JADE ROAD

ESG Insights

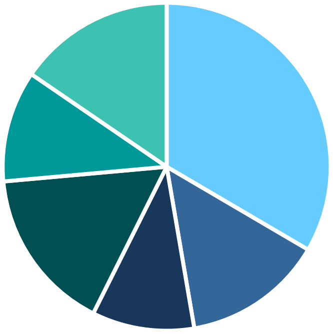
October Focus: Renewable Energy
This Week, W43: Southeast Asia

- *Southeast Asia has increased investment in the renewables sector to accelerate post-pandemic economic recovery*
- *ASEAN has announced an ambitious five-year plan to source 23% of its primary energy supply from renewables*
- *The investment in clean energy offers a viable option to support expansion and achieve wider socio-economic and environmental benefits*

OVERVIEW

Since before the pandemic, thanks to lower production costs and in an effort to reduce carbon emissions, Southeast Asian governments' investment in renewable energy infrastructure has been strong. Post-pandemic, the Association of Southeast Asian Nations (ASEAN) announced an ambitious five-year plan to source 23% of its primary energy supply from renewables and to increase its installed clean energy capacity to 35% by 2025.

Installed Renewable Energy Capacity Share (%) by Region, Southeast Asia



A massive 84% of the total installed clean energy capacity in Southeast Asia is based in Vietnam, Thailand, the Philippines, Malaysia and Indonesia.

OUTLOOK

The demand for renewable energy in Southeast Asian countries is being driven by a significant increase in energy consumption due to a combination of factors, such as growing populations, rising incomes and rapid rates of urbanisation. Therefore, ensuring the security of fuel supply for long-term energy infrastructure is one of the region's main priorities. According to the International Renewable Energy Agency (IRENA), clean energy deployment has generated substantial socio-economic and environmental benefits, such as increasing the region's GDP, creating new jobs and providing growth opportunities for local manufacturing industries. From 2006 to 2016, US$27 billion was invested in the renewable energy sector in the six major Southeast Asian markets of Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam. The largest share of that investment was in Thailand, with over US$10 billion deployed. The source that obtained the highest investment in the region was biomass (32%), followed by solar photovoltaics and geothermal energy.

OPPORTUNITY

The capital mix and the range of financing institutions involved have become more diverse as the industry has grown. To date, state-owned enterprises and public financial institutions have provided the bulk of funding for the renewables sector. However, sustained and balanced access to international sources of private finance, complemented by public sources, would better help Southeast Asia fund its energy goals, especially in countries with limited fiscal capacity. Around US$6 billion was invested cumulatively in renewables between 2009 and 2016 by development banks. However, to achieve the region's ambitious clean energy targets, annual investment needs to be significantly scaled up to an estimated US$27 billion, entailing a considerable increase in private sector investment. There is now an opportunity for investors to engage with local governments to encourage financial decisions and policy-making that are better aligned with sustainability goals, while also providing the potential for commercial rates of return on investment.