



RECOMMENDATIONS FOR BANKS

FINANCING SUSTAINABLE POWER SUPPLY

These policy recommendations are based on scientific elements and technical knowledge available in September 2024. They are intended to evolve over time, notably considering relevant climate and environmental science advances, best practices and technological developments.

I. CONTEXT

The International Energy Agency's (IEA) Net-Zero Emission (NZE) scenario projects a pathway for the global energy sector to achieve net-zero carbon dioxide (CO₂) emissions by 2050. In this scenario, global warming peaks at just over 1.5°C in 2050 and declines to about 1.4°C by 2100 with a 50% probability.

To that end, the IEA compares investments in the energy sector, both in fossil fuels and in a set of “clean energy” technologies, and makes several observations as to what would be needed for an energy transition that keeps us on a net-zero trajectory.

In particular, this trajectory implies that **the power sector reaches carbon neutrality** by 2035 in “advanced economies”¹ and by 2040 in the rest of the world. This has several implications on investments in the energy sector:

- Stopping investments in new fossil fuels activities does not mean reducing investments in the energy sector, quite the opposite. The challenge is not only to reallocate existing investments from fossil fuels to “clean energy” but also to add new investments. Indeed, the requirements for financing the energy transition are much higher than current levels of investment. To enable the transformation of our energy system, **annual investments in the energy sector must rise from US\$2.8 trillion in 2023 to US\$4.7 trillion (+67%) by 2030**².
- Those investments must be focused on several key aspects of the energy transition: “clean” power generation, modernization and flexibilization of the electricity networks, energy efficiency, and transformation of end-uses. Concretely, **annual investments in the energy transition must more than double (x2.3) by 2030**, from US\$1.8 trillion in 2023 to reach US\$4.2 trillion³. Simultaneously, annual investments in fossil fuels must decrease by 60%, from US\$1 trillion in 2023 to US\$0.4 trillion 2030.

¹ The IEA defines advanced economies as “OECD regional grouping and Bulgaria, Croatia, Cyprus, Malta and Romania”. We refer to Europe and OECD countries.

² IEA, [World Energy Outlook 2023](#), p197.

³ Ibid. p49.

- Investment in all **these items together must be ten times greater than the level of investment in fossil fuel by 2030⁴**. In other words, for every dollar invested in fossil fuels⁵, \$10 must be invested in the energy transition. That includes: \$6 in “clean” energy (mostly power) supply and \$4 in energy efficiency and end-uses. This gives us the **6:1 energy supply financing ratio**.

Energy supply, efficiency, and end-uses⁶ are equally important but require different and specific approaches. Reclaim Finance expects banks to adopt detailed public financial targets for the energy transition, including energy supply financing ratio and financing targets dedicated to power supply, applied on a transparent scope of energy sources and technologies.

- **This note focuses on our recommendations for the scope of sustainable power supply and the 6:1 energy supply financing ratio.**

II. HOW TO DEFINE SUSTAINABLE POWER

The need for urgent action grows daily as we fail to initiate a full transformation of our society and the energy system which lies at its core. There is no more time to waste if we hope to keep the 1.5°C target alive, preserve our global ecosystem and maintain a liveable planet.

The IEA's projections are based on a definition of “clean energy” that includes technologies that are incompatible with a rapid and just transition of our energy system, such as biomass⁷ or nuclear energy. It also bets on the use of immature technologies, or technologies that are non-existent at a commercial scale, such as Carbon capture, use and/or storage (CCUS)⁸, and hydrogen produced using fossil fuels and CCUS.

Those technologies, whose development is uncertain, are associated with damaging social, environmental and climate impacts or risks. They pose too great a risk to our ability to meet the 1.5°C objective and global biodiversity protection targets. Therefore, they should not be included in banks’ energy transition finance targets. As the IEA's NZE scenario gives only a 50% chance of limiting global warming to 1.5°C, removing those technologies increases the chances of success and does not detract from the relevance of aligning with the investment targets set out in this scenario⁹.

We encourage financial institutions not to use the terminology “clean”. It implies the mistaken idea that there are energy sources that have no impact as opposed to “dirty” energy sources that have harmful impacts. Every kWh of electricity production requires the extraction and consumption of natural resources, has a spatial footprint, and produces greenhouse gases emissions. Over the entire life cycle, all energy sources have an impact on

⁴ Ibid.

⁵ Maintenance and gradual phase-out of existing fields.

⁶ **Energy efficiency** – equipment and technologies in buildings, industry and transport that improve efficiency of a process, that is lower the energy used for the completion of a given goal. Energy efficiency measures often focus on reducing power loss and better power demand management, and usually result in reduced energy demand and consumption. E.g., buildings renovation.

Sustainable end-use – direct use of sustainable power, electrification in buildings, industry, and transport.

⁷ See Reclaim Finance's [factsheet on bioenergy](#).

⁸ See Reclaim Finance's [factsheet on CCUS in power](#).

⁹ See Reclaim Finance's [analysis of IEA's NZE](#).

the climate, on ecosystems, and on people. Energy cannot be “clean” out of context. For similar reasons, “low carbon” or “renewable” sources do not encompass all environmental and social aspects that matter for a just and successful transition. Consequently, these terms should not be used by financial institutions to define their targets.

Instead, we prefer the use and adoption of targets for “sustainable” power and encourage financial institutions to provide a clear definition of the terminology that they use and detail what is included in their targets.

- We define **sustainable power supply** as follows¹⁰:

Sustainable power supply includes power generated by sustainable sources, development of which is guided by robust human policies¹¹, such as the UNGPs¹² or FPIC¹³. This might include solar (photovoltaic and thermal), wind (on and offshore), some hydro, wave and tidal, and geothermal. This also includes developing more flexible **electricity grids**¹⁴ (including transmission & distribution infrastructure, battery storage and seasonal storage), **modernization** (new and refurbishment) and **off-grid sustainable power** (mini-grid or stand-alone).

Note: green hydrogen is excluded from the definition of “sustainable power supply” as evidence shows that, contrary to some claims from the gas industry¹⁵, green hydrogen will not replace fossil gas for residential heating or power generation, nor become a major storage technology but will have a limited role in a sustainable power system. Its use should be dedicated in priority to the decarbonization of specific sectors (such as steel and maritime transport).

Unsustainable power sources are excluded. That covers fossil fuels with CCUS, nuclear energy, industrial-scale biogas and biomass power plants with or without CCUS, hydropower plants that do not comply with the recommendations of the World Commission on Dams, waste-to-energy, any form of hydrogen that is not produced directly from sustainable energy source, and any non-fossil fuel power plant with significant share of fossil fuel backup or dedicated to support fossil fuel infrastructure.

III. RECOMMENDATIONS FOR CREDIBLE COMMITMENTS

To fully engage in the transformation of the power sector, banks must not only stop financing new fossil fuels activities, but also make concrete and science-based commitments with defined time horizons to increase their financing for sustainable power supply.

Define a transparent and accurate scope for sustainable power supply

As stated in part II, banks should avoid vague terms such as “renewables”, “low carbon” or “clean”. We encourage banks to:

¹⁰ See Reclaim Finance’s [article](#) on the definition of sustainable power supply for further details.

¹¹ See [BHRRC’s recommendations for human rights in the renewable energy sector](#).

¹² See [United Nations’ Guiding Principles \(UNGP\) on Business and Human Rights](#)

¹³ See [Free, Prior and Informed Consent \(FPIC\)](#) principles

¹⁴ According to the Energy Transitions Commission, [renovation, expansion, and improvement of grid flexibility could represent 45% of power supply financing](#).

¹⁵ Influence Map, [The International Gas Union’s Climate Strategy](#), December 2022

- **Explicitly define the scope** of solutions, by listing clearly the energy sources and technologies included and the criteria applied.
- **Refer to “sustainable” power supply** and define the scope as previously described, explicitly including storage and grids, and excluding unsustainable energy sources.

Set financial targets for sustainable power supply: dedicated financing and energy supply financing ratio

Banks’ climate strategy should not rely solely on decarbonisation targets to align with the IEA’s NZE trajectory. A credible strategy should demonstrate the actual change in financing activities, through dedicated financial targets. We encourage banks to set at least:

- A target for **financing dedicated to sustainable power supply**.
- A target for an **Energy Supply Financing Ratio of 6:1 by 2030**, i.e. every dollar toward fossil fuels is matched by 6 dollars for sustainable power supply.

In addition to a transparent scope (as defined previously), **financial products and services covered by the targets should be explicitly detailed**. The ratio should cover at least loans and bonds emissions and the entire value chain of fossil fuels. On the other hand, financial services dedicated to M&A or refinancing should not be included, both targets should exclusively cover the development of new capacity.

Apply proper transparency on data disclosure

Banks should **publicly disclose their energy supply financing ratio and their financial support for sustainable power supply**. This support should be detailed by products and services, sector by sector, and provide visibility on the actual new capacity deployed and on the geographical repartition:

- The breakdown should detail financing by sector of power supply (production, storage, grids) by energy sources and technologies. This should also include financing of components & equipment manufacturers.
- Financed installed capacities should be detailed by energy sources and technology, including storage capacity.
- The breakdown for financing products and services should be detailed at least for loans, bonds emissions, and other capital market activities.
- The geographical breakdown should show financing for (1) non-OECD countries, (2) OECD countries excluding Europe, (3) Europe and (4) China.

Note: though refinancing and M&A should not be accounted for regarding targets, it should be included in the reporting.

IV. KEY PRINCIPLES FOR CREDIBLE COMMITMENTS

To be credible, banks’ commitments must comply with the basic principles listed below.

AMBITION & TIMING

Commitments should be aligned with the objectives of limiting global warming to 1.5°C and achieving carbon neutrality of the power sector – by 2035 in Europe and OECD countries and 2040 worldwide. Financial targets should also be at least consistent with the NZE’s trajectory for financing sustainable power supply and the investments milestones identified for 2030

(including the 6:1 ratio). Hence, commitments should be set for 2030 at the latest. The baseline year should not be earlier than two years before the target is set, and interim targets should be defined as well.

SCOPE OF FINANCIAL PRODUCTS & SERVICES

Commitments should apply to all banking activities, for all business lines, branches, subsidiaries, and joint ventures for banking groups worldwide. They should cover all financial services, including at least:

- **Lending activities**, including retail, SMEs, term loans (dedicated or corporate, bilateral, or syndicated); project finance via special purpose vehicles/companies; revolving credit facilities; bridge loans; reserve-based lending; borrowing base facilities; export finance and all trade finance facilities; and acquisition finance.
- **Capital markets activities**, including shares emissions and bonds emissions, both dedicated issuances such as project bonds and general-purpose corporate financing, as well as securitization. This includes green bonds and sustainability-linked bonds.
- **Other advisory services** such as mandated lead arranger activities (or “lead arranger”, or “structurer”) for bond issuances or syndicated loans, Mergers and Acquisitions (M&A) advisory activities, or index funds’ management activities.
- Activities in debt and equity capital markets.

TRANSPARENCY & REPORTING

The scope of energy sources and technologies should be public and detailed by item (power generation, power storage, power grids). Financing and capacity should be broken down by item (power generation, power storage and power grids) by energy source, by financial service, and by geographical region. The “fossil” part of the energy supply financing ratio should cover all financing over the entire value chain of fossil fuels, and should be disclosed and updated annually.

Targets and their baseline year should be public and detailed by item (power generation, power storage, power grids), by source and technology, by financial service, by geographical region. Targets should not cover M&A, refinancing or transferred capacity which should be reported separately. Progress should be published each year using metrics that are consistent with the targets.

Terms and definitions used to refer to any scope, item, energy source or financial service should remain constant over time. For instance, banks should not refer to “renewables” for one target and “low carbon energy” for another.

Banks should disclose the different elements mentioned in this document in a document detailing the strategy for aligning financing to the power sector with the 1.5°C objective. To be considered credible, this strategy should be comprehensive and not be limited to the power sector decarbonization targets that banks may have.

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