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

![Graph showing the relationship between risk capital, long-term yield, and project lifecycle stages]
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.
➢ Most initiatives are too small to attract institutional investors.
Examples
There is a great deal of innovation occurring today to address these gaps.
Climate Investor One addresses transaction costs and risks through scale and diversification.

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

Source: Climate Fund Managers (2017)
Energy Savings Insurance addresses performance risk of energy efficiency investments.

➢ 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.

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

Source: TCX
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?
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