Investing in green energy in emerging countries can pay off in every way

Pension funds and other institutional investors increasingly want to make an ESG impact. Preferably with balanced risk, transparency and good returns. Investing in renewable energy in emerging countries offers excellent opportunities for this. At first glance, this seems a somewhat more exotic form of investment, but experience shows that with a wise choice of countries and projects, the actual risk profile of the investment can be limited.

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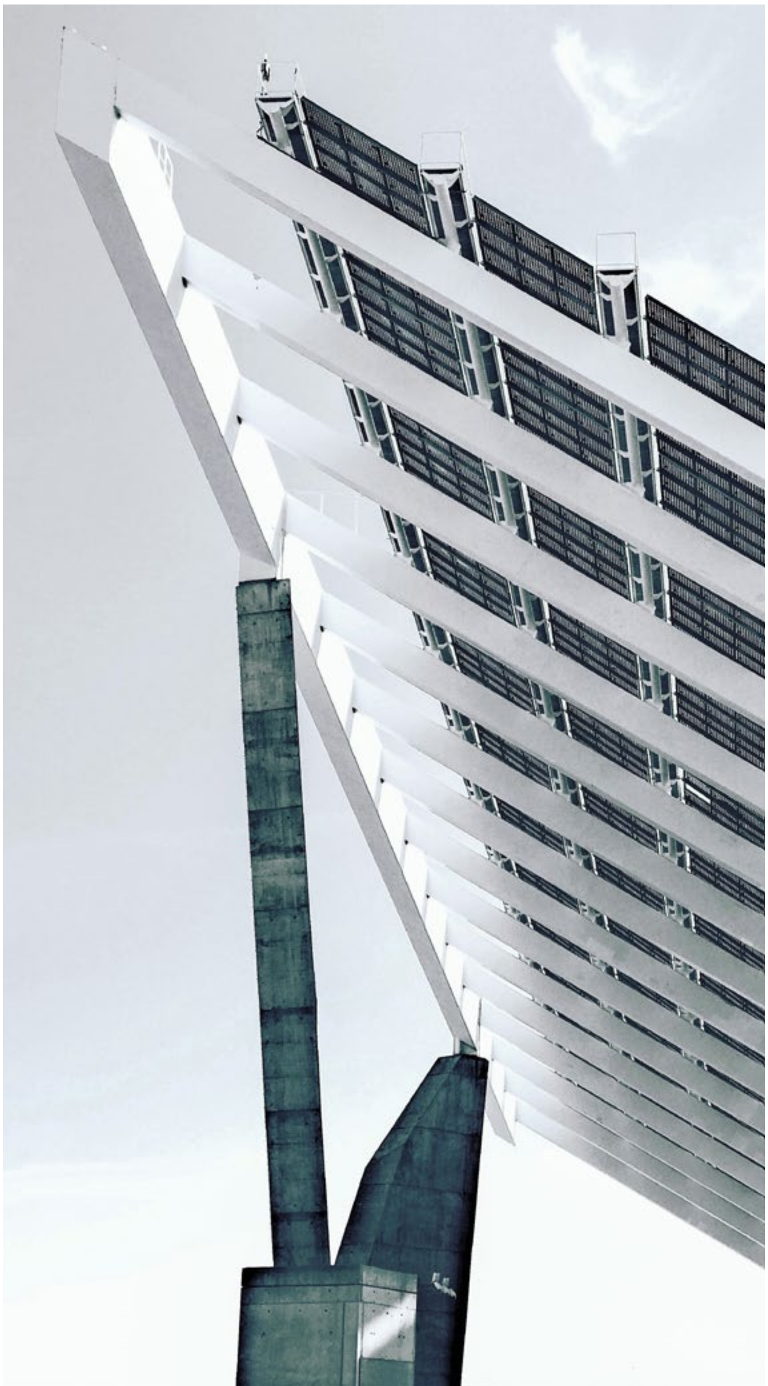
Renewable energy generation in emerging countries is of great importance in combating global climate change. Together, these countries represent the fastest growing energy consumers. For example, non-OECD countries were already consuming more than 60% of global energy consumption in 2019, up from less than 40% in 1971. This is due to the relatively rapid increase in population and rise in per capita energy consumption, among other factors. Whereas in Europe the increase in energy consumption will level off in the coming decades, in Africa, Asia and, to a slightly lesser extent, Latin America, it is rising sharply.



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Destabilizing effects of warming

Meeting this growing need with fossil fuels undeniably plays out dramatically for global climate change. Whereas the Paris Agreement aims for a maximum increase in average temperature of 1.5 °C, the projected global increase in 2100 is between 2.5 and 3.5 °C. This has destabilizing consequences such as structural profound changes in climate, with globally economically disruptive consequences that will particularly affect already vulnerable emerging markets, resulting in increased socioeconomic inequality, political instability and large-scale migratory movements.

Robust private impact vehicles

Intensifying renewable energy generation in emerging countries is therefore a structural solution to related complex environmental, economic and social problems. At the same time, there is a growing need for investors to use impact investing to green the investment approach, mostly from intrinsic and extrinsic drive combined with risk management perspective. Until recently, opportunities seemed limited to invest in robust private impact vehicles and projects that fit within strategic policies. While this market is still developing, numerous projects have now been realized that demonstrate that reducing or preventing fossil energy generation in emerging countries is also reliable from a risk-return perspective.

Reliable solutions for investing with impact

For example, Cardano has partnered with Climate Fund Managers (CFM) to help investors fill their impact buckets with reliable solutions that enable the emergence and delivery of renewable energy plants. CFM specializes in leveraging private and public investments in response to the climate crisis. This organization has a global network and has now gained extensive experience in providing equity to local large-scale renewable energy projects such as wind farms, solar farms and power generation from running water in Africa and Asia. These projects have been developed with full equity from state-backed national and international funds and development banks such as FMO, the European Investment Bank, the Norwegian sovereign wealth fund, the World Bank and the Green Climate Fund.

Investing with significantly less risk

The major benefit of this is that it significantly lowers the risk for investors looking to deploy their impact bucket in a robust manner. The government-backed institutions deliberately take most of the risk in setting up the green energy projects. This allows private investors such as pension funds to lend through the fund with significantly less risk, mostly only in the operating phase of the projects. The initial involvement of state-backed banks and funds also offers practical advantages in that they are and remain involved in the projects. For example, the realization of a wind farm in Vietnam was restarted after EU mediation when the turbines for this were halted in ships during the Covid era.

Positive socioeconomic impacts

The impact these investments are making goes far beyond structurally greening power generation for local use. The renewable energy generation facilities are set up and operated in cooperation with the local community, where aspects such as good working conditions, equal opportunities for women and decent pay are a matter of course. Innovative engineering and technological knowledge are shared with the local community. Combined with the realized sustainable infrastructure, this has numerous positive socio-economic effects, in addition to climatic and ecological gains.

Customized ESG solutions for investors

CFM keeps pulse on the matter locally at the projects by permanently monitoring their development in terms of the agreed conditions and the tailor-made social agreements made with relevant private investors. These private investors invest in new loans to existing green power plants. The power plants are already operational and profitable, but are still using venture capital from DFIs. Through the investments of the private investors, this capital is largely released again and is available for new green power plants to be set up. In this way, investors continue to make impact in emerging markets with green power generation, with positive consequences for sustainable economic growth, employment and the prevention of CO2 emissions. This is based on the philosophy that investing in emerging countries with impact is ultimately investing in ourselves.