Published on *The National Law Review* https://natlawreview.com

# Report Underscores Challenges of Attracting Capital for Renewable Energy Development in the ASEAN Region

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In April 2023, the Centre for Climate Finance & Investment and the International Energy Agency issued a report identifying and addressing the investment gap in renewable and clean energy in the Association of Southeast Asian Nations (ASEAN) region. A joint publication of Imperial College London and IEA, the report notes that a number of countries in the region, including Vietnam, Thailand, Malaysia, Indonesia and Singapore, have signaled an intention to develop clean energy sources, including committing to ambitious decarbonization goals and increasing the role of renewable energy in their national energy development plans. Despite these efforts, development of renewable power projects in Southeast Asia is among the lowest globally, with slow and inconsistent growth hampered in large part by a lack of investment.

According to the report, renewable energy, mostly in the form of hydropower, accounts for an estimated 25% of installed capacity and power generation across the region. Vietnam leads in renewable power deployment with the development of solar photovoltaic and wind power. Thailand, Indonesia, the Philippines and Malaysia have also made some inroads into renewable energy generation. The report also highlights, however, that investment spending on fossil fuel-based energy remains entrenched, and absent a change in domestic policies and proactive planning to foster investment in renewable energy sources, countries in the region are likely to increase rather than decrease their reliance on fossil fuel-generated power.

The report observes that rapid development and urbanization across the region continue to drive demand for electricity, creating significant opportunity for investment in renewable energy. Known renewable resource potential in the region—for example, Vietnam has one of the best wind resources in Southeast Asia—also enhances the opportunities for development. Yet despite significant opportunities, investment in renewable energy has lagged. The average annual capital expenditures are less than $30 billion in renewable power over the past five years. To reach sustainability targets, the region will require exponentially higher levels of investment—at least $200 billion in energy investment by 2030, with more than 75% of that in clean energy. At least 60% of the investment in renewable power would need to come from private investment (which, according to the report, is low compared to the approximately 90% private investment in more developed economies), in order to foster the kind of growth necessary to meet both short- and long-term milestones.

The report identifies a number of hurdles to investment in the development of renewable energy projects, including uncertainty caused by delayed development and implementation of detailed government policies or plans, slow improvement in regulatory environments, and entrenched fossil fuel-based electricity generation resulting from inflexible power purchase arrangements.

The report also identifies a number of country-specific and regionwide priorities for encouraging investment in order to meet the region's climate commitments, with a focus on attracting lower-cost capital from international investors, including:

- detailed plans and policy initiatives for the transition to renewable energy sources;
- clearer regulatory frameworks supporting renewables projects;
- robust financial market frameworks for renewables and transition investments;
- an enhanced role for development finance institutions and blended finance;
- better data and improved transparency around project-level financial performance;
- coordinated currency exchange rate risk management; and
- improved regionwide connectivity through the development of the "ASEAN power grid."

**Taking the Temperature: Notwithstanding the challenges noted immediately above, there is identifiable progress in certain of these areas. For instance, we previously have discussed efforts by the ASEAN Taxonomy Board to develop a Taxonomy for Sustainable Finance, which would support market and regulatory sustainability efforts. The Taxonomy is "designed to enable a just transition towards sustainable finance adoption by ASEAN Member States" by articulating underlying principles to "harmonise the classification of sustainable activities and assets across ASEAN."**

**Outside of the ASEAN region, there have been significant efforts to increase investment in the development of clean energy and green technology, with the United States and the EU signaling significant support for accelerating a green transition through legislation, including the U.S. Inflation Reduction Act (IRA) and the EC's Green Deal Industrial Plan and the proposed Net Zero Industry Act. Japan, India, China, Canada and the UK are also gearing up plans to foster and encourage investment in the development of green technology.**

**These initiatives taking hold in more developed regions across the globe are likely to generate significant financing and investment activity in developing non-fossil fuel energy sources. We also previously discussed the EU's increasing willingness to grant State Aid for schemes which help the bloc achieve its net-zero-by-2050 goal. As we have observed previously, creating legislative frameworks, developing reporting and disclosure models and incentivizing businesses and governments to run or fund green projects presents challenges for less-developed regions such as Southeast Asia to compete for investment dollars, despite recognized opportunities fueled by both growing energy demand and known renewable resource potential.**

**More generally, these efforts serve to underscore the pressing need for funds to finance mitigation and adaptation initiatives. We have previously discussed the focus on these issues at last year's COP27 climate change conference in Egypt, where an agreement was reached to establish a dedicated fund to assist developing countries in responding to loss and damage caused by climate change; at the COP15 biodiversity conference in Montreal, where the main area of contention involved how to pay costs that will be incurred to realize the Global Biodiversity Framework's goals; and at the February 2023 meeting of G20 Finance Ministers in Bengaluru, India, where attendees called for the creation of a common global framework to**

**facilitate financing the United Nations' Sustainable Development Goals.**

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National Law Review, Volume XIII, Number 145

Source URL:https://natlawreview.com/article/report-underscores-challenges-attracting-capital-renewable-energy-development-asean