Blended Finance in Clean Energy: Experiences and Opportunities

Climate Policy Initiative

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What is “blended finance”?

The use of public/philanthropic funds to mobilize multiples of additional private capital.

Focus on concessional capital, extended at below-market terms:

- Directly, within the capital stack of an investment vehicle
- Indirectly, to catalyze private investment, e.g. through guarantees and project preparation grants

Why blended finance?

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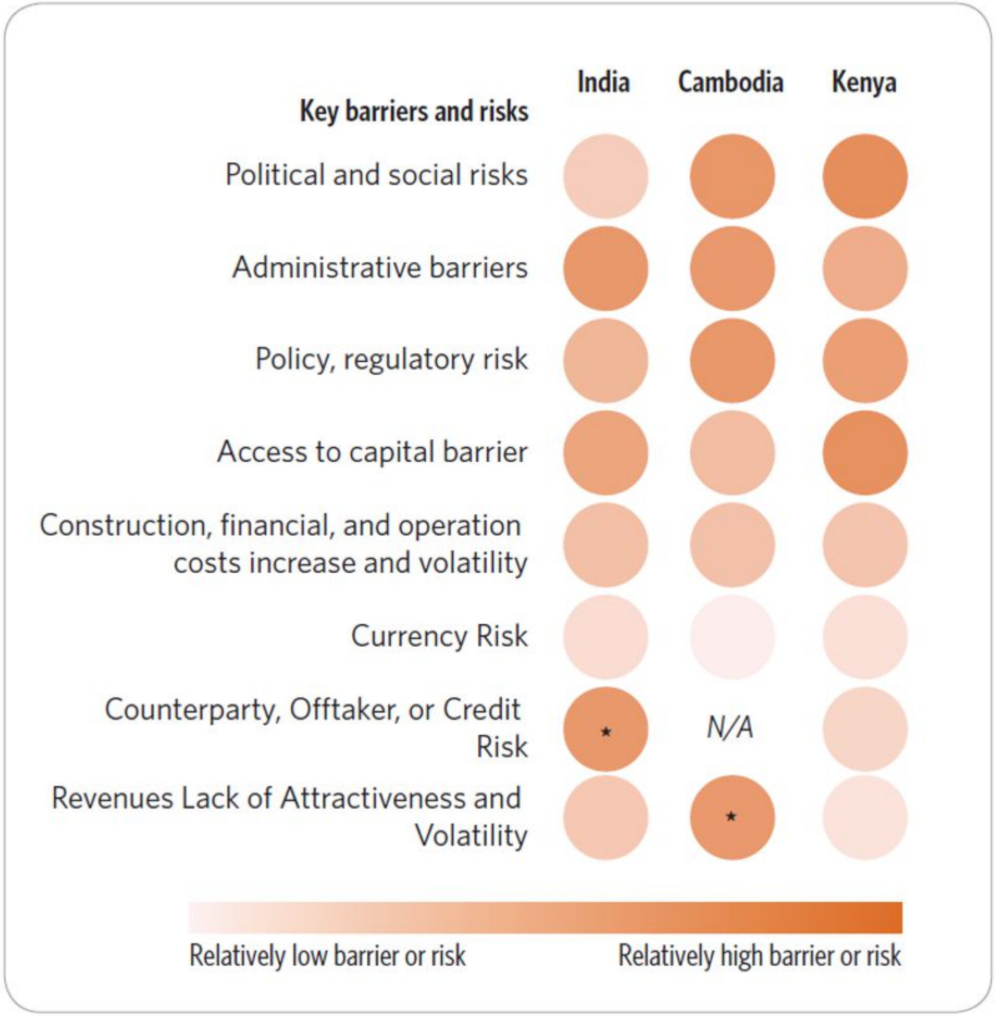
Mainstreams and mobilizes private investment in impactful sectors, and scales impact more efficiently and effectively.

Successful examples of blended finance address:

- Demonstration of project viability, reducing risk perception and building investor confidence.
- Transfer of "**pioneer risk**" on new technologies or business models to public sector investors.
- Risks and barriers that the project cannot reduce through its implementation, but can be transferred to public sector parties through blended finance tools.

Why blended finance for clean energy?

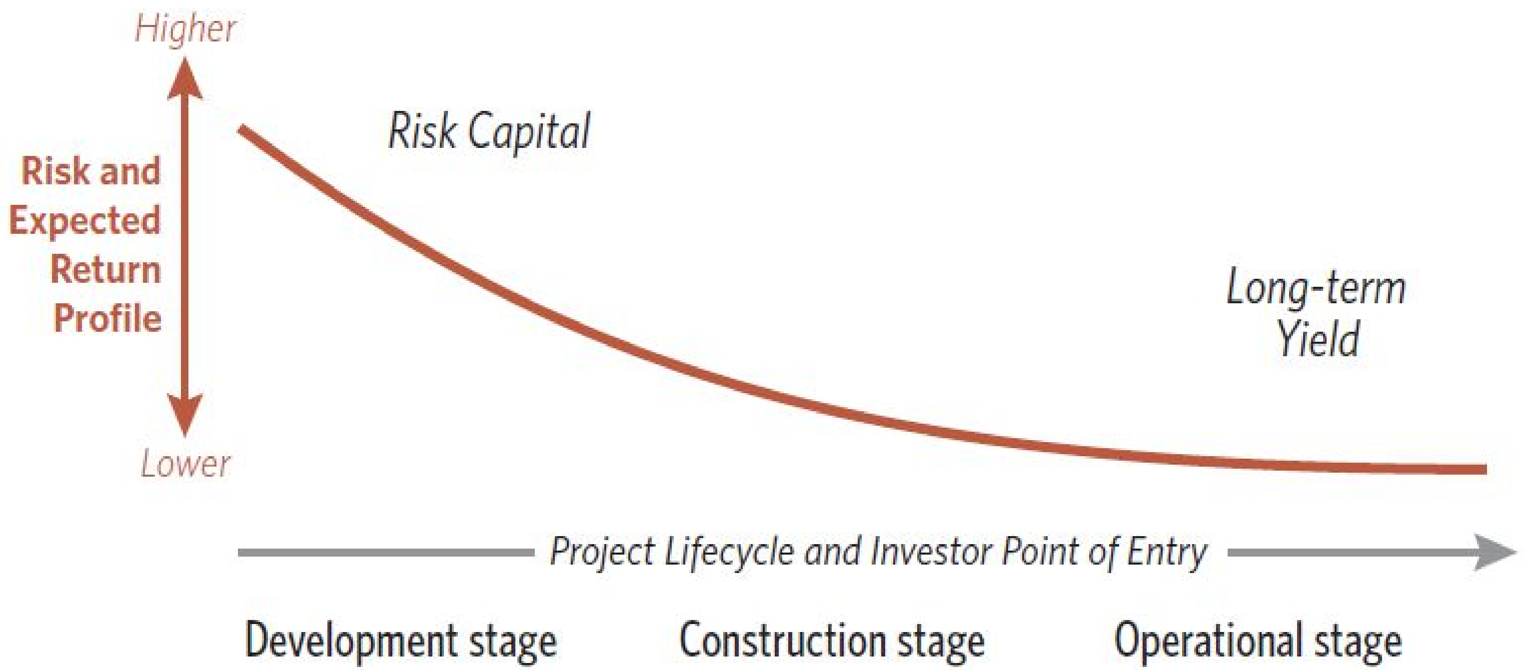
- Despite steep declines in the cost of clean energy, important barriers to investors remain, especially in sub-investment grade countries.



(*) indicates that the intensity has been qualitatively determined (N/A) indicates data not available

Clean energy also has features that amplify risks to investors

- High risk at early stages
- High upfront costs
- High transaction costs for investors except for largest projects
- Long time horizon

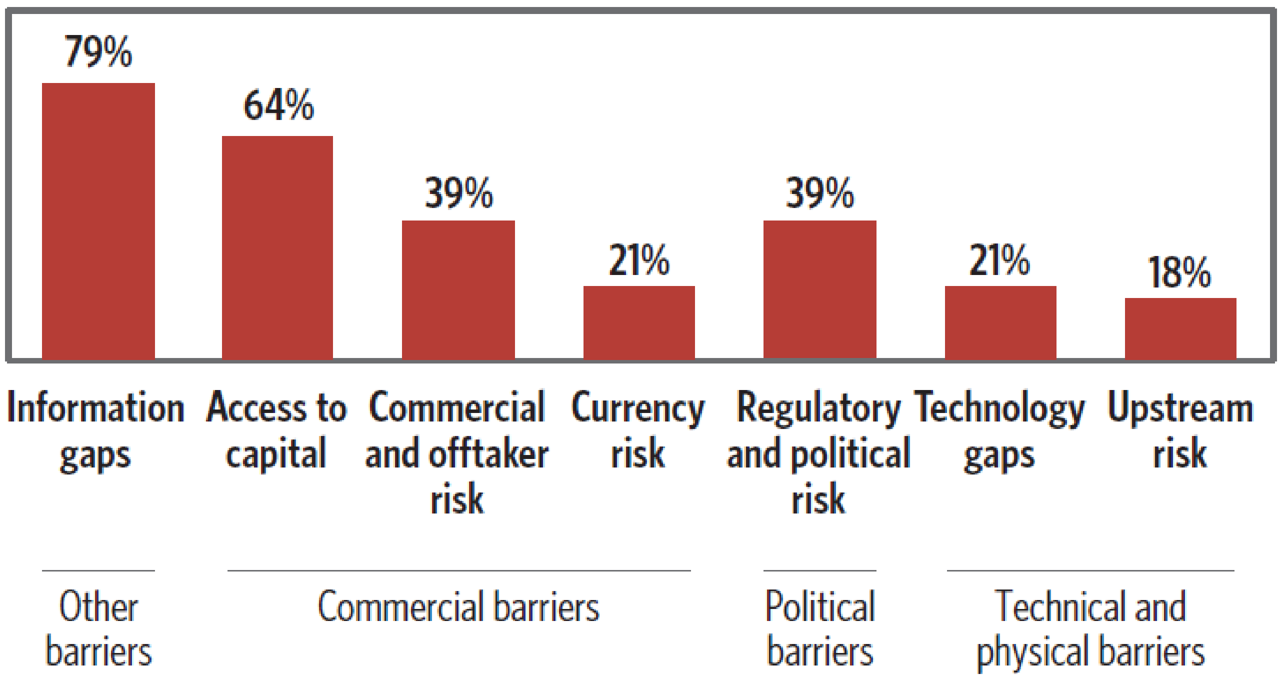


The blended finance landscape in clean energy

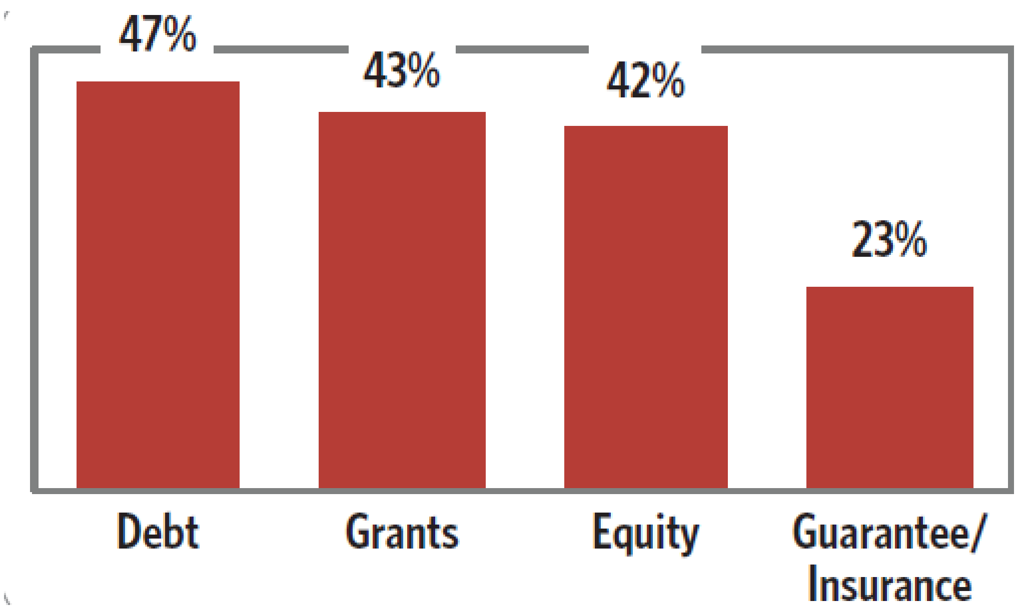
We looked at 75+ blended finance initiatives in clean energy to identify gaps in offerings

We found:

- Not enough focus on most cited barriers, especially currency and off-taker risk.



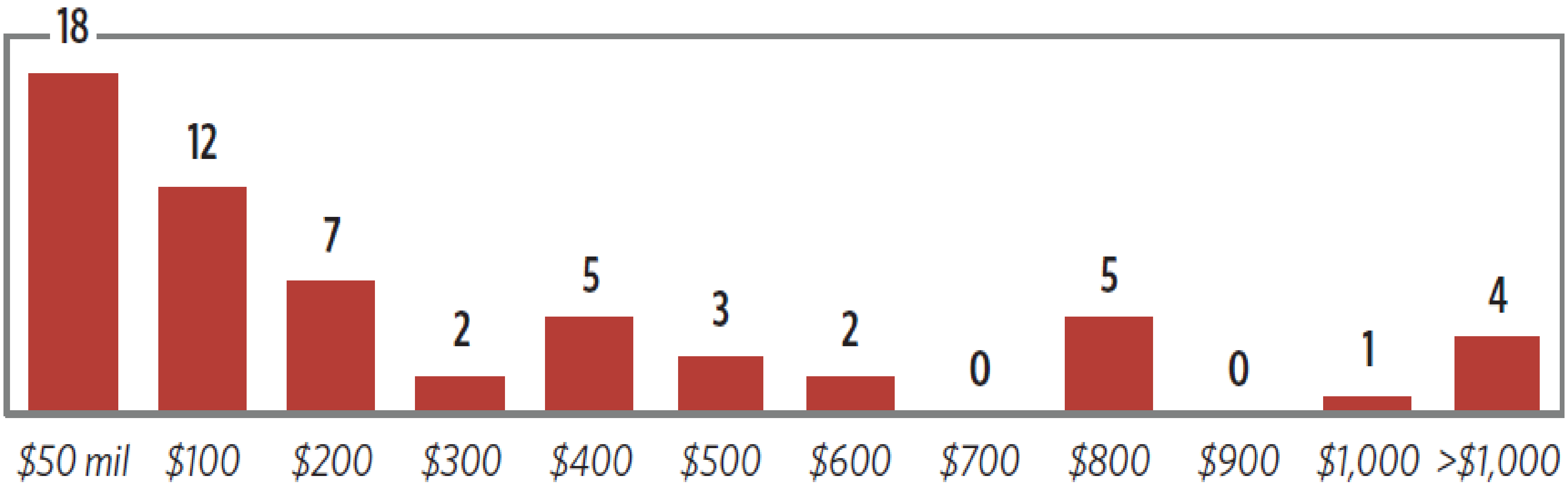
Blended finance clean energy landscape findings



- Not enough use of guarantees, which have track record of effectiveness in mobilizing private investment.
- Guarantees are 5% of commitments in multilateral institutions but generate 45% of private sector mobilization

Blended finance clean energy landscape findings

- Most initiatives are too small to attract institutional investors.



Examples

There is a great deal of innovation occurring today to address these gaps.

TCX
the currency exchange fund

Banque Africaine de Developpement – African Development Bank

African Development Fund – Fonds Africain de Developpement

GFCF
Green Finance Catalyzing Facility

GEEREF
Global Energy Efficiency and Renewable Energy Fund

RESf
Innovative Catalytic Scalable

Prime

ALIGNED INTERMEDIARY
INVESTING IN CLIMATE INFRASTRUCTURE

DBSA

MICROGRID
INVESTMENT ACCELERATOR

Climate Investor One addresses transaction costs and risks through scale and diversification.

CIO Development Fund
US$ 30 million

→

CIO Construction Equity Fund
US$ 500 million

→

CIO Refinancing Fund
US$ 500 million

Tier 1
- First Loss
- Capital Preservation

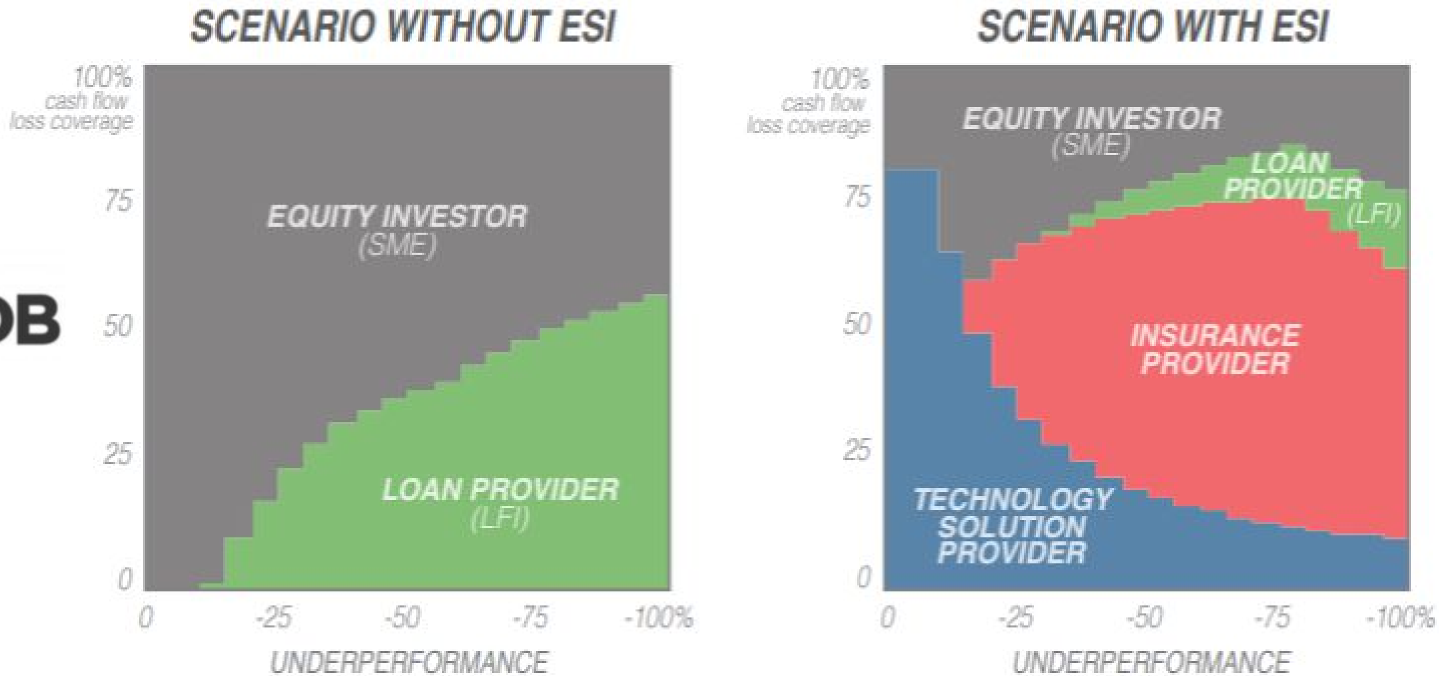
Tier 2
- Commercial Return

Tier 3
- Senior Ranking
- Fixed Income

Source: Climate Fund Managers (2017)

- Whole of life funding through three interlinked funds, matching project life stages
- Recycling of capital
- Active support to development stage

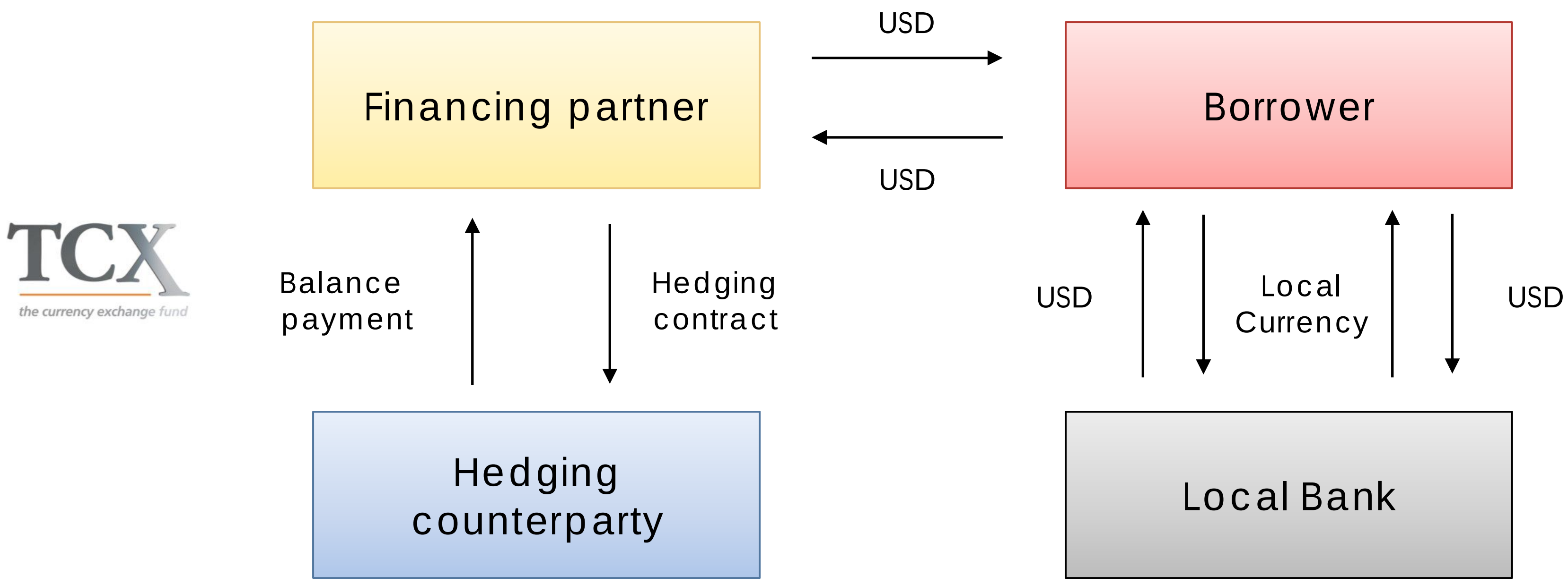
Energy Savings Insurance addresses performance risk of energy efficiency investments.



IDB

- ➢ Technology providers purchase insurance to back contractual guarantees to SME clients
- ➢ Replicated in more than 10 countries on 3 continents, mobilized more than $180m, more in the pipeline

Long Term Foreign Exchange Risk Management addresses currency risk with a global hedging facility.

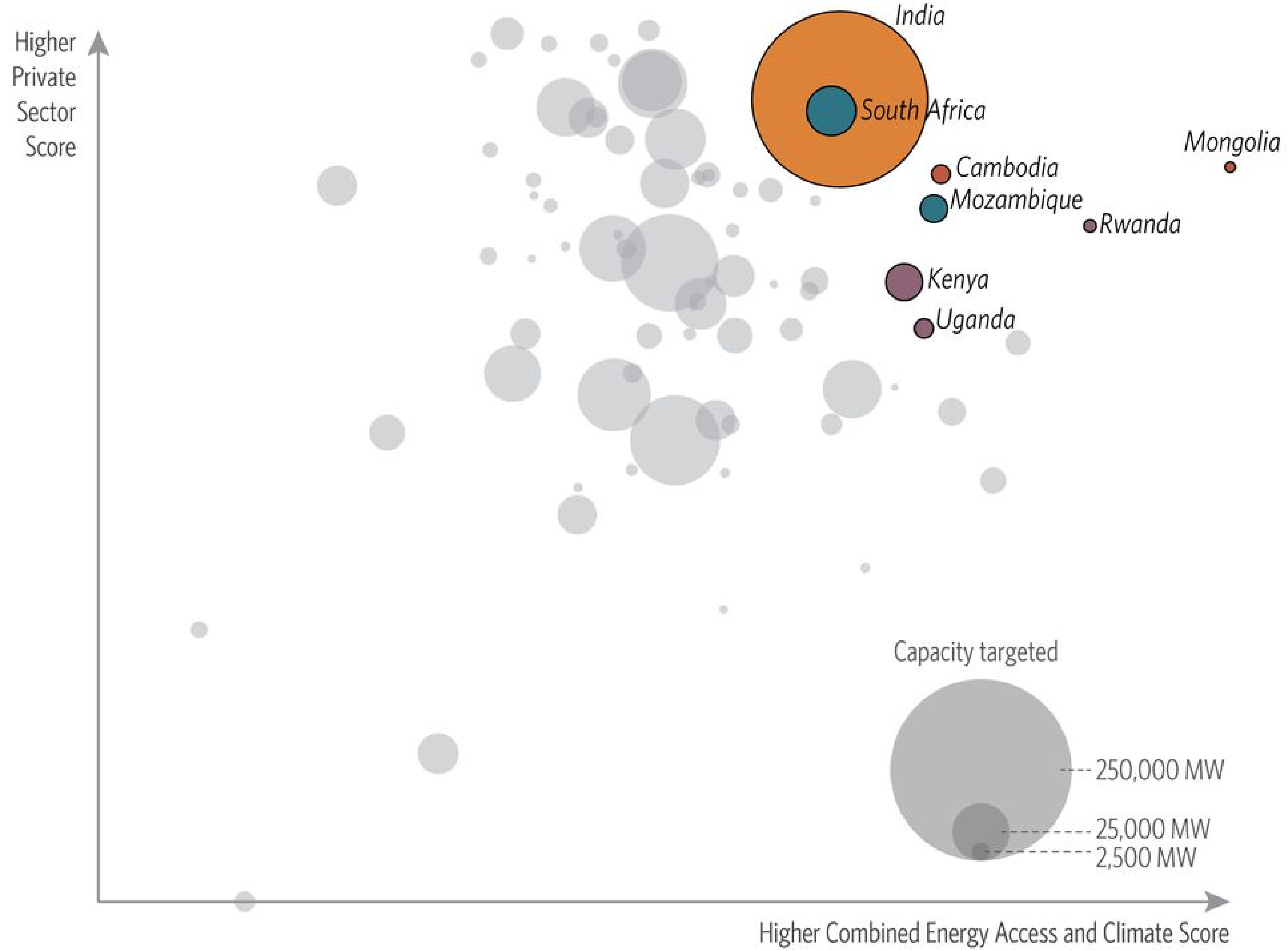


Source: TCX

- Allows lending in local currency
- Mobilized over EUR 100m in investment
- Currently developing follow on Common Risk Mitigation Mechanism

Opportunities for the Future

Focus on high potential regions and countries for energy access and climate change mitigation.



Prioritize instruments that address the key risks to investors.

- Risk mitigation instruments such as guarantees, insurance, and currency hedging.
- Liquidity-generating and aggregating instruments to bring in new investor classes and recycle capital for new investments on the ground.
- Early stage risk financing for new projects, technologies, and business models.

Target long term sustainability and scale.

- Scale ideas that work.
  - *This can require different approaches from innovation.*
- Develop and support intermediaries.
  - *They can bridge investors and pipeline, the public and private sectors, and international and local institutions.*
- Streamline and mainstream.
  - *Reduce transaction costs, incorporate technical assistance, train and maintain staff, align institutional incentives, standardize designs and agreements.*

Apply the lessons of clean energy to sectors across the SDGs.

Adaptation

Cities

Energy Access

Sustainable Land Use

Questions?

Contact

Bella Tonkonogy
bella.tonkonogy@cpiclimatefinance.org

Alex Clark
alex.clark@cpiclimatefinance.org