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Emerging Markets Need Projects That Attract Private Investors to Meet Climate Goals

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Climate finance is key to turning commitments to climate targets into reality in a way that enables a just transition to net zero and recognises the unique needs of emerging markets and developing countries (EMDCs). But there is a substantial shortfall in the investment needed to fund this transition, and what is available is often not aligned to deliver to the sectors and countries that need it most.

Still, unlocking climate resilience will require more than a focus on expanding investment and redirecting it to the areas most in need. Indeed, climate finance is less effective without viable projects that are ready for investment. The development of a reliable pipeline of climate-responsive infrastructure projects – those involving renewable energy, natural resources, utilities or waste management – is the forgotten element of the energy transition that has the potential to bottleneck financial action.

At TBI, we've been advocating an inclusive transition for years and illuminating pathways to net zero that centre people and fairness while leveraging the power of technology, markets and communities. As the world turns its attention to COP28, TBI analysis of data from the World Bank's Private Participation in Infrastructure (PPI) database and Prequin has revealed an alarming shortage of climate-responsive projects. This shortage limits opportunities for private investors – specifically major private-market participants from private equity, institutional investment and project-level development – and threatens global progress towards net-zero targets.

Bold action is needed immediately, especially in EMDCs,[1] where our analysis shows the number of climate-responsive projects funded by private sources of capital has been decreasing by approximately 10 per cent per year since 2015. Climate-finance targets require these projects to increase by approximately 30 per cent annually by 2030.

FIGURE 1

The number of climate-responsive projects funded by private capital is declining when it needs to increase

-10%

Annual average decrease in EMDC climate-responsive projects since 2015

+30%

Annual average increase required in EMDC climate-responsive project pipeline by 2030 to meet climate-finance targets

Source: TBI

2030 TARGET FOR CLIMATE FINANCE

To honour the Paris Agreement by 2030 and limit the devastating impact of global temperature rise, TBI estimates the required global annual climate spend from the public sector, international financial institutions (IFIs) and private sources combined ranges from $4.5 to $6.9 trillion, which is seven to 11 times larger than the current annual spend of $630 billion. But honouring climate goals will require targeted funding in countries that face a disproportionate climate-change burden, including EMDCs, rather than an even distribution of finances across the globe. To ensure these countries are able to keep pace with global efforts, EMDCs should receive $2.4 trillion annually, equivalent to 30 to 50 per cent of total global spending.

According to TBI's analysis of current sources of finance, approximately $780 billion of the $2.4 trillion annual funding that should be directed to EMDCs must be supplied by international sources of private finance, in addition to funding from public sources and IFIs. At present, EMDCs receive only $85 billion to $114 billion from international sources of private investment. To close

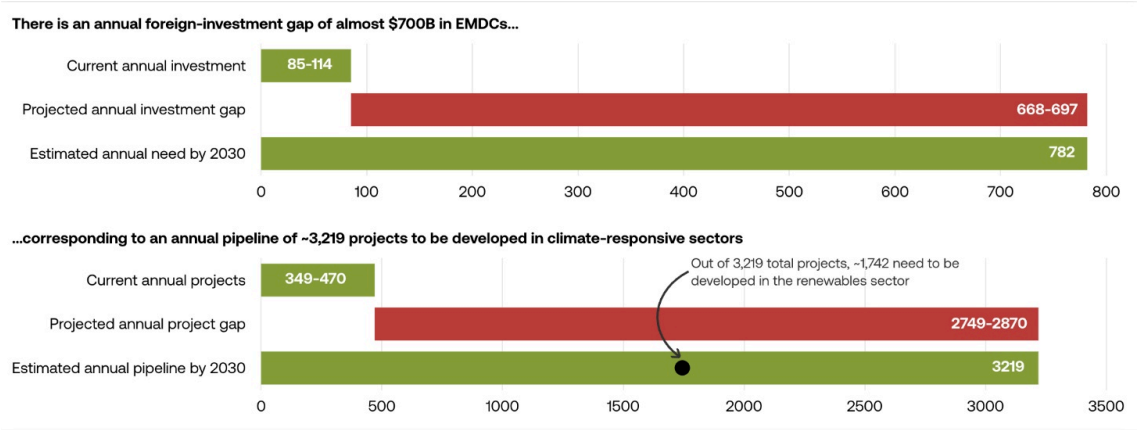
the gap and provide secure allocation for new investments, an increase of seven to nine times the current pipeline of climate-responsive projects is required. While this degree of expansion will be challenging, securing private funding is not without its advantages – it can be more flexible and is available with fewer limitations such as borrowing limits or constraints on funding assignment.

FOCUS ON RENEWABLES IN EMDCS FOR A JUST ENERGY TRANSITION

Our analysis indicates that approximately 3,200 annual climate-responsive projects would be needed in EMDCs to deploy approximately $780 billion in foreign investment. To meet energy-transition requirements, more than half of these, or approximately 1,740 projects, should focus on renewable energy. However, despite representing more than half of the project pipeline, renewable-energy projects would not command half of the available foreign investment. Because the average renewable-energy project is smaller and less costly than the average project in other climate-responsive sectors, these projects would require only 32 per cent of foreign investments available to EMDC projects.

FIGURE 2

There is still a large shortfall in climate finance and project development



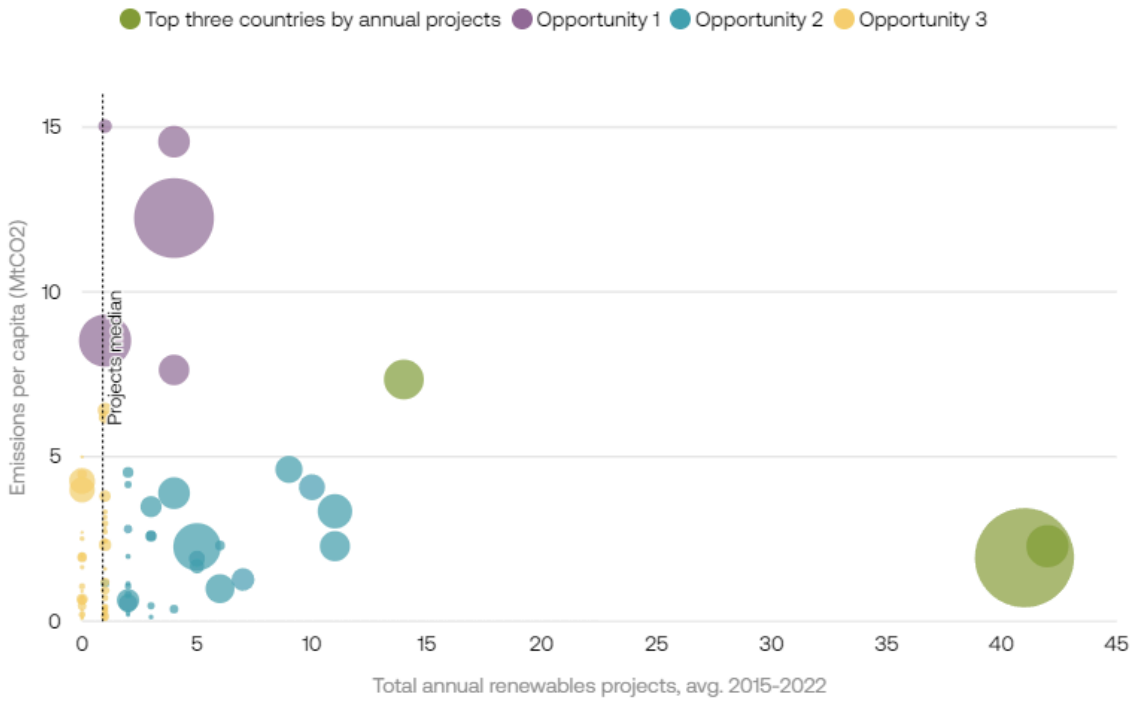
Source: WB PPI database, World Bank indicators, Preqin database, TBI analysis

Renewables are increasingly being deployed in EMDCs, especially in solar- and wind-energy generation where there are established investment precedents, replicable regulatory frameworks and continued policy momentum. Of all renewable-energy projects, solar plants comprise approximately 50 per cent and wind plants comprise approximately 35 per cent. Still, there is a shortfall of projects across EMDCs, requiring a seven-times increase in annual realised projects to meet the estimated target.

The primary issue is that the EMDC renewables market is not on strong footing, with the size of pipelines contracting over time and concentrating in Brazil, India and South Africa, which are home to almost half of all EMDC renewable-energy projects that receive investment from the private sector. In the past eight years, investment in these projects has dropped at an average annual rate of 11 per cent, with project pipelines following the same trend. In contrast, Organisation for Economic Co-operation and Development (OECD) countries saw their renewable-energy investments increase at an average annual rate of 4 per cent.

FIGURE 3

Increasing the number of renewable-energy projects in EMDCs can accelerate progress to net zero



Opportunity 1: High total emissions and emissions per capita, but few renewables projects
Opportunity 2: High total emissions, but few renewables projects
Opportunity 3: Low national emissions but significant emissions collectively; very few renewables projects

Size of the bubbles represents gross 2021 emissions (MtCO2)
*Brazil and Argentina are the only two big countries with positive CAGR2015-2022, driven exclusively by private financing
**Likely excluded on political grounds

Source: World Bank PPI database, World Bank indicators, Stern, Preqin database, TBI analysis

This snapshot of renewable-energy projects in development in EMDCs indicates sizeable opportunities to make strides towards meeting net-zero targets if project pipelines can be activated in critical markets. Indeed, in most EMDCs clean energy is not a primary driver of economic growth, with disproportionate CO2-equivalent emissions released compared to renewable-energy projects developed. This creates room for foreign-investment flows to support a just energy transition through a strong project pipeline in renewable

energy.

In particular, Africa is in urgent need of renewable-energy-project development. While the continent's emissions are still negligible, its extremely low activity in renewable generation implies that it could easily become the next victim of the system unless its nations join the transition pathway.

CONCLUSION

EMDCs have an urgent need to build investible project pipelines that attract private investments, as well as public-private partnership investments, in climate-related sectors. They will need approximately 3,200 new investible projects welcoming private foreign investment in order to meet climate goals. Bold action is needed today to reverse the current erosion trend and achieve the Paris Agreement goals together.

Endnotes

1 The list of countries in the scope of this analysis includes large economies like India and Braz il as well as smaller economies. It excludes China. A full list of countries analysed is available upon request.

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