

# How sovereign wealth funds can help in the fight against climate change

## Written by

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[Finance](#)

## Key topics

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## **The demand for clean energy is rapidly growing but investment is falling short. Sovereign wealth funds can help solve this, but there are barriers**

Responsible for managing the foreign assets of national states, the world's sovereign wealth funds (SWFs) hold an [estimated \\$2-3 trillion](#) - and, more than ever before, they believe climate action is "[part of their mandate](#)".

At a time when there is a massive shortfall between the money needed to successfully battle the effects of climate change and the financing available, it is crucial that those with the power to direct the investment of these funds make the right choices.

According to recent estimates, \$180 billion of annual investment is required in Southeast Asia by 2030 to maintain a trajectory compatible with the region's climate goals. Between 2016 and 2020, just \$30 billion flowed into the region's clean energy industry.

Many ASEAN countries, including Vietnam, Thailand, Malaysia, Indonesia and Singapore, have **committed to either net-zero emissions or carbon neutrality by 2050**. At the same time, governments have increased the role of renewable power in national energy development plans.

But in recent years, the region's high economic and demographic growth, coupled with rapid urbanisation and industrialisation have led to a continuing rise in its energy demand – at the moment, this is mostly met by fossil fuels. Meeting this increasing energy demand securely, affordably – and sustainably – calls for a rapid scale-up of investment in clean energy in the region.

Here, we look at how to encourage SWF investment in clean energy projects, particularly in Southeast Asia.

## **1. Greater transparency**

Our [new report](#) from the [Centre for Climate Finance & Investment](#) and the International Energy Agency calls for greater transparency around the financial performance of renewables projects, **stronger regulatory frameworks**, and **risk management tools to boost clean energy investment** in the ASEAN region.

This report, cited by British International Investment in [the announcement](#) of their first investment in Southeast Asia under their current 2022–26 investment strategy, reveals a lack of data related to clean energy in the region presents a barrier for global investors to invest in ASEAN renewables. We need greater transparency around the cost of capital in emerging markets in general and the ASEAN region in particular.

The [Cost of Capital Observatory](#), launched by the International Energy Agency in partnership with the World Economic Forum, Imperial College London and ETH Zürich, aims to address this need. By providing reliable data and improving transparency around clean energy investment in emerging economies, the Observatory will help address data obstacles experienced by investors.

## **2. An enhanced role for development finance institutions and blended finance**

In Southeast Asia, **renewable investments face financing constraints and bankability issues**, which are barriers to mobilising capital from commercial and financial providers. By providing catalytic capital from public sources to increase private sector investments, blended finance transactions can play a significant role in the region. In particular, the increased provision of blended finance from development finance institutions could ensure projects meet high climate and compliance standards and provide leverage in setting up viable contractual and financing frameworks for renewable energy projects.

The World Bank has been working with governments in the ASEAN region to develop carbon pricing mechanisms that could help put renewable energy on a level playing field with other fossil fuel-based generation technologies. Initiatives such as the [Climate Action Data Trust](#) illustrate the type of solutions that can provide technical assistance in building a regional voluntary carbon market.

## **3. Greater access to risk-hedging tools to address credit and currency risks for private investors**

In many instances, private investors face elevated credit and currency risks in Southeast Asia. It is challenging to protect investors from foreign currency fluctuations, especially over the long tenures typically required for clean energy infrastructure projects.

## **4. Supply chain issues must be resolved**

Despite falling costs around the world for renewable technologies, **solar and wind project costs remain elevated in Southeast Asia** due to lack of deployment scale and underdevelopment of supply chains. Competitive auctions are a transparent way of determining prices for renewable power purchase agreements.

While auction prices for solar PV and wind rose in 2022 by 10-25 per cent due to higher equipment costs and supply chain constraints, such remuneration mechanisms remain major drivers of private investment, especially in markets with more challenging macro risk environments.

## **5. Sovereign wealth funds should actively look for unique ideas and explore their potential impact**

In a [recent survey](#) by the International Forum of Sovereign Wealth Funds, **91 per cent of respondents** said that addressing climate change was consistent with their mandate, while 74 per cent said it was actively part of their mandate. The survey also indicated that 60 per cent of SWFs believe that taking climate change into account will improve their long-term returns.

Sovereign wealth funds claim to be taking action to combat climate change by adopting a range of tools to measure, mitigate and manage their impact. Given this commitment, and the vast amounts of wealth that SWFs manage, now is the time for them to address climate investments.

**ASEAN countries present a significant opportunity for investors** willing to contribute to sustainable economic growth – and sovereign wealth funds should be a part of this. There is no doubt that the rapidly growing demand for clean energy, the gradual improvements in policies and increasingly favourable economics will attract private investors' interest, and the kind of private capital needed to achieve the region's ambitions. However, barriers to foreign investment must be addressed.

*This article draws on findings from "[ASEAN Renewables: Opportunities and Challenges](#)" by Mili Fomicov (Imperial College London), Michael Waldron (Consultant), Matt Jenkins (Imperial College London) and Tanguy de Bienassis (International Energy Agency), as well as a panel discussion held at the inaugural [Global Wealth Conference](#) in London, during which Michael Wilkins (Imperial College London) discussed the report.*

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## About Milica Fomicov

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Mili Fomicov is a Lecturer and leads clean energy research at the Centre for Climate Finance and Investment (CCFI), Imperial College London. She is also a Co-Director for the Singapore Green Finance Climate Academy and a consultant for Oxford Sustainable Finance Group, University of Oxford, where she is working on Thailand's net zero transition plans.

Read [Milica's Imperial Profile](#) for more information and publications.

## About Michael Wilkins

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Michael is Executive Director and Professor of Practice at the Centre For Climate Finance And Investment at the Business School. Michael is a senior sustainable finance professional with 30 years experience in sustainable finance, corporate and infrastructure credit analysis, project finance, structured finance and carbon markets.

He is an executive team member of the UK Centre for the Greening of Finance & Investment (CGFI) and the Coalition for Climate Resilient Investment (CCRI).