Keynote Speech ***(By: Maysam Kanani Amiri)***

Financing Energy Transition for Industrial Sectors within emerging economies

Global investment in the energy transition has seen a significant increase since the Paris Agreement in 2015, with spending projected to reach $2 trillion in 2024. Despite these advances, current investment levels are insufficient to meet the global climate targets outlined by the International Energy Agency (IEA). To align the energy sector with net-zero emissions by 2050, annual investment needs to increase to approximately $4.5 trillion per year, indicating a substantial gap between current and required funding. More financing must be channeled to developing countries and emerging economies, which receive just 15% of energy transition investment.

Financing energy transition faces significant challenges globally and within emerging economies. These Challenges include high upfront costs, increased risks, inflation, supply chain constraints and interest rates. In addition, regional disparities pose significant challenges, with each region facing its own unique set of barriers to advancing its energy transition goals. Despite record levels of investment in the energy transition, most regions are falling short of what is needed to meet climate goals. The gap between current investment and required financing is even more pronounced in emerging economies and developing countries. Addressing these challenges requires a standardized approach to reducing the cost of financing and mitigating the risks of energy projects. Collaboration between investors, industry executives, policymakers and financial institutions is essential.

To effectively manage the energy transition, several key issues that impact the financing and deployment of energy transition projects must be addressed:

1. **Energy security and affordability:** A successful energy transition requires a delicate balance between security and affordability. Energy security ensures a reliable and uninterrupted supply while affordability guarantees access for all.
2. **Reducing financing costs:** In developing countries, enhancing availability of long-term access to low-cost capital is crucial, which can be achieved through concessional loans, guarantees or subsidies. These tools help make financing more affordable and accessible for critical projects. Export credit agencies are also important elements of the equation in emerging economies.
3. **De-risking innovative technologies:** Innovative technologies with a strong business rationale but limited operational history require risk mitigation measures to become bankable. Governments and financial institutions can play a pivotal role in reducing or reallocating these risks through insurance and guarantee instruments such as ones provided by ECAs.
4. **Hedging off-taker risk:** To reduce the risks associated with market fluctuations, it is important to ensure that offtake agreement protection is available through financial tools

that guard against price swings (e.g. price floors established through contracts for difference (CfD) or hedging instruments such as swap agreements). By managing these risks, companies can make their finances more stable and predictable, widening the potential pool of investors.

5. **Mobilizing capital to emerging markets:** Mobilizing capital for emerging economies, on both the debt and equity side, is critical to achieving global energy transition goals. This includes the use of blended finance solutions (e.g. combining public and private funding through development finance institutions (DFIs), concessional debt from governments and global and regional ECAs) to fill investment and financing gaps and to make projects more attractive to private investors.

Robust mechanisms are needed to mitigate the risks and improve the financial performance of energy transition projects.

Investment/financing Mechanisms for Energy Transition

1. **Govt support**

   Government support, through measures such as tax incentives, grants, loan guarantees and performance-based incentives, is crucial for energy transition projects. This support helps bridge the cost and risk gaps between fossil fuel and renewable energy projects, aligning the goals of equity sponsors, lenders, insurers and governments.

   In addition, dedicated government funds that provide financing for technology demonstration and deployment projects can have a major positive impact on the commercialization of innovative energy technologies. The primary goal of these funds should be to strengthen SMEs and promote new technologies and innovations to maintain the country's economic competitiveness.

2. **Revenue Guarantees**

   Offtake agreements are crucial for the bankability of energy transition projects. Electricity and certain clean fuels, like green hydrogen, are constrained by local market conditions as the infrastructure to transport them across continents has not been built yet. Conventional fuels such as oil or natural gas, benefit from a fully integrated global market, so they can more easily find backup offtake solutions outside the country or region if they face issues with local offtake. Once technologies are proven and markets established, financial institutions are more willing to offer support due to the decreased risk profile.

3. **Export Credit Guarantees**

   Export credit agencies (ECAs) are crucial for enabling companies to participate in international energy transition projects. Although ECAs have reduced financing for fossil fuel projects since COP26, the increase in renewable energy investment has not kept pace. Lenders are more likely to support projects with export credit guarantees (ECGs) due to reduced default risk, significantly lowering the cost of financing and extending payback periods. A number of ECAs already offer special conditions for energy transition

projects, offering lower fees, high coverage and flexible loan conditions allowing investment management optimization. ECGs therefore have the double benefit of increasing revenue certainty and fostering trade and technology adoption across markets and in countries with higher risk profiles.

4. **Blended finance**

   By combining concessional finance from philanthropic sources with commercial investment, blended finance ensures financial viability, by de-risking corporate investments for technologies, sectors and geographies that are currently underfunded. Other sources of concessional financing such as low-interest loans, public grants and guarantees can be used to reduce risks or improve returns for private investors, enabling funding for innovative or high-risk technologies. Blended finance is a dynamic and transitional tool that steps in before private markets can work effectively. So it is vital that, in addition to larger corporations, developers and SMEs are also able to leverage these funds.

5. **Sustainable bonds and loans**

   Sustainable bonds are an instrument that is used widely. However, their impact can be significantly increased when they do not require underlying assets: instead of being linked to a specific project, they can then be backed by an issuer's entire balance sheet. As a result, these sustainability-linked bonds are considered low-risk and can be issued at large amounts and with longer tenors than project-specific instruments. To ensure their climate impact, they can be linked to existing sustainability pledges, such as SBTi (Science Based Targets initiative) targets to guarantee the issuers' accountability.

Summary & Conclusion

The success of the energy transition hinges on our ability to finance the energy systems of the future, ensuring they are affordable, resilient and sustainable. Access to long-term, low-cost financing is crucial to ensuring the viability of this transition, with our primary focus on reducing both capital costs and the cost of capital. Achieving global climate goals will require significant investment and this will only materialize if we focus on innovative financing mechanisms, foster international cooperation and maintain regulatory predictability. Recognizing regional differences, reducing financing costs, supporting SMEs and leveraging philanthropic funds are critical to this endeavor.