

## **Ministerial Roundtable**

### **‘Mobilizing investment to accelerate the energy transition after COP21’**

Sixth session of the Assembly – 17 January 2016

Renewable energy can provide much of the mitigation required to avoid hazardous climate change, if investments are scaled up rapidly and significantly. This roundtable will discuss how, building on the momentum from COP21, different actors – developing and developed countries, public and private finance institutions – can together unlock the

#### **Introduction**

1. The successful conclusion of COP21 has increased global momentum for the transition towards a low-carbon future. Through their Nationally Determined Contributions, governments from almost 190 countries have shown commitment to take action sending a strong signal to the markets and especially to the energy sector which is responsible for two thirds of greenhouse gas emissions. This is also a clear message to investors to advance more rapidly in shifting assets within their portfolios towards more sustainable sources of energy, most notably renewables.

#### **Global Renewable Energy Investment Needs**

2. IRENA analysis shows that renewable energy can be scaled up by 2030 sufficiently to decarbonize the energy sector. In combination with improved energy efficiency scaled up renewables can put the world on track to keeping global warming below 2°C. This requires investment in renewables to grow significantly, building on the impressive growth of the last ten years when investment in renewables increased fivefold reaching more than USD 270 billion in 2014. In order to get to levels required, global investments need to be scaled up rapidly to USD 500 billion per year in the years up to 2020 and further grow to reach USD 900 billion annually in the decade up to 2030.<sup>1</sup>

3. Almost two-thirds of this investment would be in the power sector, but renewables for heating and transport also need to grow significantly. Developing markets, with fast-growing energy demand and abundant resource potential, will require the most of the investment. Over 40 % of global renewable power investment would be expected to happen in Asia (USD 178 billion per year until 2020), followed by the European Union (EU) Europe (USD 77 billion), and North America and Caribbean (USD 55 billion).<sup>2</sup>

---

<sup>1</sup> Rethinking Energy 2015: Renewable Energy and Climate Change, IRENA, 2015

<sup>2</sup> Idem



4. The fastest increase would take place in Africa with a four-fold increase compared to 2014. To meet this need in a sustainable manner, the Africa Renewable Energy Initiative (AREI), launched at COP21, is set to achieve at least 10 GW of new and additional renewable energy generation capacity by 2020 and to realise the potential estimated by IRENA to be at least 300 GW by 2030.<sup>3</sup>

### **Financing the investment gap**

5. Most of the investment needed for deployment of renewable energy at the scale necessary to meet the ambition of Paris Agreement must come from private finance. Renewable energy needs to attract mainstream investment from institutional and other large-scale investors well beyond current levels. Institutional investors, for example, which manage more than USD 90 trillion in assets across the globe, have to date put comparatively little into renewables. To close the investment gap between current and required levels, public funding will have to play a key role.

6. Given the strong business case driven by decreasing costs of renewable energy technologies, there is great potential to attract private investment in the sector. In light of the increasingly recognized broader socio-economic benefits of renewables, governments have a strong interest to support and accelerate deployment, and the Paris outcome will further strengthen this resolve. Given the level of ambition to pursue efforts to limit the temperature increase to 1.5°C, innovation will be a critical component both from private and public actors, and this also needs to entail policy and institutional innovation.

7. There are, however, a number of key constraints that impede investment at the scale required. A precondition for financing renewables is a long-term, transparent and stable investment framework, founded on effective enabling policies and regulations. The physical infrastructure, in particular a stable grid, is also a critical prerequisite. Other constraints include:

8. Actual and perceived risks that continue to deter private investors, especially in developing countries which do not yet have a well-developed renewable energy market with the track record and the investment framework that investors are looking for. Given that virtually all capital for renewable energy projects is required upfront, risks are especially challenging for investment in this sector, and often risk premiums increase the cost of capital significantly.

9. Renewable energy assets are often too small to fit into large-scale investment strategies, entailing comparatively high due diligence costs for potential investors, especially for institutional investors.

10. The lack of familiarity at the local level with renewable energy and limited knowledge and skills among project proponents and local financial institutions often exacerbate other challenges.

11. Absorptive capacity will increasingly become a constraint as markets grow, and development of a pipeline of investment-mature projects has to be a priority.

---

<sup>3</sup> Africa 2030: Roadmap for a renewable energy future, IRENA2015



## Addressing risks and barriers to renewable energy investments

12. To accelerate the already growing investment in renewables to reach the scale required for effective climate action, collective effort by policymakers and international financial institutions can focus on five main areas:

1. **Mitigate risks to attract private investors:** Special focus is needed to increase the use of existing risk mitigation instruments to attract private investment. New instruments and structures are required to cover risks for renewable energy investments not commonly addressed at present such as off-taker risks and currency risk. Such initiatives require broad collaboration among investors, international financial institutions, national governments and others.
2. **Mobilise more investment from the capital markets:** To further advance financing of renewable energy projects, processes such as terms of reference, documentation, and payments need to be standardised. This would benefit developers, governments, and investors by reducing due diligence costs and support the aggregation of renewable energy projects into larger portfolios, making such assets more attractive to the lending community and accessible to institutional and other large-scale investors via capital markets.
3. **Engage local financial institutions in renewable energy finance:** Local financial institutions are at the forefront of providing capital, often with established local networks and knowhow, but they may lack the ability to transform loan tenors to suit the investment horizons required by renewable energy projects. Accompanied by technical assistance, on-lending structures increase the availability of financing for developers and reduce the local banks' risk.
4. **Advance renewable energy projects from initiation to full investment maturity:** Early-stage project development initiatives can support pipeline development. IRENA's Sustainable Energy Marketplace ([marketplace.irena.org](http://marketplace.irena.org)), launched at COP21 in Paris, offers a tool to bring together projects and investors, link them to project development support, enable governments to promote national investment frameworks or initiatives, and engage partner organizations and financial institutions.
5. **Create dedicated facilities to scale up investment in renewable energy:** Given the climate benefits, developing countries can avail themselves of resources from public climate finance channels put in place to support them in their climate action. This includes institutions such as the Global Environment Facility, the Climate Investment Funds and the Green Climate Fund (GCF). The Paris Agreement confirmed the importance of such support, and the cover decision reiterated the developed country commitment to mobilize USD 100 billion annually by 2020 and extended this to the period up to 2025. The Green Climate Fund with its Private Sector Facility would be well placed to fund a dedicated risk mitigation facility focused on renewable energy investment in developing countries.



### **Issues for discussion**

- Long-term market conditions and prospects for renewable energy investment, especially in emerging and developing country markets.
- Action by governments and public finance institutions to build the conditions necessary for the scale-up of renewable energy investments to levels required to mitigate climate change
- Use of public climate finance, for example through a dedicated risk mitigation facility for renewables funded by the Green Climate Fund, to accelerate renewable energy investments to reach the levels required to achieve climate objectives



10 January 2016

**Programme (circulated separately):**

<b>Moderator: Rachel Kyte, CEO of SE4All and Special Representative of the UN Secretary-General</b>	
10.00-10.10	<b>Opening Remarks</b> Adnan Z. Amin, Director-General, IRENA
10.10-10.20	<b>Introductory Remarks</b>
10.20-11.00	<b>1<sup>st</sup> round of Panel Discussion</b> - Panellists: <ul style="list-style-type: none"> <li>• Maximus Johnity Ongkili, Minister of Energy, Green Technology and Water, Malaysia (tbc)</li> <li>• Ibrahim Baylan, Minister of Environment and Energy, Sweden (tbc)</li> <li>• Melanie Nakagawa, Deputy Assistant Secretary of State, US State Department</li> <li>• Kyung-Ah Park, Managing Director and Head of Environmental Markets Group, Goldman Sachs</li> <li>• Fatih Birol, Executive Director, International Energy Agency</li> <li>• Other Panellist tbc.</li> </ul> - Intervention by Karsten Sach, Germany - Member of the GCF Board
11.00-12.00	<b>Interventions from the Floor</b>
12.00-12.20	<b>2<sup>nd</sup> round of Panel Discussion</b>
12.20-12.50	<b>Interventions from the Floor</b>
12.50-13.00	<b>Summary of the roundtable by Moderator</b>