

Business at OECD (BIAC) – OECD Virtual Roundtable

Mobilising private sector finance and investments for affordable and clean energy in developing countries

26 October 2021, 9:00am-10:30am

Summary

Session 1: A conducive enabling environment for increasing private finance and investment

Annual investments in emerging and developing countries will need to reach USD 1 trillion by 2030 to meet the net zero transition (IEA 2021). This represents a 7-fold increase from 2019 levels of approximately USD 150 billion. A substantive challenge given fiscal constraints in these countries and at the same time an opportunity for foreign investors to expand their green portfolios into these fast developing economies. Ensuring a supportive enabling environment will be central to facilitating private finance and investment for clean energy and the OECD's Clean Energy Finance and Investment Mobilisation Programme (CEFIM) is working with a number of emerging economies to help strengthen their policy frameworks.

The [Clean Energy Finance and Investment Policy Review of Indonesia](#), released earlier this year highlighted that investment in renewable energy has so far fallen short of the level Indonesia needs to reach its clean energy targets, due in part to regulatory bottlenecks. To meet investment needs and attract foreign capital, Indonesia will need to strengthen domestic enabling environments to be able to mobilise multiple folds more private capital. This includes expanding energy efficiency regulation, streamlining and standardising power purchase agreements to ensure transparency, support for corporate and sub-regional green bonds and the alignment of sustainable finance definitions across sectors and economic plans.

In cooperation with:



Development funds can be used to support blended finance solutions that are designed to increase the mobilisation of commercial finance. Particular focus areas include technical assistance for project preparation to improve the quality of project feasibility studies and project structuring that can facilitate the participation of private investors. De-risking instruments can also be applied to address a variety of clean energy project risks including loan guarantees, payment or revenue guarantees and political risk insurance among other transaction enablers such as convertible grants and co-investments. While some of these instruments are available for clean energy projects in certain countries, many remain absent or are still under development.

In Viet Nam, power purchase agreements (PPAs) need to better balance risk allocation with project developers and domestic and foreign banks highlighted concerns around PPA termination and curtailment that raised the financing costs of projects. Greater system flexibility for renewable integration that requires major changes to power system operations over a short period was another area requiring additional technical support and a priority for development cooperation. Access to long-term capital is a major obstacle for domestic banks across many emerging economies. The development of local capital markets represents an opportunity to increase the availability of long-term capital and increase participation of domestic savers. This could also lead to lower financing costs by addressing currency and country risks.

Session 2: Case studies and insights on how the private sector can finance and invest in SDG 7

Ministry of National Development Planning of Indonesia (BAPPENAS)

The **Directorate of Energy, Mineral, and Mining Resources, Ministry of National Development Planning of the Republic of Indonesia** presented some innovative tools and examples to overcome financing and investment barriers in clean and affordable energies development. As such, the Republic of Indonesia has developed a SDGs Financing Hub to coordinate, facilitate and synergize financing options for achieving the SDGs, helping to mainstream SDGs into national and regional development plans. Additionally, public-private partnerships and blended finance were highlighted as the two main types of funding sources used to maximize the contribution from the private sector. On this point, blended finance was stressed as a strategic source of funding for SDGs, attracting commercial finance to Indonesia's projects and contributing to sustainable development while providing financial returns. An example of the blended finance of SDG7 is on the development and revitalization of micro-hydropower plants in Jambi. In particular, renewable energy projects struggle to reach financial closure due to technical and commercial aspects that affect their bankability. Thus, the Renewable Energy Projects (RE-Pro) II was mentioned as part of the continuing effort to overcome various constraints in renewable energy development, containing projects from independent power producers, including power purchase agreements with Indonesian state-owned utilities.

Copenhagen Infrastructure Partners (CIP)

Copenhagen Infrastructure Partners (CIP) shared some key considerations from a global fund manager's perspective. As such, ESG was highlighted as a fundamental and defining issue for the fund's ability to retain investor trust. By understanding the importance of ESG to the fund's investors, mostly representing pension and insurance funds, it is evident that if these standards cannot be ensured, neither will the ability to deliver future projects in the long run. Moreover, CIP's investors are expecting returns to fund future pensions, which need to be delivered within a certain timeframe and granular conditions. Further limitations that commercial investment funds face when financing projects in developing economies include: restrictions to foreign ownership (in some cases only minority ownership is permitted); securing financing in local currency;

existence of a market that promotes a certain level of liquidity; and local content requirements which can drive up the costs of projects and place pressure on supply chains.

Fundamentally, as a commercial investor, CIP's role is to be mindful of delivering returns to their investors, while also working within a framework presented by each individual country. Commercial investors are looking for solutions that allocate risk where it is most appropriate to manage; and market failures and uncertainty in local regulation (FX, convertibility, national credit risks) can be difficult to address with the instruments available. In this regard, credit support is often unstable and does not exist at the scale needed. Managing project risks in a replicable and transparent manner can thus be challenging in emerging markets. Nonetheless, opportunities to build projects in the long-term do exist, and with the right instruments and regulatory frameworks, projects can succeed.

Mitsubishi UFJ Financial Group (MUFG)

As a bank, the **Mitsubishi UFJ Financial Group (MUFG)** operates on the debt side of financing clean energy infrastructure in developing countries and emerging markets. Deploying Blended Finance mechanisms, they are able to mobilise institutional investors, e.g. pension funds and insurance companies, as part of the arrangement of debt financing to a solar fields project in a lower-middle-income country, which is sub-investment grade rated with single B. The transaction under development includes a post-construction financing of USD 500 million that has a tenure out to the full term of the PPA. 50% of the loan amount will be provided by DFIs, and the other half stems from long-dated green project bonds to be purchased by institutional investors. The Blended Finance structure allows for the unlocking of institutional investor liquidity through a strong credit rating. Fundamentally, credit enhancement by MDBs covers (backs-up) financial obligations of the government through the life of the project. At the same time, the priority for credit agencies in granting a strong rating is continuity of bond payments to institutional cash flow, even in the event of project stress. Thus MUFG's structuring work focuses on ensuring that, notwithstanding time required to resolve potential disputes that may arise over the life of the project, uninterrupted bond holders payments are obtained through the Blended Finance structure.

Japan International Cooperation Agency (JICA)

The Japan International Cooperation Agency (JICA) coordinates Japan's overseas development assistance (ODA), supports public and private investment, offers technical assistance and provides grant aid in 150 developing countries and regions around the world. The Tsetsii Wind Farm in Mongolia provides a pertinent example for how JICA, in this case together with the European Bank for Reconstruction and Development (EBRD), is supporting project finance for capital intensive clean energy investments in a predominantly coal dependent country. The project was further complemented by technical assistance directed at distribution managers and grid operators to build capacity in integrating variable renewables to the power system, as well as outreach to local communities to encourage the use of cleaner domestic fuel use, thereby further underpinning climate transition and emissions reduction efforts. JICA is also working with local governments to foster enabling environments for existing waste-to-energy technology. In the context of the Legok Nangka Waste Treatment Project in Indonesia, JICA is supporting the design of a public private partnership (PPP) scheme for the development and effective management of an environmentally-friendly, modern waste treatment facility. This also includes defining approaches to ensure inflow of appropriate waste and conducive tipping fees.

Next steps

Taking the joint collaboration between *Business at OECD* (BIAC) and the OECD on the one side, as well as OECD-internal bodies CEFIM, the Community of Practice on Private Finance for Sustainable Development (CoP-PF4SD) and the DAC Network on Environment and Development Co—operation (ENVIRONET) on the other side forward, future Roundtables with regional focuses such as Latin America or Africa, as well as thematic focuses such as mobilising commercial investment for nascent and first of a kind (FOAK) capital intensive technologies such as green hydrogen, CCUS, energy storage and offshore wind, may be explored.

In addition, the OECD is planning a project on “Taking forward the OECD Blended Finance Guidance and supporting catalytic action through market development”, which takes a two-pillar approach to scale mobilisation of private finance for the climate transition in developing countries. This includes (1) developing a targeted, practical tool for development actors aiming to set up blended finance programmes in climate change mitigation, adaptation and resilience. The subsectors could include e.g. clean energy (i.e. renewable energy and energy efficiency), water-related investments (that contribute to mitigation, adaptation and/or resilience. Green technology promotion and transfer could also feature as a focal area in this pillar. Moreover, the project will (2) analyse key barriers and bottlenecks to support enabling environments for finance and investment in developing countries, and provide an overview of action items to help accelerate climate investment and contribute to aligning all financial flows with adaptation, mitigation and resilience goals. With its objective to contribute to strengthening mobilisation and catalysation of finance and investment for climate action in developing countries, the project can support the USD 100 billion goal under the UN Framework Convention on Climate Change (UNFCCC).

We encourage you to get in touch with us should you wish to engage with us on the next steps as outlined above. Please see contact details below.

Contact

Get in touch with the

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