CONCITO
DENMARK'S GREEN THINK TANK

Concept Note

20 December 2019

Clean Energy Transition Deals

Assisting emerging economies in making a quick transition to climate-aligned growth

This concept note is meant to inspire discussion about building coalitions of countries, international institutions and investors around a "green deal" approach that would assist coal-dependent emerging economies in making a quick transition to clean energy pathways aligned with the Paris Agreement objectives. The concept was proposed in the CONCITO memo of 25 November 2019 "The Global Pillar of the Danish Climate Law".

Summary

- The energy-related development within the next few years - in particular in a number of emerging and developing countries in Asia - will be a key determinant of whether we can get on a pathway toward 1.5 degrees.
- Many of these countries find themselves at a tipping point where they face a need to meet a rapidly increasing energy demand in a situation in which clean energy solutions are rapidly becoming competitive, but where institutions, policies, finance and the energy sector at large remains stuck in a fossil energy system.
- Clean Energy Transition Deals will require buy-in from the highest levels of government, private sector and institutions. Core economic, planning and sector ministries must be engaged in both high-level policy and technical dialogues on ambitious targets and areas of cooperation that reflect the specific priorities and circumstances of each country.
- Clean Energy Transition Deals would be accompanied by an unprecedented scale, quality, alignment and coordination of international technical support through bi- and multilateral channels.
- Clean Energy Transition Deals would include mutually reinforcing commitments between 1) Governments, states and cities; 2) Private sector; 3) Expert organizations and public financial institutions.
- Clean Energy Transition Deals must address all relevant aspects of the transition, including scaled-up investments in renewable energy supply and systems integration; energy efficient and decarbonized end use sectors; a managed phasing down of fossil energy, in particular coal, while ensuring a just transition and an solutions for handling stranded assets; and maximized socio-economic benefits in related policy areas such as employment, growth, air quality, trade, and innovation.
- Leadership is required in order to scale up investments in the energy transition in line with the 1.5°C objective. A number of in particular European countries that have moved ahead on their own energy transition can build on domestic experience and active bilateral, multilateral and private sector engagement in supporting the global energy transition.

Context

- 2019 has shown that making progress toward NDCs that are aligned with the Paris Agreement objectives and science is challenging. 2019 has also shown that globally, the energy sector is not on track to meeting the objectives [1]of the Paris Agreement and the Sustainable Development Goals related to energy.
- Stronger international leadership is required to urgently accelerate the transition to clean energy solutions and drive investments. Such leadership will be supported by rapidly declining costs of clean energy technologies and increasing business, investor and popular demand for clean air and climate action.
- 2019 has also demonstrated that significant momentum for increased ambition comes from coalitions between governments; investors and businesses; international organizations; public and private financial institutions; and civil society. Institutional investors, business and the financial sector are increasingly committing to decarbonizing and moving toward net zero emissions, as exemplified by the commitments made at the Climate Action Summit in September. The urgent challenge now is to channel these resources into low-carbon investments including in clean energy.
- The energy-related development within the next few years - in particular in a number of emerging and developing countries in Asia - will be a key determinant of whether we can get on a pathway toward the 1.5 degree target. Many countries find themselves at a tipping point where they must accommodate a rapidly increasing energy demand in a situation in which clean energy solutions are rapidly becoming competitive but where institutions, policies, finance and the energy sector at large remains stuck in a fossil energy system.
- Making a rapid transition from fossil-intensive to green energy is increasingly the cost-effective solution and not "rocket science", and several countries are demonstrating that it can be done while maintaining or even accelerating economic growth. In addition to technologies, the policy, regulatory and financial instruments and levers are available, and bilateral and international support is being channeled to developing and emerging economies.
- However, the available tools and support are not applied at the necessary scale and in the coherent and comprehensive manner that is needed to achieve the rapid transition out of fossil and into clean energy. Fragmentation of efforts is the norm, and strong political will backed by massively scaled up technical cooperation and a willingness to adopt radically new approaches are needed.

The Clean Energy Transition Deals

The objective of Clean Energy Transition Deals (CETD) is to build coalitions of government and private sector partners around comprehensive and coherent country level action in support of an accelerated transition toward a clean energy system that maximizes national sustainable development benefits.

The main elements of the CETD are:

1) Country specific, comprehensive and scaled up efforts in support of the clean energy transition. Special focus will be on high growth economies whose shift from fossil-intensive to clean is key to global climate objectives.

2) A "new deal" approach where the main actors make mutually reinforcing commitments:

    - **Governments, states and cities** set ambitious targets and commit to providing investment-enabling frameworks for the clean energy transition.

[1] Link to IEA

- **Private sector** contributes clean energy technology, procure clean energy, make investment commitments and provide finance.
- **Supporting organizations and public financial institutions** provide comprehensive, coherent and streamlined technical and financial support to enable the scaling up of clean and the phasing down of fossil energy.

The Scope of the Deals

Clean Energy Transition Deals be comprehensive and address all relevant aspects of the transition, including:

1) Scaled up investments in:
    a. Renewable energy supply, access & energy system integration.
    b. Energy efficient and decarbonized buildings, transport and industry.
2) A managed phasing down of fossil energy, in particular coal, while ensuring a just transition and solutions for handling stranded assets.
3) Maximized socio-economic benefits in related policy areas such as employment, growth, air quality, trade, and innovation. In addition, potential additional incentives may be identified in unrelated areas through *issue linking*, e.g. related to market access and investment.

Addressing the key drivers of the clean energy transition:

The approach to CETD has to be comprehensive and holistic, addressing the full spectrum of measures that drive the energy transition, and looking at all related policy areas.

CETD's must be designed to make decarbonization as attractive as possible, and to disincentivize carbon-intensive energy by making sure that local and global costs and risks associated with fossil energy in terms of stranded assets etc. are taken into account at all levels, including in investment and finance decisions. Conversely, it should be a key priority to reap all of the potential socio-economic benefits from the transition in areas such as employment, growth, air quality, trade, and innovation.

Benefits from the transition may also come from continued market access to the EU in the context of a potential carbon border adjustment mechanism or from a positive response from investors, corporations and consumers who are increasingly making decarbonization a factor in their decisions, as reflected in initiatives such as the Science-Based Targets initiative.

Target setting - underpinned by scenarios and other analyses - are government responsibilities at national and subnational levels. However, private sector commitments to deploying, purchasing or financing clean energy at scale will enable governments to make more ambitious commitments, in the best cases creating mutually reinforcing commitments or "ambition loops"[2].

Private sector investors and companies are increasingly taking on commitments to align with the Paris Agreement, e.g. through Science-Based Targets, RE100 and Climate Action 100+ as well as new commitments around the UN Climate Action Summit. These commitments help give governments confidence in

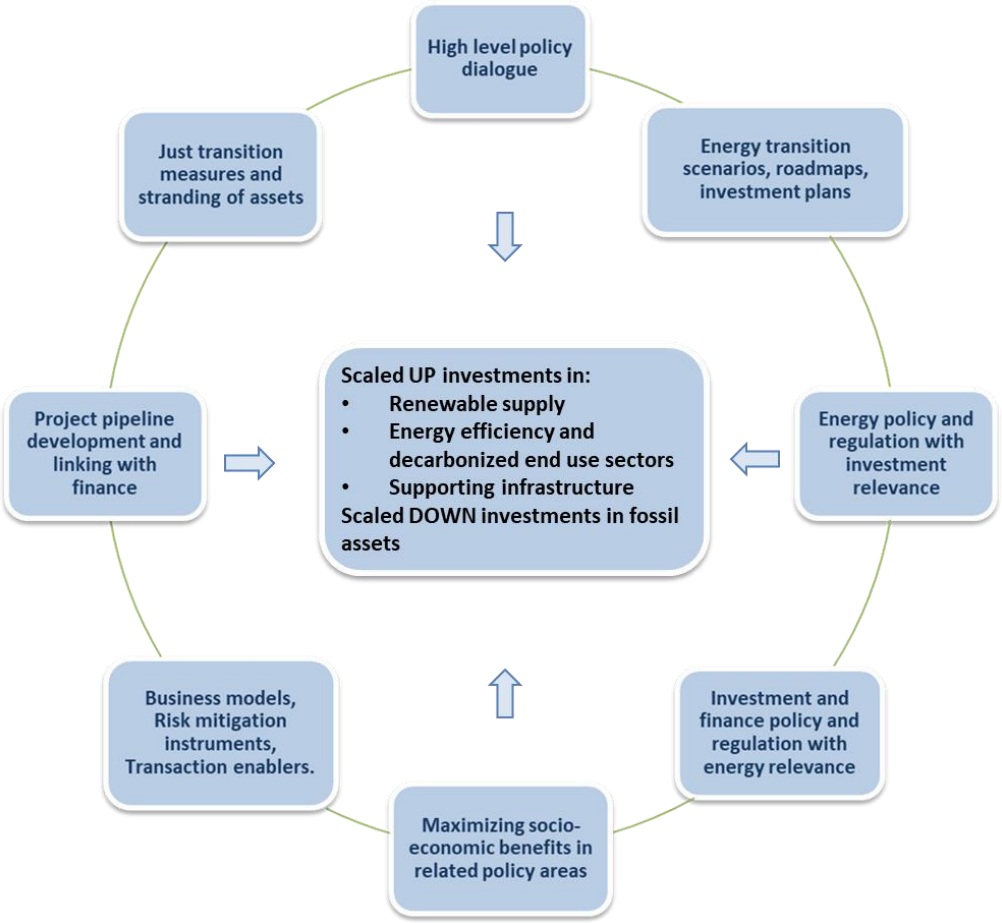
[2] Add link to Ambition Loop

the demand for clean energy as well as the availability of finance, and in addition strong private sector signals have a positive impact on the political economy of the energy transition.

Successful and efficient policy and regulatory frameworks enable private investment and bring down the cost of clean energy technologies including their cost of capital. A range of private sector actors – including developers, technology suppliers, energy consuming industrial and commercial companies, investors, and financial intermediaries - can all provide essential input to the design of these frameworks, thereby helping to reduce risks and transaction costs, ultimately reducing the cost and increasing the speed of the transition. Where relevant, initial efforts should focus on demonstrating the viability of clean investments to domestic and international actors and investors, addressing perceived and real risks.

Leading actors from industry and finance should also be engaged and provide input to country-level policy review and roadmapping processes with a view to enabling rapid mobilization of investment and market development. A good example of this is corporate sourcing of renewable energy, where experience in several countries has demonstrated both the value of corporate engagement in a policy dialogue and the potential impact on barriers related to political economy that private sector engagement can have.

Drivers of the clean energy transition that are relevant to CETD:



Examples of assistance and collaboration

The support provided to CETD partner countries may include a range of activities, such as:

- Country level mapping and diagnostic
- Analytical work and knowledge dissemination
- Peer exchange, technical cooperation and capacity building
- Support for identifying concessional/blended finance and de-risking instruments
- Connecting policy and regulatory decisionmakers with investors and industrial players
- Demonstration of viability of technologies and business models, creating initial successful investments using best practice.
- Connecting local and international investor and financial communities.

Coalition Partnership model

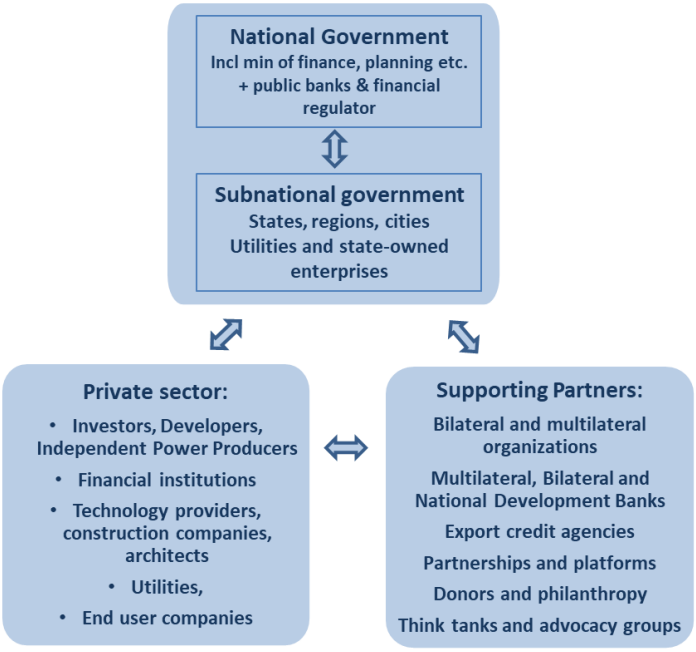
Several actors may be in a position to initiate CETDs in different countries and regions and build coalitions that will take international, action-oriented cooperation to a new level. In all cases, coalition partners will have to commit to achieving an unprecedented scale, quality, alignment and coordination of support through bi- and multilateral channels.

Leadership is required in order to scale up investments in the energy transition in line with the 1.5°C objective. A number of in particular European countries that have moved ahead on their own energy transition should build on domestic experience and active bilateral, multilateral and private sector engagement in supporting the global energy transition.

CETDs will require buy-in from the highest levels of government, private sector and institutions coupled with targeted funding to incentivize the many actors to align. Core economic, planning and sector ministries must be engaged in both high-level policy and technical dialogues on ambitious targets and areas of cooperation that reflect the specific priorities and circumstances of each country. A dialogue at this level will emphasize the economic and social benefits of the clean energy transition as laid out in analyses by the New Climate Economy, OECD and others. It may also help overcome barriers related to political economy issues and vested interests.

Multilateral development banks in particular should be ready to assume a key role in facilitating Deals, support countries in creating investment enabling frameworks, de-risk investments and mobilize investors. MDBs have the mandate, presence and resources to perform this role, but may need to strengthen their internal capacity in some areas.

The partnership model:



Roadmap to implementation:

The roadmap to implementation of Clean Energy Transition Deals would include:

1. Coalition-building, which be country-specific.
2. Analysis, engagement and negotiation of CETD.
3. Implementation of CETD in parallel with ongoing support and further operationalization and detailing of plans and commitments.

A sequenced approach is foreseen, possibly starting with a moratorium on new coal investments and fast-track development of the most urgent clean energy supply and energy systems investments to take place within the first 2-3 years; In parallel, scenarios and roadmaps for 2030 as well as specific investment planning for 2025 would be developed, alongside massive rollout of technical assistance including support for clean energy market development, financing etc. with a view to bringing down costs through rapid learning and deployment. This phase will include demand side sector work as well.

The "Deal" concept will be applied at several levels, ranging from 1) the overarching commitment to the CETD process via 2) increasingly detailed agreements and investment plans to 3) specific financial investment and finance contracts at the project or investment vehicle level.

Successful implementation will require a new level of mobilization of resources for activities that are often overlooked and underfunded, including technical cooperation on analytical work, facilitation of agreements, enabling policy and regulatory frameworks, de-risking instruments, and project pipeline development.