Background Note
Ministerial Plenary Meeting
Scaling up Finance for Renewables

1. As part of the global energy transitions, countries around the world are looking for ways to deploy more renewables resulting in the development of new and expansion of existing mature renewable energy markets. Renewables bring far-reaching benefits in terms of energy security, energy access, environmental protection and sustainable development. In line with the objectives of the Paris Agreement, renewables-based energy transitions are increasingly seen as a fundamental pathway to implement climate objectives while delivering jobs and economic growth.

2. Several governments and private corporations around the world have already committed to adding some 826 gigawatts of new non-hydro renewable power capacity until 2030, at a likely cost of around USD 1 trillion¹. In 2019 alone, the amount of new renewable power capacity added was one of the highest ever in history, at 176.8 gigawatts, a 7.4% increase over 2018 ².

3. The quest to accelerate and achieve the global energy transitions and thus develop and grow renewable energy markets will require continued mobilisation and effective deployment of significant investments in the sector. In the power sector alone, the global energy transformation would require investment of nearly USD 22.5 trillion in new renewable installed capacity through 2050 ³. Annual investment in renewables would hence need to almost triple from an average of just below USD 300 billion in the period of 2013-2018 to almost USD 800 billion through 2050 ⁴.

Emerging trends

4. Investment in renewable energy has continued its steady increase from 2013 levels, peaking at USD 351 billion in 2017 before decreasing to USD 322 billion in 2018. This slowdown in global investment level masks the fact that falling technology costs in reality allowed for more generation capacity installed for each dollar invested. Together with favourable investment in previous years, 2018 ended with an increase in installed renewable generation capacity, with combined solar photovoltaic (PV) and wind (onshore and offshore) capacity additions equal to 149 gigawatts (GW), 6% higher than in 2017.

Sources of Capital

5. The private sector remains the main provider of capital for renewables, accounting for 86% of investments in the sector between 2013 and 2018. Project developers provided 46% of private finance, followed by commercial financial institutions at 22%.

³ IRENA (2020), Global Renewables Outlook: Energy transformation 2050
⁴ IRENA and CPI (2020), Global Landscape of Renewable Energy Finance, 2020
6. Project-level equity was initially the most widely used financial instrument, linked to 35% of the investments in renewables in 2013-2016. Since 2017, it has been overtaken by project level conventional debt, which reached 32% in 2017-2018.

7. Public finance, representing 14% of total investments in renewables in 2013-2018, came mainly via development finance institutions. Public financing resources, although limited, can be crucial to reduce risks, overcome initial barriers, attract private investors and bring new markets to maturity.

Challenges

8. Channelling investments to the renewable energy sector, especially in developing countries, requires a steady pipeline of investor-ready and scalable projects. The challenges in achieving this are manifold, including the limited capacity of local developers to develop investor-ready projects, a weak appetite of investors and funders to assume early-stage project development risk, lack of access to resource assessments, smaller deal sizes creating barriers to scalability, and structural issues related to policies and regulations in the countries.

9. 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 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.

10. Markets that need to see the largest investment increases are in developing countries, including most of Africa and many countries in Asia, Latin America and Small Island Developing States, 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.

Objective of the session

11. 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.
Guiding questions

- 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?

- Which governmental or international 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?

- How can IRENA, in partnership with other organisations, further support this agenda using its analytical, project facilitation and advisory activities?

Associated Publications

5. Mobilising institutional capital for renewable energy (2020)