



## **Blending finance to accelerate NDCs and scale-up investment in low carbon energy**

### Speakers

- *Alexia Kelly, Co-Chair of the LEDS GP Finance Working Group*
- *Bella Tonkonogy, Climate Policy Initiative*
- *Jessica Brown, Climate Policy Initiative*

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# Agenda

- Overview
  - Alexia Kelly, Co-Chair, LEADS GP FWG/CEO  
Electric Capital Management
  - [Alexia@electric.capital](mailto:Alexia@electric.capital)
- Blended Finance in Clean Energy:  
Experiences and Opportunities, Part I
  - Jessica Brown, Associate Director,  
Climate Policy Initiative
  - [Jessica.brown@cpclimatefinance.org](mailto:Jessica.brown@cpclimatefinance.org)
- Blended Finance in Clean Energy:  
Experiences and Opportunities, Part II
  - Bella Tonkonogy, Manager, Climate  
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  - [Bella.Tonkonogy@cpclimatefinance.org](mailto:Bella.Tonkonogy@cpclimatefinance.org)



**LEDS GP** is a network of public and private practitioners and institutions delivering Low Emissions Development Strategies (LES) and Nationally Determined Contributions (NDCs) – locally, nationally and internationally.

**LEDS GP** has growing membership including:

- Over 118 countries
- Over 350 institutions
- Thousands of individual practitioners working in national or subnational governments

The **LEDS GP Finance Working Group (FWG)**: financing the low carbon economy through public-private partnership

The **FWG** supports developing countries in accelerating investment into low emission development through:

- Peer learning and collaboration
- Targeted technical resources and input
- Innovative public private partnerships and dialogue

# LEDS GP FWG key priorities and objectives

- Engage and build FWG membership and partnerships
- Advance Communities of Practice as core element of LEDS GP FWG
- Collaborate with and mobilize resources for early mover governments interested in piloting innovative financing approaches and strategies
- Mobilize investment and impact at scale

# Communities of Practice (CoPs)

CoPs are comprised of a network of engaged experts and practitioners from a shared sector or working area (e.g. renewable energy finance) who form a group to:

- Engage in peer-to-peer learning and exchange to improve their personal and collective knowledge, identify shared solutions, and drive more effective change on the ground.
- Promote engagement both inside and outside of formal communication channels and provide an inclusive, member-driven experience.





# African Mini-grid CoP

Advance the application of mini-grids as a key energy access, climate change and economic development solution

Focal areas:

- Facilitate access to finance
- Design effective policy and regulatory environments
- Evaluate and promote proven business and ownership models and best practices



# African Mini-grid CoP



# Asia NDC Finance CoP

Address finance, policy, and technical challenges to accelerate investment into clean energy NDC implementation across the region

Focal areas:

- Lower the cost and risk of capital
  - Identify areas of intervention and where possible, deploy strategies
  - Specific focus on blended capital, green bonds, etc.
- Attract private finance through smart policy and enabling environments
  - Facilitate dialogue on key regulatory and policy matters
  - e.g. direct power purchase agreements, auctions, regulatory and permitting streamlining, etc.

# Understanding capital markets: Risk vs Return



Put most simply: the private sector weighs ALL investment decisions based on risk and reward, **THUS:**

Attracting the private sector into clean energy finance requires **RETURNS** that are adjusted for **RISK**

# Understanding capital markets: the difference between debt and equity



## Debt

- Capital that is borrowed for specific purposes and paid back at an agreed interest rate over a fixed period of time
- Can be issued at the corporate or the project level
- Considered “non-dilutive” because does not offer an ownership share
- Considered lower risk and usually only issued once a company or project is cash flow positive/profitable

## Equity

- Capital that is invested under agreed terms at the corporate or project level
- Usually invested in exchange for an ownership (or rights to) share of a company or project
- Considered higher risk but also higher potential reward
- Generally used to finance early stage/higher risk investments



# Understanding capital markets: channels for private investment



## Corporate

- Invests at the COMPANY level
- Both debt and equity
- Capital used for growth, productive development, marketing, personnel, equipment purchases, etc.



## Project

- Invests at the PROJECT level or project group level (e.g. Special Purpose Vehicle establishment to hold a group of projects)
- Both debt and equity
- Capital used to finance specific costs associated with project (equipment purchase, land acquisition, construction, O&M, etc.)

# Understanding capital markets: investment sources and characteristics

Type	Stage	Instrument	Risk	Return	Ticket Size	Tenure
<b>Seed</b>	Idea	Grant/Equity	High	0-50X	\$10K-\$200K	1-5 years
<b>Angel</b>	Demonstration	Equity	High	0-50X	\$50K-\$500K	2-5 years
<b>Venture</b>	Start Up/Early Stage	Equity	High	0-25X	\$200K-\$5M	3-7 years
<b>Private Equity</b>	Growth Stage	Equity	Medium	0-15X	\$1M-\$20M	3-7 years
<b>DFI/MDB</b>	Growth Stage	Debt/Equity	Medium	1-5X	\$3M-\$25M	5-15 years
<b>Institutional (pension sovereign wealth funds)</b>	Steady State Stage	Debt	Low	1-2X	\$5-\$50M	2-15 years

# Examples of blended finance

- Performed first \$95M Asian corporate sustainability bond (sustainable rubber plantation)
- Focused on Indonesian sustainable landscapes, agriculture and energy projects
- Two tiers: Grant fund for community support, technical assistance and project development; and lending platform to provide construction/landscape loans through sale of bonds to institutional investors



**TLFF**  
TROPICAL LANDSCAPES FINANCE FACILITY



- Second close of \$475 in Dec. 2017
- Focal areas: SE Asia and Africa
  - Clean energy
- Three tiers: Development capital (development & first loss for construction); construction capital; and refinance for operating assets (not yet operational)



# Blended Finance in Clean Energy: Experiences and Opportunities

*Climate Policy Initiative*  
*May 2018*



CLIMATE  
POLICY  
INITIATIVE

BRAZIL  
CHINA  
EUROPE  
INDIA  
INDONESIA  
UNITED STATES

[climatepolicyinitiative.org](http://climatepolicyinitiative.org)

# 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 an investment vehicle
- **Indirectly**, to catalyze private investment, e.g. through guarantees and project preparation grants

# Why blended finance?

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

Successful examples of blended finance address:

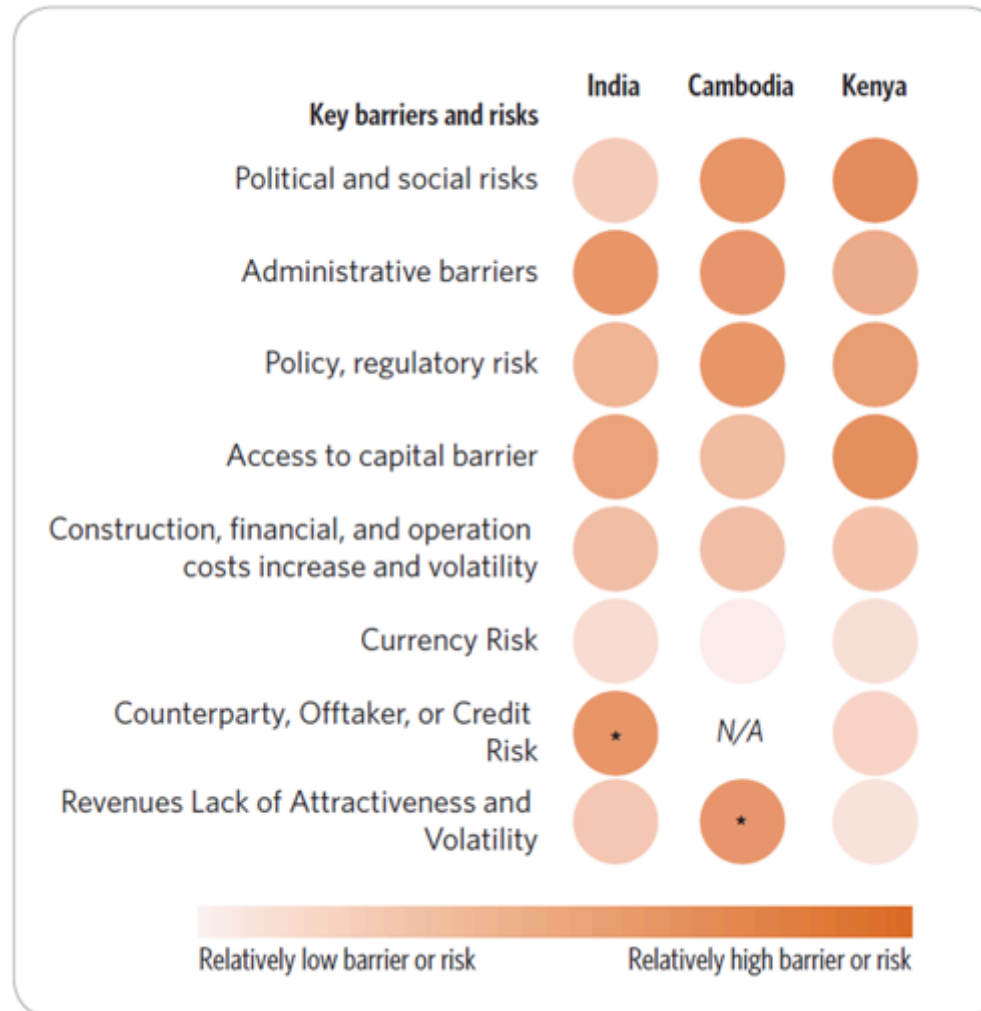
- **Demonstration** of new technologies or business models, reducing risk perception and building investor confidence.
- Risks and barriers that the project cannot reduce through its implementation, but can be **transferred** to public sector parties through blended finance tools.

# Blended Concessional Finance Instruments

Instrument Type	Examples
Concessional equity	Junior, first loss
Concessional debt	Subordinated debt
Guarantees, insurance, other instruments	Loan guarantees, currency hedges, performance insurance
Commercially oriented preparation support and technical assistance grants	Project preparation funding or technical assistance

# Why blended finance for clean energy?

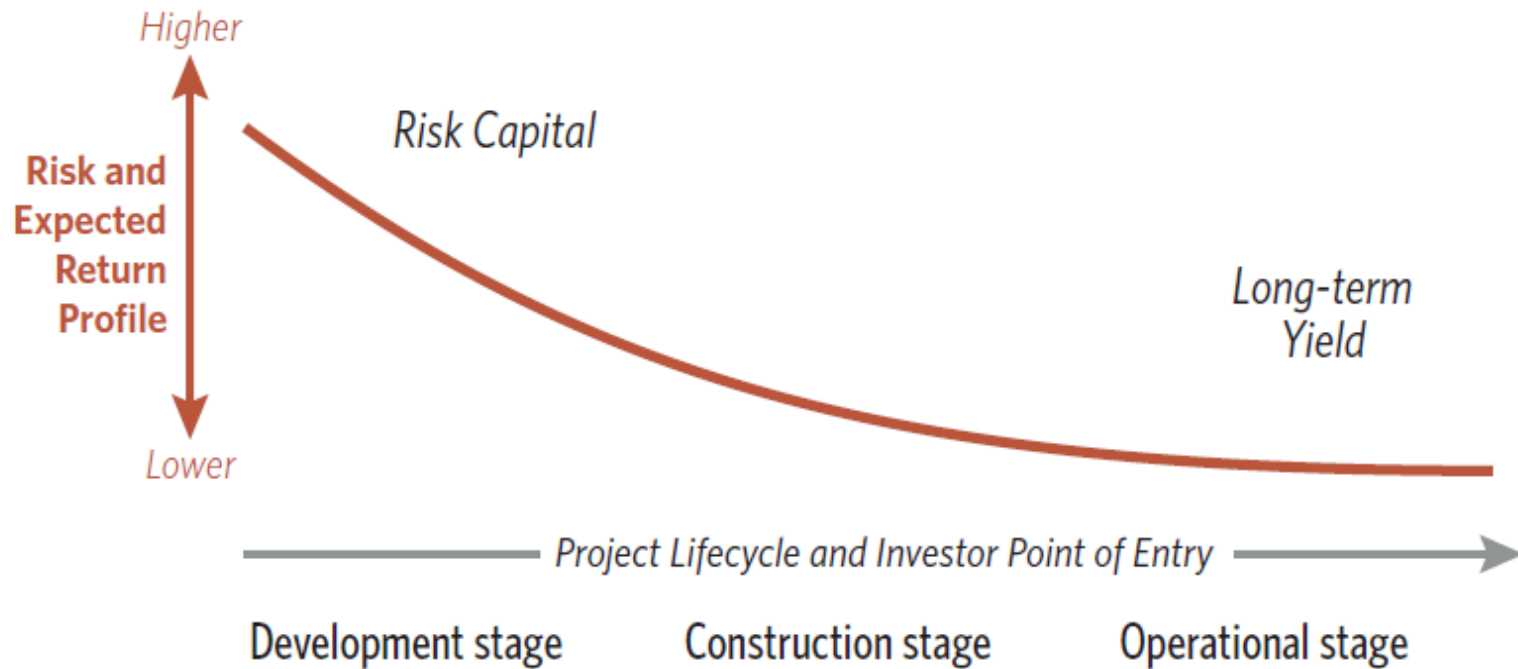
- Despite steep declines in the cost of clean energy, important barriers to investors remain, especially in sub-investment grade countries.



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

# Clean energy also has features that amplify risks to investors

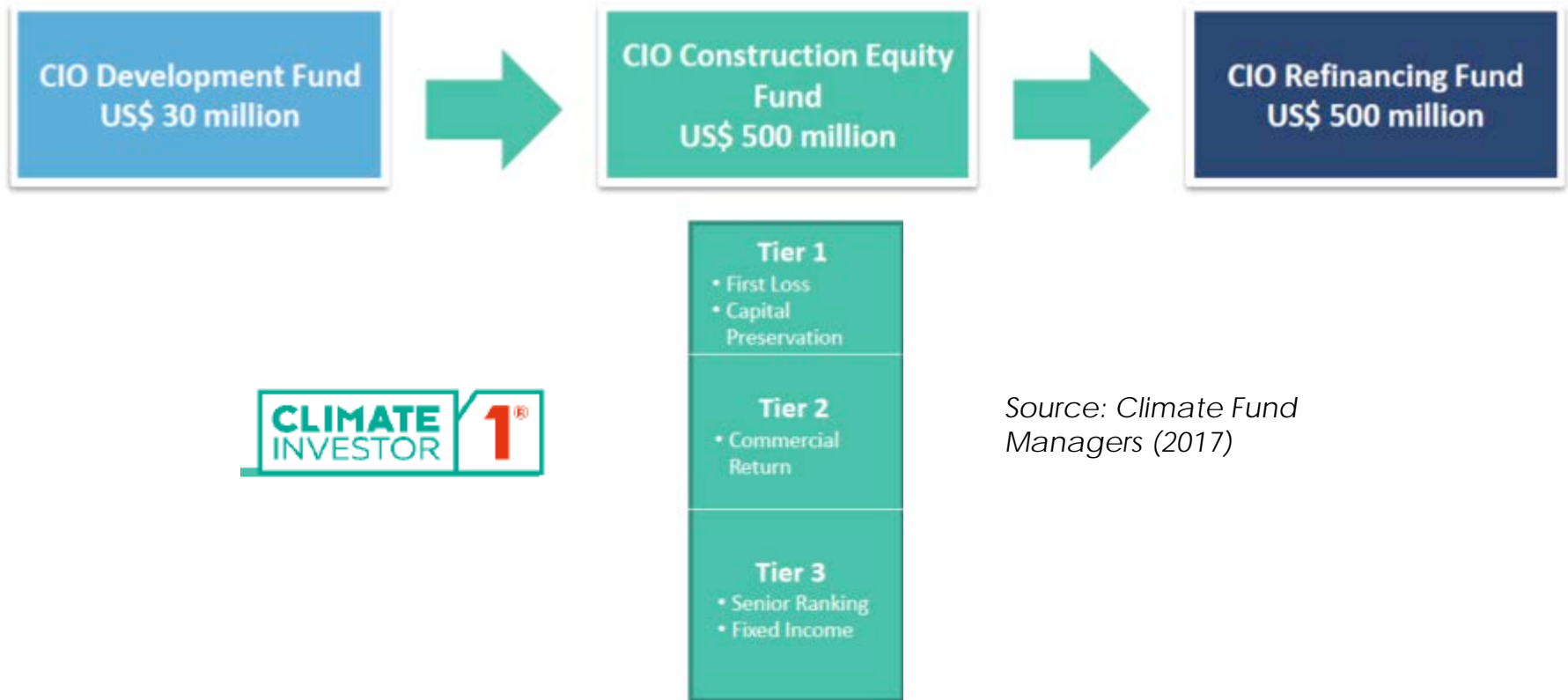
- High risk at early stages
- High upfront costs
- High transaction costs for investors except for largest projects
- Long time horizon



There is a great deal of innovation occurring today in blended finance.



Example: Climate Investor One has raised \$475 million (as of Dec 2017).

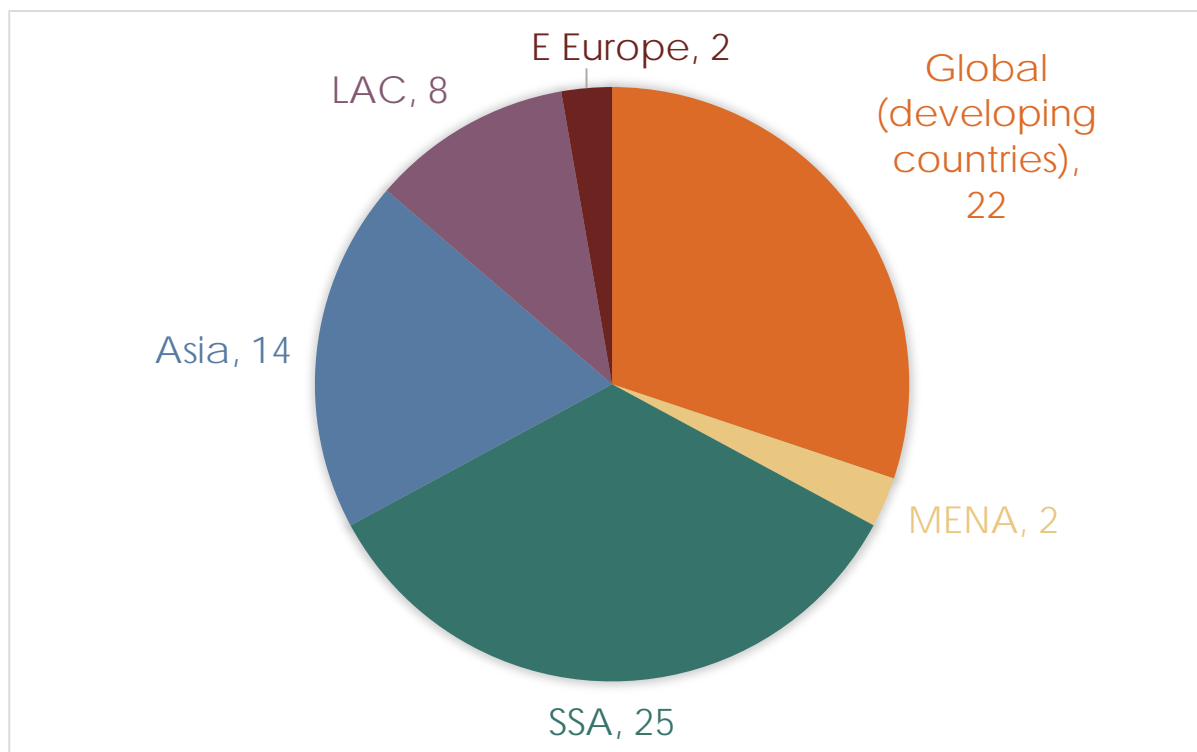


- Whole of life funding through three interlinked funds, matching project life stages
- Recycling of capital
- Active support to development stage



# Clean energy blended finance initiatives, by geography

- Significant focus on sub-Saharan Africa and Asia



# Blended finance is relevant to many additional sectors and NDC goals



Adaptation



Cities



Energy  
Access

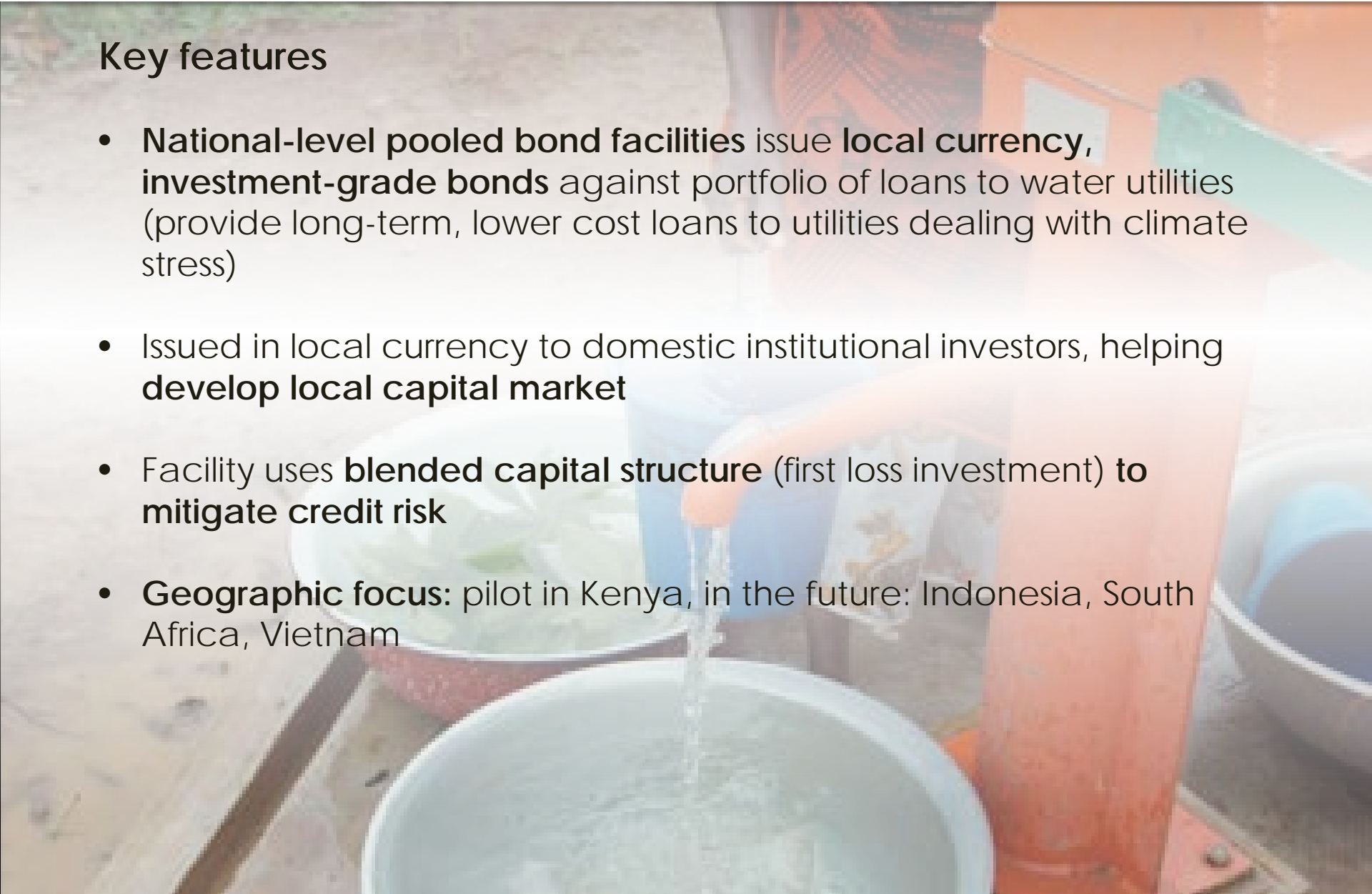


Sustainable  
Land Use

# Water Financing Facility mobilizes domestic institutional investment into climate-smart water sector projects

## Key features

- **National-level pooled bond facilities** issue **local currency, investment-grade bonds** against portfolio of loans to water utilities (provide long-term, lower cost loans to utilities dealing with climate stress)
- Issued in local currency to domestic institutional investors, helping **develop local capital market**
- Facility uses **blended capital structure** (first loss investment) to **mitigate credit risk**
- **Geographic focus:** pilot in Kenya, in the future: Indonesia, South Africa, Vietnam



# Role of governments

# What can governments do to support the scale up of blended finance instruments?

- Set strong, reliable policy signals for NDC implementation
- Improve domestic conditions to enable private investment
- Support development of blended finance vehicles through multi-stakeholder partnerships
- Get involved directly in blending, using own resources or channeled via international climate funds, development agencies

Questions?

# Contact

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# For more information

- [Climate Policy Initiative](#)
- [Convergence](#)
- [LEDS GP Remote Expert Assistance on LEDS \(REAL\)](#)
- [Resource Guide for NDC Finance](#)



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- Access pro bono technical assistance on LEDS (for developing country governments)
- Contact LEDS donors and project developers
- Join a Community of Practice

Go to [ledsgp.org/join/](https://ledsgp.org/join/)

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Thanks!

*The LEDS GP Secretariat*