Statement by Rebeca Grynspan, Secretary-General of UNCTAD

World Investment Forum 2023: High-level round table on investment in the energy transition

Abu Dhabi, United Arab Emirates
17 October 2023

Excellencies,

Ladies and gentlemen,

It is my pleasure to welcome you to this high-level roundtable, which will discuss the role that international investment can play in supporting the energy transition. I am extremely proud to be surrounded by such important and visionary people, from both the private sector, the multilateral world, and academia.

This session is a key part of the climate finance and investment track of the WIF, which will generate insights, policy ideas and outcomes that can feed into discussions at COP28. As you know COP28 is almost literally around the corner, less than six weeks, and one hundred and fifty kilometers from here.

Time is limited, and our roundtable participants have much to say, so I will be very short. Allow me just to give you some facts for the discussion.

I will start from the most obvious. The energy transition will require massive amounts of investment. To limit global warming to 1.5° Celsius over the pre-industrial norm, the world needs about 1.5 times today's global GDP in investment between now and 2050.

The investment needs are much higher in developing than in developed economies, relative to their existing asset bases. In developing countries, energy investment is needed not only for the transition, but also to ensure access to sustainable and affordable energy for all. As an example, installed capacity in renewable energy needs to increase by a factor of 2.5 in the most advanced economies, and by a factor closer to 25 in LDCs.

As we said yesterday there is some good news. International investment in the renewable energy sector has nearly tripled since the adoption of the SDGs and the Paris Agreement in 2015, and the sustainable investment market (green bonds, ESG, and so on) is now worth over 6 trillion dollars. However, this growth has mostly taken place in developed countries.

FDI, or foreign direct investment, is very important for the energy transition. In the renewable energy sector, international project finance accounts for 55 per cent of total project finance values. The share in developing countries is even higher; it is more than 75 per cent in the LDCs, who cannot possibly afford the transition alone.

But Africa receives only 3.5% of total FDI in the world. And much less if we narrow it to renewable energies. To date, 31 developing countries, including 11 LDCs, have not yet registered a single utility-sized international investment project in renewables or other energy transition sectors since the Paris Agreement was approved in 2015.

We know that many of these countries struggle to attract significant amounts of FDI beyond the extractives sector.

Now Africa has a great opportunity here not only for his energy transition but for the energy transition of the rest of the world as we clearly state in our Economic Development African Report 2023. Africa is by right the start of many of the renewable energy supply chains of the future. Africa is home to 48% of the world's reserves of cobalt and manganese, 80% of the world's reserves of phosphate rock, and 92% of the world's reserves of platinumgroup metals. All these critical minerals are key in areas such as electric cars, lithium-batteries and hydrogen batteries.

So here the continent has an opportunity to apply the lessons of the 20th century and enrich itself through its commodities without becoming commodity dependent. This means diversification. But the call for diversification is a call for innovation. And Africa is at the perfect time for policy – it is not too soon for investors not to notice, nor too late for Africa to set the right regulations on end product exports.

Now, in our World Investment Report this year we showed that the cost of capital is also a key factor in energy transition investment, and productive investment diversification in the energy transition because of the high upfront investment cost of renewable energy installations. And in the productive diversification side because of the perception of risk as we said yesterday.

The high cost of capital in developing countries, and especially countries in debt distress, is therefore a major obstacle. We know that Africa has paid last year between 4 to 8 times more in interest rates than the developed countries. These debts are literally crowding out energy transition investments.

International investors can often access cheaper finance, lowering the cost of capital for projects. In developing countries, on average, bringing in international investors lowers the spread on debt finance by 8 per cent; adding in multilateral development banks (MDBs) lowers it further. Combining international, MDB and government stakes in public- private partnerships can reduce the spread by 40 per cent. This shows the importance of making these partnerships work and it lends support to the shift in MDB lending priorities towards sustainable energy and infrastructure assets. Together with the insurance/guarantees/and mix funds instruments that were talked about yesterday.

Luckily, we have people from all sides of the trade in this roundtable. And we will hear from them about ways to develop new solutions.

Let me just close with one quick thought.

I really think that we need more out-of-the-box thinking, especially in the area of sustainable finance.

We have a real opportunity here. At this moment, in another room in this conference center, the climate finance and investment negotiators for COP28 have their own meetings, and through our partnership with the COP28 team, UNFCCC and IRENA, the insights from this session and the other climate finance and investment sessions of the Forum will be captured and feed into the report going to COP28.

So, there is much at stake, and much to talk about. Let's begin. I yield the floor.

Thank you.