Bridging the Financing for Achieving SDG7

Policy Dialogue

During COP26, experts agreed that enormous investment in green technologies is required to reach net-zero emissions by 2050 at the global level - which scientists say is crucial for keeping the average global temperature from rising more than 1.5°C beyond pre-industrial levels. Ensuring a sustainable, climate-safe future, powered by a global green energy transition, calls for scaling up investment and a massive re-allocation of capital toward renewables. This will require the mobilisation of all available sources of finance, while ending investments in fossil fuel projects. In November 2021, the Global Roadmap for Accelerated SDG7 was launched at the High-Level Dialogue on Energy by the UN Secretary-General. The roadmap also includes the call for mobilising adequate and predictable finance.

Moving forward, a larger share of private capital, altering the current dominance of public finance, is expected to flow toward energy transition technologies. However, the road to achieving this is riddled with obstacles - some predictable, others unforeseen. Due to varying energy market regulations and economic structures, different investment risks and energy security issues as well as resource allocation and energy balance structures, all countries are at different stages in energy transition and the path to 'net zero'. There is a lack of investment in developing countries due to higher actual and perceived investment risk, less developed financial markets, lower availability of historical data, lack of transparency around sector and project-level risk premiums, and fewer existing projects (IEA 2021).

On the other hand, the slowdown in the global economy brought about by the COVID-19 crisis changed the operating conditions for energy industries in the fields of personal consumption, transport, and manufacturing. The initial contraction of economic activity in the world during 2020 led to a decrease in electricity consumption, which in turn led to a drop in world prices and uncertainty in the markets. As a result of the pandemic, renewables showed remarkable resilience, thus, further strengthening and highlighting their role in decarbonising global economies and supporting inclusive economic recovery.

The ensuing period has seen major challenges and disruption in global energy systems, including conflict in Eastern Europe and embargoes on trade with Russia leading to high oil and gas prices which have affected energy generation and investment worldwide. While investors are becoming increasingly interested in the potential opportunities presented by renewables (IRENA 2021), the growth in interest has again been limited mostly to developed economies.

Market uncertainty and volatility have contributed to concerns about risk, resulting in curtailed investments in energy access and reducing the capital available in developing countries (ESMAP n.d.). Studies suggest that the Asia-Pacific region will not be able to achieve all the SDG7 targets under the current policy settings. In 2030, an estimated 63 million people will not have access to electricity and 1.6 billion people will still be cooking with traditional biomass. Furthermore, at the national level, institutional capacity to undertake evidence-based policy development and develop a plan to achieve these targets is also very limited. As a result, it is important to boost international cooperation and governmental support to ensure timely climate actions and achievement of the SDG7 targets to speed up energy transition. It is especially important in the current geopolitical scenario, following the onset of the Russia-Ukraine war, which has left developed and developing countries, alike, struggling with a fuel and energy crisis brought about by their heavy reliance on coal, oil and gas, and an unnecessary delay in adopting renewable energy technologies.

To accelerate the scale up of clean technologies and speed up the energy transition, it is pertinent to address the encountered challenges which could drive investments to developing countries and regions. According to IRENA estimations, on average, USD 4.4 trillion would be needed annually over the period 2021-2050 to ensure timely climate actions - this is more than double the level of investment

made in 2019 (USD 2.1 trillion). It is anticipated that all sources of capital, including public and private, would need to be mobilised in order to reach the investment levels required for a global energy transition.

Although the bulk of clean energy investment finance will need to be sourced from the private sector, public policy will retain a central role. The public sector remains a major source of financing, and policy is key to creating an enabling environment to leverage private capital, particularly in developing countries.

This *Policy Dialogue* will bring together government representatives, business and international community, and academic society to discuss common priorities and strategies to address the social, economic, and environmental challenges of increasing energy transition investments, under the following objectives:

- Further understand the finance-related issues and risks that countries may face on the way to achieving the SDG7 targets;
- Identify and discuss possible approaches for enhancing international and regional cooperation to bridge the financial gap needed to increase renewable energy integration, improve energy efficiency, and reduce emissions;
- Develop the capacity of policymakers by providing guidance and direction on suitable approaches and priorities for bridging critical gaps;
- Enhance the use of international financial programmes provided by international agencies and banks; and
- Explore possible opportunities on how ESCAP may support countries in accessing international finance to facilitate their energy transition.

References

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