

Annual State of Renewable Energy 2023: Unlocking Private Sector Finance

Panel Discussion

Given the escalating climate crisis and the growing financial pressures on the energy sector, Pakistan has made significant strides in bolstering its clean energy infrastructure within its recent strategic plans and policies. The [Indicative Generation Capacity Expansion Plan \(2022\)](#), aims to achieve Renewable Energy (RE) generation, including hydro power, comprising 63% of the total by 2031. While this plan is an evolving one, it underscores the state's commitment to clean energy, reinforced by the Alternate and Renewable Energy Policy (ARE Policy 2019), which targets a 30% contribution from solar, wind, and biomass sources, as well as the National Electricity Policy (NEP), Competitive Trading Bilateral Contracts Market (CTBCM), fast track solar initiative and others.

While Pakistan has shown determination in providing policy backing to RE sources, progress has been limited due to policy and market inconsistencies and economic pressure coming from global supply chain disruptions. The existing national grid is also grappling with excessive load and instability issues, particularly in semi-urban and rural areas. The effective integration of lower capacity RE sources into the grid necessitates a resilient grid infrastructure. Unfortunately, this frequently leads to the underutilisation of renewable power projects, as the established 'must-run' status for RE industry.

Another significant hurdle involves the scarcity of adequate funding sources for Pakistan's RE initiatives. According to [Pakistan's Nationally Determined Contributions \(NDCs\)](#), clean energy transition in the country necessitates an investment of USD 101 billion by the year 2030. A portion of this funding, specifically USD 20 billion, is for expanding the renewable energy capacity to 12 GW exclusively, as outlined in a report by the Government of Pakistan in 2021.

Pakistan has struggled to attract substantial financial resources for this purpose. As it strives to reduce its greenhouse gas (GHG) emissions through climate adaptation and mitigation strategies, all the while confronting mounting energy and economic challenges, establishing an effective mechanism to secure green financing for critical projects is more vital than ever. The private sector assumes a pivotal role in this endeavour. This role encompasses technological research and development for a diverse array of low-carbon projects, facilitated by a widespread implementation of 'Asset Finance.'

Nonetheless, the present market structure and the inadequacy of existing regulatory support within Pakistan represent significant barriers to tapping into available investment opportunities, both domestically and internationally. Unleashing private financing necessitates a well-coordinated action plan involving public and private stakeholder. The amalgamation of these two streams has the potential to substantially mitigate investment risks in the private capital market.

Previously absent from the local scene, institutions like Karandaaz, InfraZamin, and Pakistan Credit Guarantee Company (PCGC) now possess the capability to garner support through investment and risk mitigation tools, such as guarantees and de-risking instruments. Additionally, there's a need to explore opportunities within climate finance by engaging with the Green Climate Fund (GCF) to access investment flows. Climate funds are accessible to countries that can competitively secure them, contingent on robust project feasibility assessments, technical evaluations, and scientific studies. Presently, focus should be directed towards accessing concessional financing for a future that is low in carbon emissions.

To cultivate an environment conducive to sustainable and climate-resilient projects, an essential objective, especially within the context of a developing nation like Pakistan, is the implementation of policy reforms. These reforms serve as a cornerstone in the development of efficient monetary and fiscal strategies, fostering global collaboration, and expanding the available pool of financial resources for such initiatives. Furthermore, these changes necessitate a substantial upscaling of capacity building efforts, ensuring that Pakistan is suitably equipped to address the challenges and capitalise on the opportunities presented by the transition towards a greener and more sustainable future. It is imperative to recognise the pivotal role of private sector financing in driving renewable energy projects, making these policy reforms indispensable for attracting private investments. These investments often serve as the linchpin for the successful execution of renewable energy initiatives, thereby stimulating economic growth and curbing carbon emissions.

Objectives

In light of the significant developmental obstacles confronting Pakistan, coupled with the critical issues surrounding energy security and environmental sustainability, there is an urgent need to formulate a comprehensive green financing strategy. This strategy should thoroughly assess the crucial role played by the financial sector in achieving low carbon development within Pakistan. In consideration of the opportunities and challenges highlighted earlier, this *Panel Discussion* aims to bring together key experts and stakeholders to engage in meaningful discussions about the way ahead for mobilising private financing to back RE initiatives in Pakistan. Key objectives include to:

- Explore different avenues for financing institutions and development partners to bridge the financing gap needed to achieve RE transition in Pakistan and fulfil its NDC commitments.
- Discuss the opportunities and challenges associated with mobilising private finance to support the RE transition and low carbon development.
- Analyse the role of the public and private sectors and identify key resources and potential synergies that would facilitate the process.

Plenary Organisers

Dr Khalid Waleed, Research Fellow, Sustainable Development Policy Institute, Islamabad, Pakistan
Email: khalidwaleed@sdpi.org

Mr Ubaid ur Rehman Zia, Senior Research Associate, Sustainable Development Policy Institute, Islamabad, Pakistan
Email: ubaid@sdpi.org