



Scaling Investment in Renewable Energy: Roadblocks and Drivers

EXECUTIVE SUMMARY

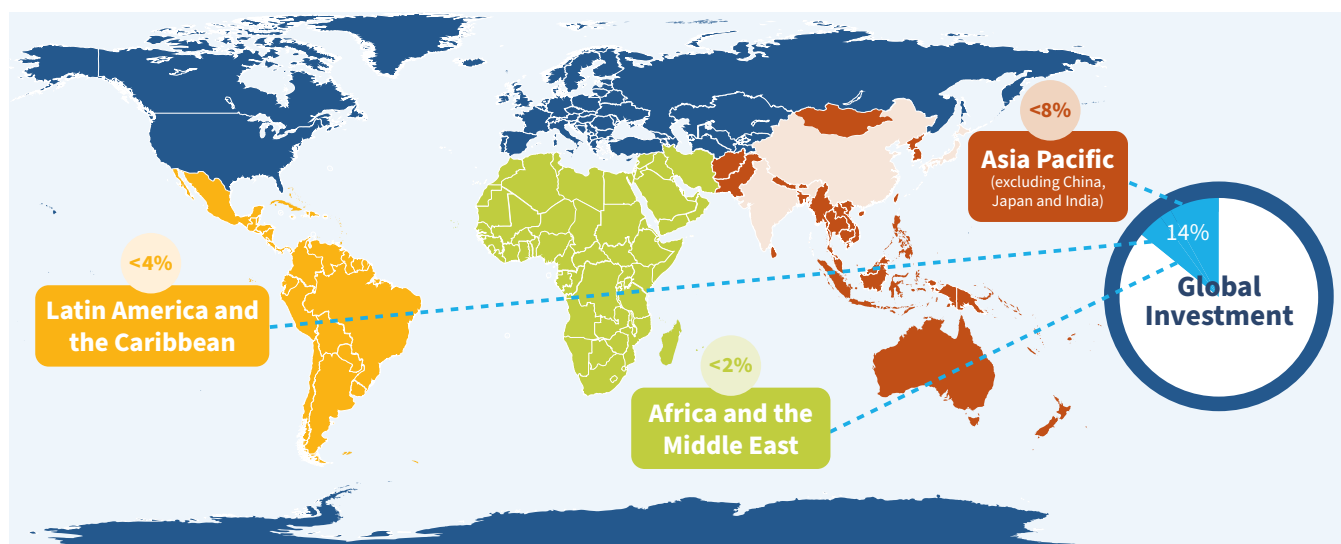
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Scaling Investment in Renewable Energy: Roadblocks and Drivers

The zero-carbon energy transition is the solution to the 2022 energy crisis and a fundamental part of the solution to the global climate crisis. Yet, there are relatively low levels of investment in renewable energy in developing countries, hindering their achievement of the Sustainable Development Goals (SDGs) and contribution to the Paris Agreement goals.

In 2021, the Asia-Pacific region (excluding China) accounted for less than 8% of investments in energy transition technologies, Latin America and the Caribbean for less than 4%, and Africa and the Middle East for less than 2%. Annual investment in zero-carbon energy in developing economies other than China has stagnated since the Paris Agreement was signed in 2015. To put the world on track to reach net-zero emissions by 2050, annual capital spending on zero-carbon energy in developing countries must increase by more than seven times, to more than USD 1 trillion, by the end of the 2020s.



There is therefore an urgent need to address the drivers of public and private finance for investment in renewable electricity generation, network infrastructure, and end-use sectors to meet the Paris Agreement and two complementary SDGs: ensuring access to affordable, reliable, sustainable, and modern energy for all (SDG 7); and taking urgent action to combat climate change and its impacts (SDG 13).

This report **sheds light on roadblocks to scaling up investments in renewables** while distilling solutions from international experience and **brings clarity to where international and national efforts should urgently be focused** to address the deterrents of investment in renewables and enable zero-carbon energy security and prosperity.



Interested in the full study? Download it for free at bit.ly/scaling-renewables

Roadblocks and Drivers

This study identifies five of the main roadblocks to investment in renewables and recommends five key drivers to impacting change in each area.

1

Access to low-cost finance



Roadblock

Developing countries lack the necessary access to low-cost capital to invest in renewables.

Being more capital-intensive than fossil fuels, renewable energy projects can be significantly less attractive at high-interest rates than at low-interest rates. The cost of nominal financing is up to seven times higher in developing countries than in Europe and the United States, with higher levels in geographies considered riskier. The perception of investment risks exacerbated by sovereign credit scores and ratings, and the lack of concessional finance, catalytic finance, and guarantees make the cost of capital much higher than in developed countries.

Driver

To lower upfront capital costs and encourage public and private finance for investment in renewables, international and national financial institutions should develop **efficient and adequate debt financing policies**; reorient international climate finance toward **long-tenor, low-interest concessional finance** and away from high-cost, short-term financing that causes liquidity crises in developing countries; and enable **guarantees and catalytic finance**.

2

Off-taker risk, grid, and storage



Roadblock

There is a lack of investment in grid and storage infrastructure and a lack of solutions addressing the off-taker risk—the risk that the power producer will not be paid by the buyer (or off-taker) for the power produced. **The off-taker risk, compounded by the currency risk and the lack of sufficient modern grid deployment, is currently considerably hampering the deployment of renewable generation.**

Driver

To reduce the off-taker risk, exacerbated by the currency risk, and ensure grid reliability, developing country governments should build, bolster, digitize, and upgrade the **transmission grid and energy storage solutions**; set up strong and healthy **power utilities**; allow **independent power producers (IPPs)**; hold transparent and efficient **bids**; introduce standardized utility–investor **power purchasing agreement (PPA) templates** and develop **corporate PPA frameworks**, and promote gradual and controlled **unbundling** of the electricity market. Developing the **local capital and financial market** and the use **currency risk guarantees** are key to reducing the currency risk.

3

Fiscal policy and institutional capacity



Roadblock

There are insufficient domestic regulatory frameworks for renewable electricity and ill-designed incentives as well as an under-developed institutional capability to develop bankable projects, competitive bidding procedures, and efficient permit and siting processes.

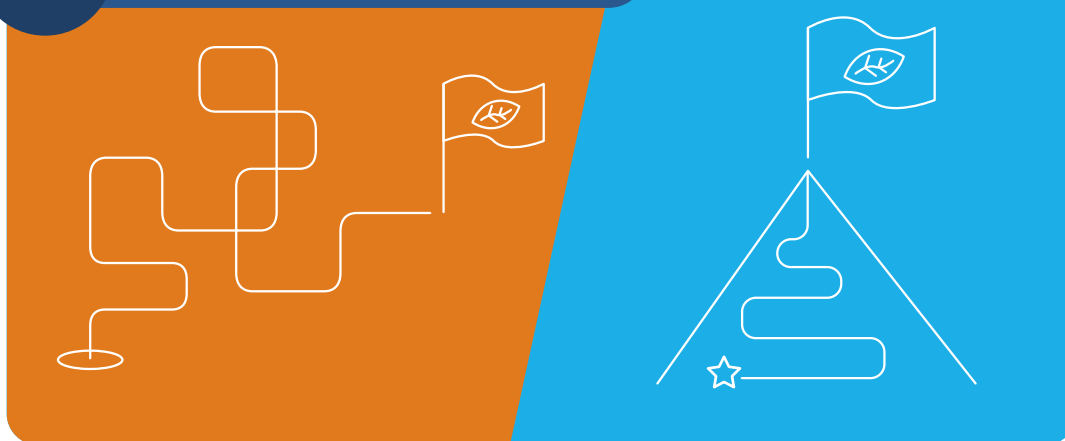


Driver

To orient and support renewables investment, developing country governments should **design fiscal policy tools**, including carbon pricing set at high levels and support schemes such as feed-in tariffs, feed-in premiums, renewable energy quotas and certificates, bidding procedures, and tax benefits. Developing country governments should **periodically review and adjust fiscal policy tools** in light of changed national and global economic realities, to ensure that the policy tools achieve their goals efficiently. In addition, developing country governments should build **expertise in building a pipeline of bankable projects**; ensure that the **permits** required are suitable to address **economic, social, and environmental concerns**, according to a **framework integrating land use in energy planning**; and introduce a “**one-stop shop**” **model**, with a single administrative body to centralize and streamline permitting processes and reduce transaction costs.

4

National energy roadmaps



Roadblock

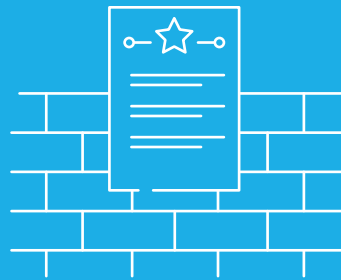
Developing countries' national energy roadmaps and master plans are either non-existent or ill-designed.

Driver

At the core of their institutional, legal, and regulatory framework, developing country governments should develop **ambitious national energy roadmaps**, outlining the **national energy sector strategy**, setting **targets and milestones** according to a back-casting approach, identifying and addressing **constraints**, defining what will be **common vs. project infrastructure**, and delineating **how infrastructure will be financed and remunerated**.

5

Institutional, legal, and regulatory frameworks



Roadblock

Existing regulatory frameworks—in law, contract, and investment treaties—**can limit developing country governments’ policy space to implement and adapt policies to promote and leverage investment in renewables.**

Driver

Developing country governments should establish **robust and stable institutional, legal and regulatory frameworks**, which are instrumental to investor confidence. Investors are attentive to legal frameworks that are fair, flexible, transparent, and predictable, and that establish a strong rule of law with effective dispute settlement mechanisms. The existence of these conditions establishes a conducive investment climate in a country while providing governments with the necessary flexibility and policy space to adapt the regulatory framework if or when circumstances change. These changes, however, must be proportionate, reasonable, non-discriminatory, and in line with due process.

Investment treaties are not an effective tool for attracting investment, and they can be extraordinarily costly for states and for the broader policy objective of encouraging renewable energy investments. Instead, developing country governments should build or strengthen **domestic legal frameworks** that promote a mutually beneficial, long-term, flexible, and durable investment climate.

The following infographic on page 8 goes deeper into the issue of investment treaties and ISDS

Are investment treaties and ISDS helping or hindering progress towards renewable energy goals?



The global transformation of the energy system will need USD 110 trillion in investments by 2050 to keep the rise in global temperatures to well below 2°C.



The private sector and private finance will play an important role in scaling renewable energy generation, transmission, and storage.



The use of investment treaties and their investor-state dispute settlement (ISDS) provisions are promoted as tools to encourage investments in renewables.



To date, there have been well over 1190 publicly-known ISDS cases, about 1/3 of them involving the energy sector.

What are investment treaties and ISDS for?

Investment treaties provide broad protections to investors from one (home) state investing in another (host) state, including recourse to ISDS based on alleged treaty violations.

Many foreign investors have relied on investment treaties to claim that public policy measures, including policies to protect the environment, undermine the profitability of their investments.

States have paid huge sums in compensation—on the order of tens of millions of dollars and occasionally billions—for sunk costs and hypothetical profits that an investment might have generated.

So do investment treaties really deliver their promised benefits?

1

Investment treaties allegedly help drive investment in renewables...

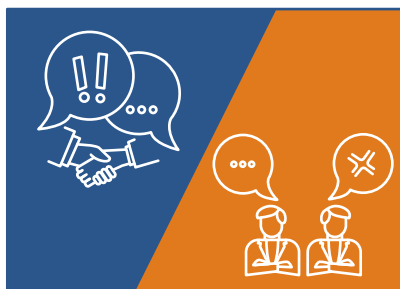


BUT

our research confirms that investment treaties do not have a discernible impact on foreign investment flows, including in renewables.

2

Investors allegedly consider ISDS an important form of dispute settlement mechanism...



BUT

our research shows that ISDS does not feature as one of the top risk mitigation tools for foreign investors in renewables.

3

IAs allegedly protect the climate by holding states accountable to their renewable energy commitments...



BUT

the majority of renewable energy “investors” relying on ISDS and winning large compensation awards are in fact speculative investors looking for windfall profits.

Conclusion

There is simply no clear evidence of a link between investment treaties and foreign investment flows, including in the renewable energy sectors.

The costs of investment treaties to governments are incredibly steep—and not just in monetary terms. The fear of an adverse ruling constrains their freedom to develop sound policy tools to attract and govern renewables investments.

States in favor of achieving renewable energy targets by 2050 should withdraw from their investment treaties. There is little to lose, and walking away is the best way to maintain the necessary policy space to implement effective and urgent climate action policies.

The necessary global transition to a net-zero energy system will entail significant and front-loaded shifts in demand, capital allocation, costs, and jobs. The phase-out and rerouting of investments in fossil fuels must be accompanied by increased investment in renewable energy. Because so much of the infrastructure and capital stock of contemporary economic systems depend on fossil fuel use, the transition will require extensive restructuring and new investment.

Even though private markets will be essential to this process, **significant changes in governmental policies are required** to support the transition. In addition, much of this investment will be cross-border in nature, as capital and technology must flow to developing economies to bridge the wide differences between regions in the rate and amount of renewable energy investment.



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