access investments during the COVID-19 pandemic.*

The COVID-19 crisis has sapped the ability of households and consumers to pay for energy services and has worsened the financial situation of utility companies, rural electrification companies, and other businesses working to improve access to electricity and clean cooking. As well as measures
to help viable energy-access companies that are facing near-term liquidity problems, all stakeholders—public and private—should focus on closing the affordability gap, promoting comprehensive and system-level energy-access policies, ensuring the financial viability of electricity access and clean cooking initiatives, and incentivizing service provision in remote areas.

**RECOMMENDATION 3**

**Align energy financing with all dimensions of the Paris Agreement.**

All financial sector institutions need to redefine their eligibility criteria for supporting the energy sector to align the financial sector with the objectives of the Paris Agreement, including adaptation as well as mitigation and recognition of the right to sustainable development and eradication of poverty. Reaching net-zero targets implies phasing out the financing of new energy projects reliant on unabated fossil fuels as soon as possible, taking into account that there cannot be a ‘one-size-fits-all’ approach to the energy transition.

**RECOMMENDATION 4**

**Governments should work with relevant stakeholders to ensure that the realisation of SDG 7 and the global energy transition leaves no one behind.**

There is an urgent need to improve and increase the capacity and financing for investment to close the huge energy-access gap. This should particularly focus on the case of clean cooking and on mitigating the social and economic impacts of the lack of access to affordable and clean energy on vulnerable communities and regions. Doing so will ensure that the energy transition is inclusive and just and that no one is left behind. In this context, governments should work with the private sector, development finance institutions (DFIs), philanthropy, academia, and civil society to implement a portfolio of options that ensure energy access to the populations most at risk of being left behind, while promoting options that empower women and youth—including innovative productive uses of energy and prosumer models. For the energy transition, financing efforts should focus on supporting countries to advance their shift to clean-energy technologies and on helping citizens to benefit from the opportunities they provide, while at the same mitigating the social and economic impacts of the shift on disadvantaged communities and helping them to navigate the disruptions.

**RECOMMENDATION 5**

**Enhance local currency funding and support for the deepening of domestic capital markets to achieve SDG 7.**

Governments, DFIs, the private sector, and donors should work together to develop a coordinated framework to address market barriers, support the capacity-building of local financiers, and ensure an optimal finance and investment ecosystem that stimulates local currency lending, attracts local currency lenders and institutional investors, and mitigates the foreign exchange risk of clean-energy projects. Deeper local capital markets provide the opportunity to increase short- and long-term investment and financing options for on- and off-grid generation using customer financing, energy efficiency, and investment support to local small and medium-sized enterprises (SMEs). Financing options include bonds, shares, special purpose vehicles (SPVs), and the secondary market. These will increase investors’ risk appetite for long-dated assets and can diversify and de-risk their green investment portfolios.
RECOMMENDATION 6
Make better use of blended finance schemes to mobilize and maximize private capital for clean energy investments and innovative energy technologies.

Blending commercial lending with grants, technical assistance, concessional loans, and guarantees is vital to the deployment of new energy technologies, for ramping up implementation of high-quality clean-energy projects and energy-efficiency programs, and for expanding energy access in rural areas and high-risk countries. The trillions of dollars in investments needed can be supported by scaling up the use of blended finance mechanisms and multilateral portfolio guarantees, coupled with results-based financing, de-risking instruments, and commercial financing.

RECOMMENDATION 7
Correct market-distorting subsidies and address the lack of carbon-pricing frameworks and inadequate accounting of environmental externalities that hold back sustainable investment.

Carefully designed financing schemes, including pro-poor end-user subsidies, play important roles in ensuring access to sustainable energy. However, broader non-targeted measures that encourage wasteful consumption of fossil fuels or that prioritise their production are a major roadblock to energy transitions and must be phased out. Regulatory mechanisms that directly or indirectly price in GHG emissions are required to further strengthen the case for the investments needed to reach net-zero.

RECOMMENDATION 8
De-risk projects and fix regulatory barriers to ensure market openness, attractiveness, and readiness for private-sector finance.

Engendering private-sector finance will require the following: an enabling investment environment; a clear risk-allocation framework; system-level planning to increase the adoption of energy-efficiency and renewable-energy technologies; renewable-energy zones; scaling up of project preparatory facilities; and appropriate credit enhancement and other innovative financing mechanisms and instruments. Collectively, such support mechanisms will help deepen the pipeline of bankable clean-energy projects and attract pools of capital for investment in the power, transport, and energy sectors as well as for clean cooking.

RECOMMENDATION 9
Develop new mechanisms to link sustainable finance with opportunities to support SDG 7 and reward ambitious energy-transition strategies.

Harmonized definitions of green assets (“taxonomy”) will help to improve the availability of data for financial decision-making. They will also contribute to developing sustainable finance by providing investors and issuers with a robust, transparent, and homogeneous decision framework. Scaling up financial market solutions such as green/sustainable bonds and sustainability-linked finance, green banks, and other sustainable funds could, if appropriately designed, support and reward ambitious energy-transition targets and investment strategies. To enable such investment, there is a need to support and encourage, and, where feasible, mandate energy companies to disclose their transition strategies and the climate risks posed by their activities.

The results and action matrix below identifies follow-up actions for different stakeholder groups in order to implement these nine recommendations. Governments can identify the institutions best suited to implementing these actions across various geographies.
## RESULTS AND ACTIONS MATRIX

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<th>PRIORITY RESULTS (UP TO 5 RESULTS TO BE ACHIEVED AT MOST)</th>
<th>PRIORITY ACTION AREAS (UP TO 5 SPECIFIC MEASURES TO REALIZE EACH PRIORITY RESULT)</th>
<th>STAKEHOLDER ACTIONS (UP TO 3 PRIMARY ROLES AND RESPONSIBILITIES BY STAKEHOLDER)</th>
<th>MILESTONES (AS APPLICABLE, AND NUMERICALLY MEASURABLE TO THE EXTENT POSSIBLE)</th>
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<tr>
<td>1. Inclusive and sustainable recovery and financial-resource mobilization for developed and developing markets (turn billions of public money into trillions in energy investment)</td>
<td>• Accelerate delivery of international public finance in support of sustainable energy goals. (Rec. 1) • Focus stimulus plans on green recovery while increasing support to developing countries, with an especial focus on delivery of energy provisions for those with least economic resources. (Rec. 1) • Provide financial resources and capacity-building to support access to electricity and clean cooking (Rec.1, Rec.2, and Rec. 8) • Leave no one behind (Rec. 4)</td>
<td>• Implement sustainable recovery plans, taking into account the goals of the Paris Agreement • Provide financing for energy access, including concessional debt and guarantees; in certain cases provide as upfront capex, results-based grants, or other de-risking instruments, to ensure affordability • Mitigate social and economic consequences on vulnerable regions heavily reliant on fossil fuels for employment</td>
<td>• Support a collective goal to surpass the USD100 billion/year climate finance commitment • Define level of funding to blend and public interventions by country and international flows • Define level of funding to blend and public interventions by country and international flows</td>
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### Priority Results (Up to 5 Results to be Achieved at Most)

1. **Enhance Energy Access and Use Efficiency**
   - Prioritize incentives to make access to energy and clean cooking bankable. (Rec. 2)
   - Promote mechanisms (e.g., issuance of new Special Drawing Rights of the International Monetary Fund [IMF]) to support developing countries with liquidity for clean-energy investment and renewed growth.

2. **Finance Flows Congruent with Global Energy Goals Associated with the Paris Agreement, SDG 7 and Net-Zero**
   - The financial sector institutions are encouraged to redefine their eligibility criteria for supporting the energy sector to align with the objectives of the Paris Agreement and close the global energy access gap (Rec. 3).
   - Reforms to phase out inefficient fossil fuels subsidy and support market-based energy transition (Rec. 7).
   - Efforts to set up meaningful and credible carbon pricing (Rec. 7).
   - Harmonize taxonomy of green assets (Rec. 9).
   - Mandate financial disclosure of transition strategies and climate (Rec. 9).

   - Reforms to end inefficient fossil fuel subsidies.
   - Increase efforts to set up ambitious carbon-pricing frameworks.
   - Consistent intergovernmental financial regulators guide and encourage disclosure.
   - Enhance credit transparency and de-risking instruments.
   - Define ambitious energy compacts to support private-sector investments in developing countries.

   - Companies to develop decarbonization plans/transition-strategies with (science-based) targets compatible with Paris/net-zero targets and green procurement.
   - Harmonize the definition of sustainable assets (equity and debt).
   - Disclosure in relation to taxonomies, as well as disclosure of sustainability risks, notably climate-related risk investment in Environmental, Social, and Governance (ESG) to focus on impact along all the said dimensions.

   - Support the development of domestic green capital markets.
   - Raise awareness of non-green products.
   - Citizens' Role as Prosumers to shift towards green products.

   - Promote energy-access financial instruments.
   - Align lending policies with the SDGs.
   - Support more counter-cyclical investments in support of SDG7.

   - Alignment of new financing operations with the Paris Agreement.
   - Size of green financing and level of the green premium ('gremium') in basis points.
   - Raising energy-access investment to USD 40 billion per year, in line with the objective of universal access by 2030.

   - By 2030, annual investment in renewables in the electricity sector is around USD 1.3 trillion, and in clean energy infrastructure to about USD 880 billion in 2030.

   - By 2050, national average total energy-sector investment as a share of gross domestic product (GDP) is around 1% higher than over the past five years.

### Stakeholder Actions (Up to 3 Primary Roles and Responsibilities by Stakeholder)

<table>
<thead>
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<td>• Companies to develop decarbonization plans/transition-strategies with (science-based) targets compatible with Paris/net-zero targets and green procurement.</td>
<td>• Promote energy-access financial instruments.</td>
<td>• Over the 2021-50 period in the nearly-zero-energy (NZE) annual average total energy-sector investment as a share of gross domestic product (GDP) is around 1% higher than over the past five years.</td>
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<td>• Mandate financial disclosure of transition strategies and climate (Rec. 9).</td>
<td>• Harmonize the definition of sustainable assets (equity and debt).</td>
<td>• Align lending policies with the SDGs.</td>
<td>• Remaining level of fossil fuel subsidies.</td>
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### Milestones (As Applicable, and Numerically Measurable to the Extent Possible)

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<td>• Strengthen green financial market: increase financing capacity of sustainable investment with higher risk profile (Rec. 9)</td>
<td>• Support SDG-linked bonds</td>
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<td>• Encourage NDCs to increase bankable clean-energy actions and energy-technology solutions (Rec. 8)</td>
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<td>3. Local financial markets and intermediaries with augmented public- and private-sector collaboration</td>
<td>• Coordinated framework for local currency funding, support for the deepening of domestic capital markets, and financing of SMEs in developing countries (Rec. 5)</td>
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<td>• Increase sustainable finance in local capital markets (Recs. 5 and 9)</td>
<td>• Create local/regional green banks</td>
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<td>• Develop intermediaries and capacity of local banks to finance local sustainable investment (Recs. 5 and 6)</td>
<td>• Development of secondary market for large emitters, repackaging and securitization of operational clean energy asset with appropriate credit enhancement to release liquidity for new, clean green-field investments</td>
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<td>• Greater government support for female and youth entrepreneurs, associations and savings groups for energy services</td>
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| 4. Robust pipeline of de-risked projects to attract private capital | • Deploy de-risking approaches to renewable energy development and expand them beyond the power sector to energy-efficiency investments (Rec. 6)  
• Make better use of an increase in blended finance: blending public money and finance to bridge the investment gap (Rec. 6)  
• Increase local capacity, technical assistance, project preparation, and project development funds (Recs. 6 and 8)  
• Address regulatory barriers to ensure market openness, attractiveness, and readiness for private-sector investment (Rec, 8) | • Define national targets, regulatory measures, and system planning, including for transmission and distribution (T&D) financing, off-grid, mini-grid, and clean cooking  
• Ensure electricity-cost reflective tariffs  
• Establish renewable development zones and streamlined permissions process  
• Establish subsidy incentives and tax policies as well as implementation of grid investments  
• Increase energy-efficiency investment and aggregation of projects (green mortgage)  
• Initiate/contribute to renewable development zones and streamlined permissions process as well as implementation of grid investments  
• Enhance the role of private capital in transmission and distribution (T&D), off-grid and mini-grid financing  
• Philanthropy to take early project risks to support increased private-sector investments, especially for projects aimed at low-income, less bankable customers  
• Provide the option for end-consumers to buy power from renewable energy sources and corporate power-purchasing agreements  
• Compliance on energy services payments and taxes  
• Foster community engagement on project design and development  
• Advocate for policy and regulatory reforms and transparency. Contribute to the dialogue between public and private parties to align interest and enhance synergies  
• Provide advisory services to help governments and local project proponents develop sustainable and bankable renewable energy (RE) programs  
• Promote instruments like grants, reimbursable grants, loans, guarantees on a project-by-project basis and increase risk-taking capacity (equity)  
• Set up facilities and funds for early project preparation, local capacity development, and support for financial project matchmaking  
• Set up partial portfolio guarantees (PPGs) from multilateral funds to increase capacity to finance energy projects with more risks and crowd-in private capital  
• Clear RE targets provided by governments to give visibility to the market (capacity, technology, timeframe)  
• Collation of projects under development (GW or mtoe) at different stages of maturity  
• Establish database of climate financiers that can bring in sustainable finance to the clean energy transition, especially in developing markets | 2025  
2030  
Towards 2050 |