International Renewable Energy Agency

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Background Note
Ministerial Plenary Session
Renewables Investment in the context of National Energy Planning and Implementation

1. With a view to achieving the economic, social and environmental objectives set by the international community, countries around the world have pledged to invest in low-carbon energy. However, national plans and investment patterns show a stark mismatch with the pathway to meet climate and sustainable development commitments. To reverse this trend, a rapid scale-up of investments in renewable energy infrastructure is needed; especially in developing countries, where energy demand is set to grow exponentially.

2. IRENA's *Global Energy Transformation: A Roadmap to 2050* report highlights that creating a climate-safe system calls for USD 110 trillion worth of investments in the energy sector by 2050, compared to USD 95 trillion currently planned. Renewables - including power generation, end-use applications and biofuels - would account for USD 27 trillion worth of energy transformation investments by 2050.

3. A large share of new investments globally is expected to come from private finance. Comprehensive long-term energy planning, sound and stable policies as well as regulatory frameworks, and targeted financial and risk mitigation instruments, among others, are essential ingredients for creating an environment conducive to renewable energy investments.

4. *Energy Plans, including Nationally Determined Contributions (NDCs).* To achieve sustainable development and a climate-safe future, transforming energy is of the essence. The Sustainable Development Goal (SDG) 7 on energy reflects a common understanding on the imperative of universal access to affordable, reliable modern energy services, and the necessity for a simultaneous and significant increase in energy efficiency and deployment of renewables. At the same time, the Paris Agreement highlights the need to plan for the long-term and to act today to achieve the objectives in the coming decades. The *2019 Tracking SDG7: The Energy Progress Report*, a joint report by the custodian agencies of SDG7 - the International Energy Agency, the United Nations Statistics Division, IRENA, the World Bank and the World Health Organization - shows that, while some progress has been made, the world is not on track to meet the goal of sustainable energy for all by 2030 or the long-term goals of the Paris Agreement. Furthermore, in its latest review, IRENA has found that 104 countries included renewable power pledges in their NDCs while 135 have set targets in other national and sub-national energy plans. Information presented in NDCs estimates that global renewable power capacity would account for 2.9 TW in 2030. This falls short of both national plans currently in place and potential cost-effective proposals. NDC power targets leave more than 62% of the estimated renewable energy potential for 2030 untapped. With the 2020 NDC milestone fast approaching, this is a right moment to reflect on the latest national and regional strategies and

long-term plans on energy and to showcase initiatives and experiences that can accelerate change.

5. *Investment Platforms.* Creation of comprehensive, clear and stable policy and regulatory frameworks through a combination of direct, integrating and enabling policies (such as long-term RE targets, feed-in tariffs, auctions, mandates, transmission & distribution system improvements, streamlined and robust procurement and permits etc.) are essential for attracting more conducive renewable energy investments. Collaborative efforts are necessary to build an investment-ready pipeline of projects and facilitate their access to sustainable finance. In this regard, strategic, result-oriented partnerships will help declutter and streamline support to countries to scale up renewable energy investments.

6. Moving forward, Investment Forums will be a key element in the Agency's strategy to increase its impact on the ground and add significant value in enabling investments in renewable energy projects in different sub-regions. In this context, the Climate Investment Platform (CIP), recently announced on the occasion of the Climate Action Summit by IRENA, the United Nations Development Programme and Sustainable Energy for All, in cooperation with the Green Climate Fund, can offer an effective organising framework for the Forums, as it brings a structured approach to assisting countries with setting realistic targets, creating policy and regulatory frameworks conducive to investments and providing access to sustainable finance and risk mitigation instruments. Discussions will focus on how governments and international financing entities, private sector, development institutions and other key actors can enhance collaboration to advance renewable energy investments in the context of the CIP implementation and beyond.

7. *De-risking Investments.* Renewables are surrounded by a broad risk universe. Technological, financial and policy risks, among others, can take various shapes and forms. Whether real or perceived, these risks can make financiers take a binary decision not to finance a particular project, or to make them demand a high premium which leads to a higher cost of capital and also a higher cost of power for consumers. Therefore, in order to attract more private capital into the renewable energy space in affordable terms, the risk premiums need to come down. While the policy and regulatory risks can be mitigated to a large extent through strong and reliable enabling frameworks, the contractual risks should be allocated to the parties that are best able to manage them. An efficient allocation of such risks can be achieved through contractual agreements, such as Power Purchase Agreements and Implementation Agreements, which should be standardised as much as possible to lower the overall transaction costs. Even when there is a solid regulatory framework in place and the contractual risk allocation is well-balanced, there would still be residual risks. These risks can be mitigated by risk mitigation instruments; however, the uptake of such instruments in the market is lagging. Discussions will focus on diverse sets of risks that renewable energy projects face and the various policy and financial instruments and initiatives that can help de-risk renewable projects.

Objective of the session

8. Building on IRENA's engagement and initiatives at the United Nations Climate Action Summit, this Ministerial Plenary Session will address the overarching theme of renewables investment in the context of national energy planning and implementation, aiming to facilitate discussions on integrated and streamlined support for scaling up investments in the energy transformation, particularly in developing countries and emerging economies.

Guiding questions

- How can national and regional strategies and long-term plans on energy, including NDCs be amplified to accelerate the deployment of renewables?
- What actions are needed by policy-makers, development practitioners and the renewable energy community at large to enhance the effectiveness and efficiency of public finance to further catalyse renewable energy investment and provide universal access to clean, secure and affordable energy services?
- How can governments and international financing entities, private sector, development institutions and other key actors, enhance collaboration to advance renewable energy investments in the context of the CIP implementation and beyond?
- What additional obstacles hinder financiers in helping investments in renewable energy projects thrive?

Associated Publications

- Global Energy Transformation: A Roadmap to 2050 (2019)
- 2019 Tracking SDG7: The Energy Progress Report (2019)