Allied Climate Partners – Project Development Financing

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Concept summary

Allied Climate Partners (ACP) is a philanthropic investment organization, with a mission to increase the number of bankable, climate-related projects and businesses in emerging economies.

ACP selects third-party regional investment managers in emerging economies. Each manager deploys an innovative investment model, designed to address a financing gap at the early stages of the development process for climate-related projects and asset-oriented businesses.

Without this capital, many projects and businesses struggle to reach financial close and completion. ACP is focused on projects and businesses in sustainable energy (e.g., utility-scale and distributed renewables, storage), industrial and productive use (e.g., green manufacturing, cold storage, irrigation), and green urban development (e.g., electric transport, water and waste, efficiency and cooling).

By providing targeted, risk-tolerant capital and expertise to selected regional investment managers, ACP induces government, non-governmental organizations, and private-sector investors to participate where they would not otherwise. ACP is building on the early success of a model its partners helped to establish in Southeast Asia (the Southeast Asia Clean Energy Facility) and execute this model across the Caribbean and Central America, Africa, and India.

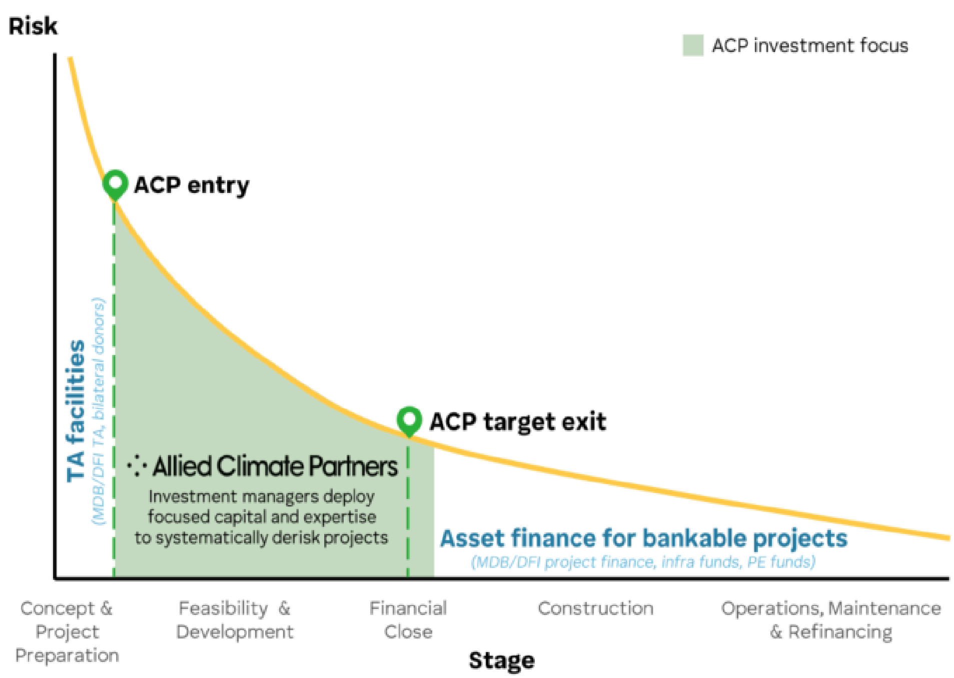
ACP and its partners are initially aggregating an $825 million investment platform, catalyzed by $235 million in philanthropically-backed junior capital.

Track record to date

The potential of the ACP model has been demonstrated by the Southeast Asia Clean Energy Facility (SEACEF). This fund, focused on Vietnam, Indonesia, and the Philippines, is accelerating the low-carbon transition in Southeast Asia and is supported by leading international foundations (including the Sea Change Foundation, Children's Investment Fund Foundation (CIFF), Sequoia Climate Foundation, and Packard Foundation) as well as impact investors and corporates, including Microsoft. SEACEF's initial $22.5 million facility has made nine early-stage investments to innovative, high-impact, clean energy projects and scalable businesses in its first 2.5 years. These nine investments have catalyzed more than 20x the initial funding in third-party, private-sector capital, already achieved one successful exit, and spurred development of potentially billions of dollars' worth of climate assets.

Instrument mechanics

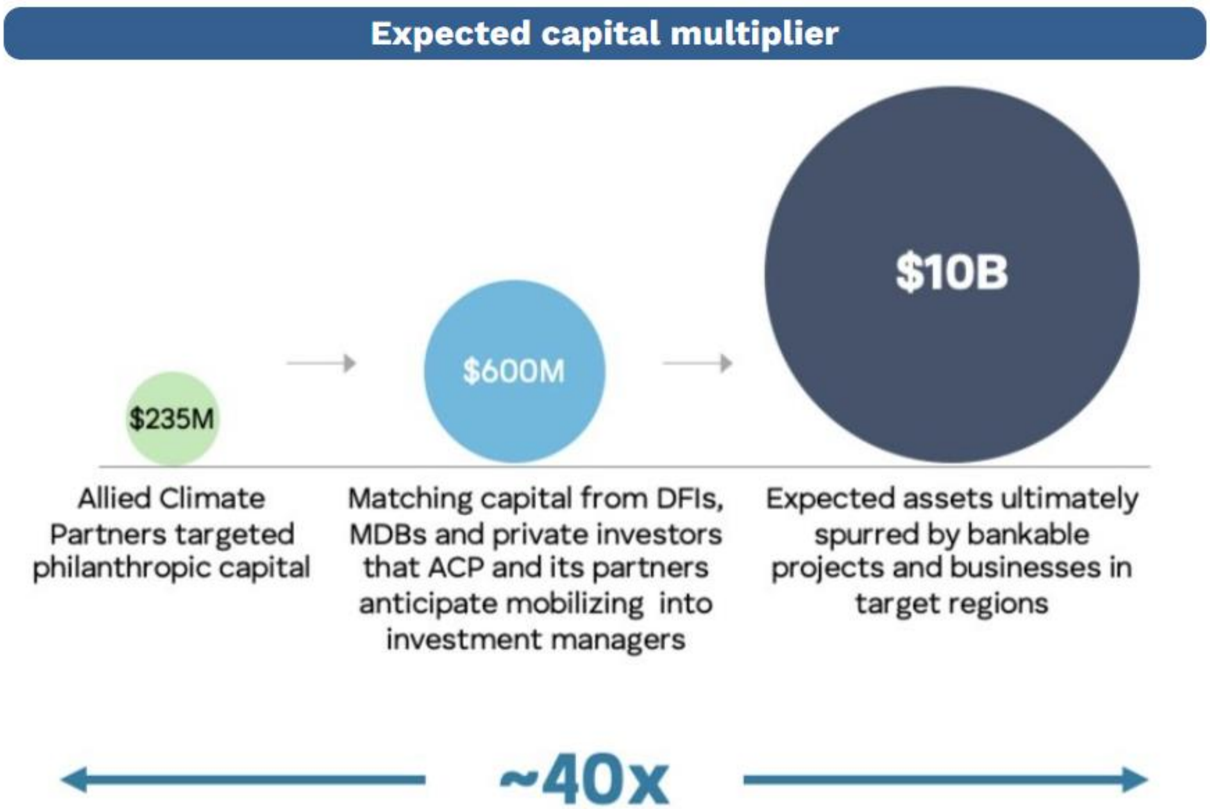
A crucial bottleneck impeding the flow of climate-related capital in emerging economies is a lack of bankable projects. In infrastructure, the earliest stages of project development are the riskiest. These risks are heightened in emerging economies, where the enabling policy or regulatory environment is often underdeveloped, and projects can take a longer time to reach completion. Yet early-stage development represents the smallest portion of the overall funding need for a project. Of the total cost of a completed project, approximately 95% is needed to build the project, and as little as 5% is spent during the development period for items like land acquisition, engineering studies, technical analysis, modeling, permitting, and environmental impact assessment. While 5% of the capital can unlock 95%, this early-stage capital is the hardest to raise because public and private funders are unwilling to accept the risk.



Selected regional investment managers focus on this early stage of development when risk capital has significant additionality, and provides tranched, milestone-based investments and hands-on management support to systematically derisk climate-related investments. ACP's managers seek to exit at financial close, crowding in asset investors, and recycle proceeds to create even more bankable projects.

In each regional manager's fund, ACP provides philanthropic capital representing 25% of the capital in the form of junior equity. The philanthropic capital encourages the remaining 75% of the capital, which is provided by DFIs, governments, foundations, and other private and public sector investors, in the form of senior equity. By focusing on this high-leverage intervention, ACP catalyzes funds at scale. Over time, ACP hopes to prove out this model, encourage greater private sector involvement, and lessen or eliminate the need for philanthropic capital.

As ACP's regional investment projects mature and reach financial close, the projects are expected to raise approximately $10B from asset financiers to construct the projects (a ~12x multiplier on the $825M).[1] Selected investment managers will seek to exit investments at financial close to DFIs, governments, infrastructure funds, corporate developers, and other public and private sector investors. The combined multiplier on the philanthropic capital is expected to be 40x ($10B / $235M = 40x).

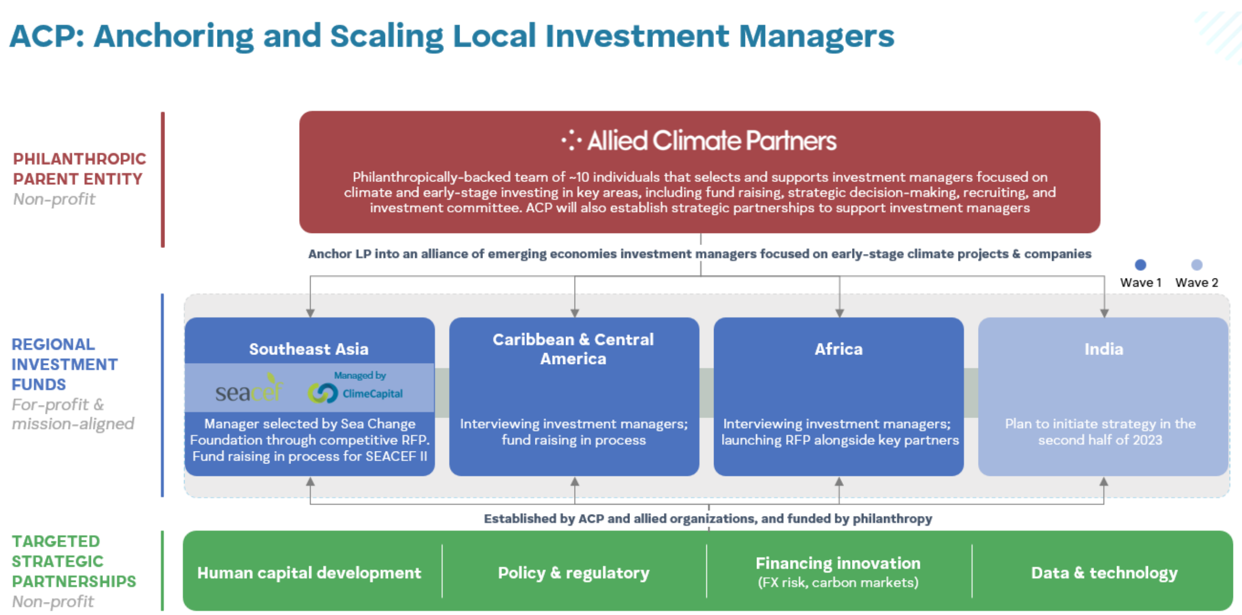


Scale-up pathway

ACP is taking a staged approach to expansion – first by working with SEACEF , the existing fund manager in Southeast Asia, while in parallel, progressing through diligence and a Request for Proposal process to select its managers in Africa and the Caribbean. In the second half of 2023, ACP will advance its strategy development and market exploration for India as the fourth target geography.

[1] Calculations do not include recycling

ACP is aggregating $235 million of junior equity from philanthropic organizations and is working with major MDBs, DFIs, private, and corporate investors who will participate as senior equity.



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