

Ministerial Roundtable
**‘Accelerating the Global Energy Transformation:
Scaling up Renewable Energy Investment’**
Eighth session of the Assembly – 13 January 2018

1. The world is witnessing a sea-change in the allocation of capital to the energy sector. 2016 was the fifth year in a row in which the investment in new renewable energy capacity (of about USD 242 billion) exceeded the annual investment in new fossil fuel power. As investors around the world are seeking to bring renewable energy assets into their portfolios, policy-makers can support and accelerate this trend. Greater mobilisation of financial capital into renewables will accelerate the energy transformation to the pace required to meet national and global energy and climate objectives. Given the global nature of markets, a concerted international effort will make this endeavour most effective. The present roundtable is a unique opportunity to discuss both financial and policy aspects of this quest.

Financial landscape

2. Recent financial flows into the renewable sector have been characterized by a shift in the geographic scope and the type of capital providers. While the initial investments occurred mostly in Europe and the US, since 2013, China has been the main location of capital for renewables, accounting for about a third of financing extended to renewable energy in 2016. Other emerging economies, particularly India and Brazil, also had significant investments in renewables in 2016. Investment in Africa however remained very low, despite some positive developments such as successful auctions in Morocco, South Africa and Zambia.

3. Besides the geographic shift, there is also a change in the source of capital for renewables. Even though public-sector finance continues to play an important role in improving the risk-return profile of renewable energy projects, private capital is showing a growing interest. In particular, institutional investors increasingly see renewables as part of their core portfolio. This perception has changed significantly from what it was only a year ago. Off-shore wind has contributed to this shift, given that it comes in the form of large projects offering the right deal size and risk profile. 2016 witnessed record financing for offshore wind projects, especially in Europe (where 2016 investment in the sector was about USD 26 billion) but also in China, with USD 4 billion invested in offshore wind in 2016, its highest figure to date. Utility-scale solar and onshore wind have the potential to advance in this direction as well.

4. However, for the world to meet its growing energy needs and achieve climate objectives, the renewable energy sector needs to attract dramatically more capital. IRENA estimates that the rise in global mean temperature can be limited to well below 2°C in line with the objectives of the Paris Agreement on climate change, if the share of renewables in primary energy supply rises from around 15% in 2015 to around 65% in 2050 and with significant progress in energy efficiency. Such transformation of the energy sector would require a total of USD 25 trillion to be invested in renewables up to 2050, implying approximately a tripling of the current annual investment.

Policy landscape

5. An enabling policy framework is the foundation of a greater and more efficient deployment of financial capital in the renewables sector. Much progress has been made to date as there is an increased understanding and adoption of policy instruments that can be used to enable deployment of renewables. This is particularly true in the power sector, where instruments such as auctions, feed-in-tariffs, and net metering can be tailored to their specific purpose and country needs and priorities.

6. As renewable energy technologies have seen a remarkable cost decline, the nature of policy support is changing, shifting increasingly to market-based instruments and relying on reduced levels of support. The number of countries that have adopted auctions for renewable energy increased from 6 in 2005 to at least 67 by November 2016. Decreasing reliance on fiscal support tends to increase investors' confidence as it reduces the overall policy risk.

7. One of the challenges often raised by investors is the diversity of policy approaches they face internationally, which could be addressed by a greater degree of harmonisation of the policy frameworks across jurisdictions. To what extent this is feasible and desirable should be discussed by policymakers, and, if it is supported, international actions should be initiated to advance such a harmonisation without losing the flexibility to pursue domestic priorities.

Challenges

8. The great potential of large-scale investments in renewables can be unlocked through targeted actions to improve the risk-return profile of renewable energy projects. They include addressing early-stage project risks, and improving the liquidity (i.e. exit options) of renewables investments. Greater investment can also be enabled by increasing the number of capital market instruments available to mainstream investors, especially in equity, and by helping to build pipelines of large-scale investment opportunities. Standardization, aggregation and securitisation of renewable energy assets are some of the promising avenues for attracting large-scale capital providers.

9. Markets that need to see the largest investment increases are in developing countries, including most of Africa and many countries in Asia and Latin America, which have excellent renewables resources and some of the fastest growing energy demands. In these markets, in addition to actions mentioned above, enabling interventions should also focus on building capacity for local financial institutions to manage renewable energy projects and on improving the availability of local currency financing for renewables. This way, renewable energy can move to mainstream markets and also attract domestic investors, such as pension or sovereign wealth funds.

IRENA's contributions

10. To support these developments, IRENA has been engaging with governments, capital providers and industry stakeholders to examine the current policy and financial landscape in the renewable energy sector, to identify bottlenecks and highlight practical steps to address them. IRENA has also developed a range of online tools and platforms that address the lack of deal flow in renewables and connect the industry stakeholders; IRENA's Global Atlas supports resource assessment to help the identification of suitable project sites, while the Project Navigator provides comprehensive guidance for development of bankable renewable energy projects. IRENA's Sustainable Energy Marketplace connects project developers, financiers and other stakeholders on a single global platform with dedicated regional hubs to allow match-making support.

11. IRENA also reviewed and documented good practice in policy design and published a new classification of policy instruments. The Agency's analysis of successful case studies in financing renewables has highlighted the need for a focus on risk mitigation and blended finance to scale up investment. Current research efforts are focused on analysing investment practices of institutional investors, including main risks and barriers they face in the renewable energy sector. Based on its policy and finance analysis, IRENA provides recommendations and advice to policy-makers and other industry stakeholders and supports its Members in their efforts towards mobilising finance for the energy transformation.

Questions for discussion

12. Given the central role that investment mobilization plays in accelerating the energy transformation, the global nature of financial markets, and the need to facilitate the flow of significant capital to developing countries, this Ministerial Roundtable will address both policy and finance aspects of the issues summarized above. It brings together policy makers, leading experts from public and private finance institutions and industry to discuss how to make use of the opportunities that the rapidly evolving renewable energy sector offers.

- How can policymakers further strengthen policy frameworks to increase investors' ability to deploy their capital in renewables? Would greater harmonisation of policy frameworks and instruments across jurisdictions be feasible and helpful?
- What regulatory and other interventions can help increase engagement of investors in the renewable energy sector? How can institutional investors' concerns about critical risks (such as early-stage risks) and their need for greater local currency funding be addressed? How can public finance institutions support this agenda?
- What needs to happen to facilitate a large and stable deal flow of renewable energy projects, and greater cooperation between financial capital providers, policy-makers and industry developers?
- How can IRENA, in partnership with other organisations, support this agenda using its analytical and advisory activities, and its suite of project facilitation tools and platforms?