

Blended Finance in Clean Energy: Experiences and Opportunities

Climate Policy Initiative

Valerio Micale
 @MicaleValerio



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Rationale for the study

- Map the current blended finance landscape
- Understand the clean energy investment opportunity
- Recommend how blended finance can be better deployed

Definition of “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

Why is blended finance important?

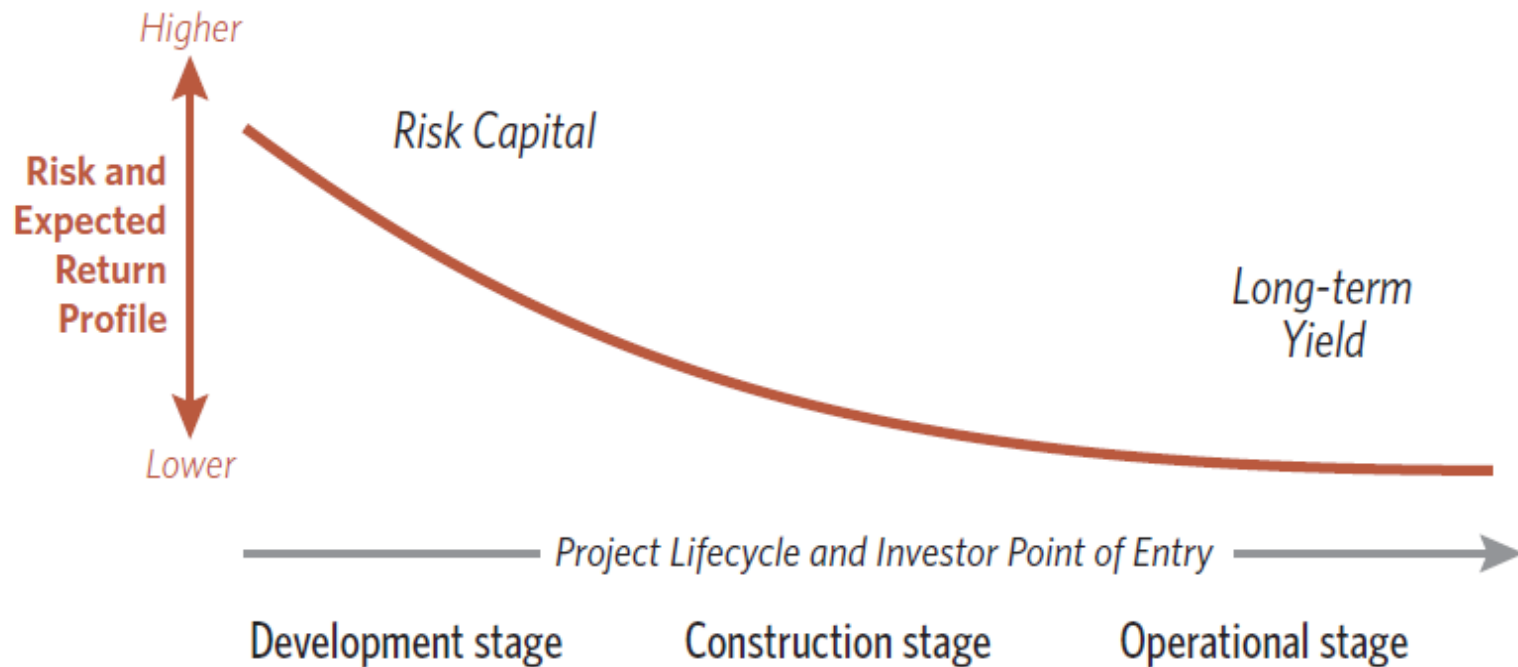
Blended finance can address country-level risks

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

	dev	con	ops
Political Risks			
Political and social risks	X	X	X
Administrative risks	X	X	
Policy / Regulatory risks	X	X	X
Technical Risks			
Construction delays and risks		X	
Upstream resources-related risks	X	X	
Operation risks and other downstream output related risks			X
Commercial Risks			
Access to Capital	X	X	X
Market-specific construction, financial, and operation costs increase		X	X
Currency Risk		X	X
Counterparty / Offtaker / Credit Risk			X
Revenues Attractiveness and Volatility			X
Other Investor Barriers (non-manageable at project level)			
Investment Horizon / Liquidity			X
Scale of Investment	X	X	X
Lack of capacity at local level	X	X	

Blended finance can address technology-related risks

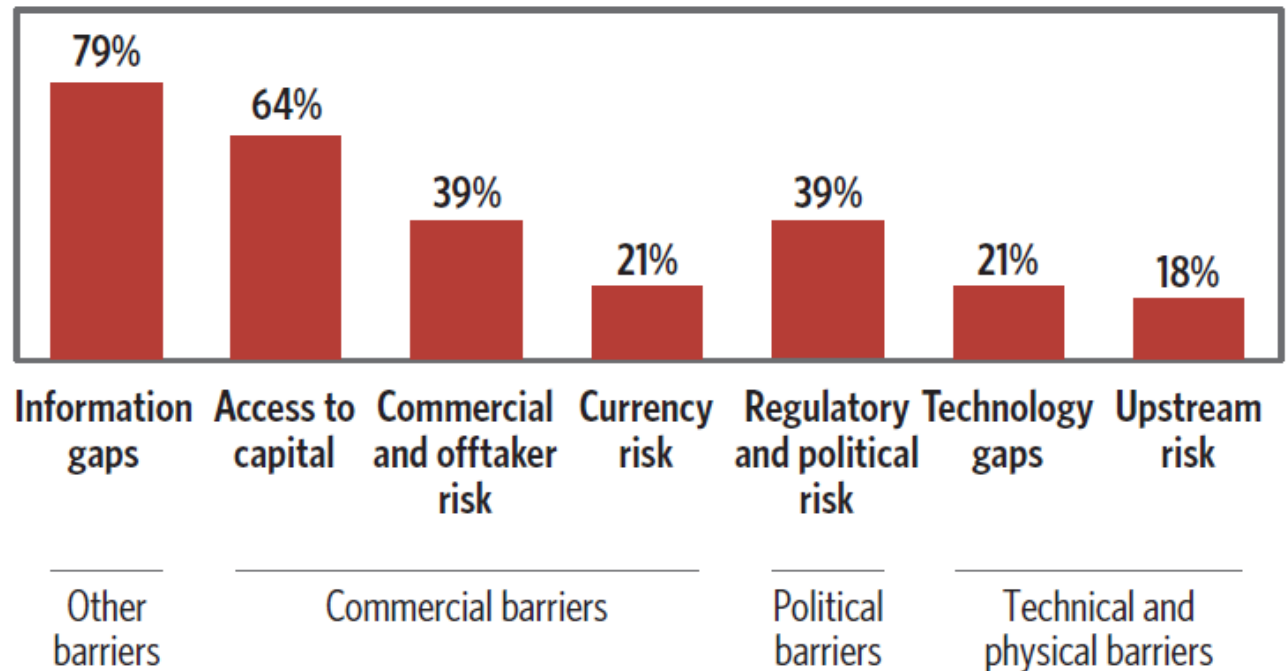
- **High risk at early stages**
- **High upfront costs**



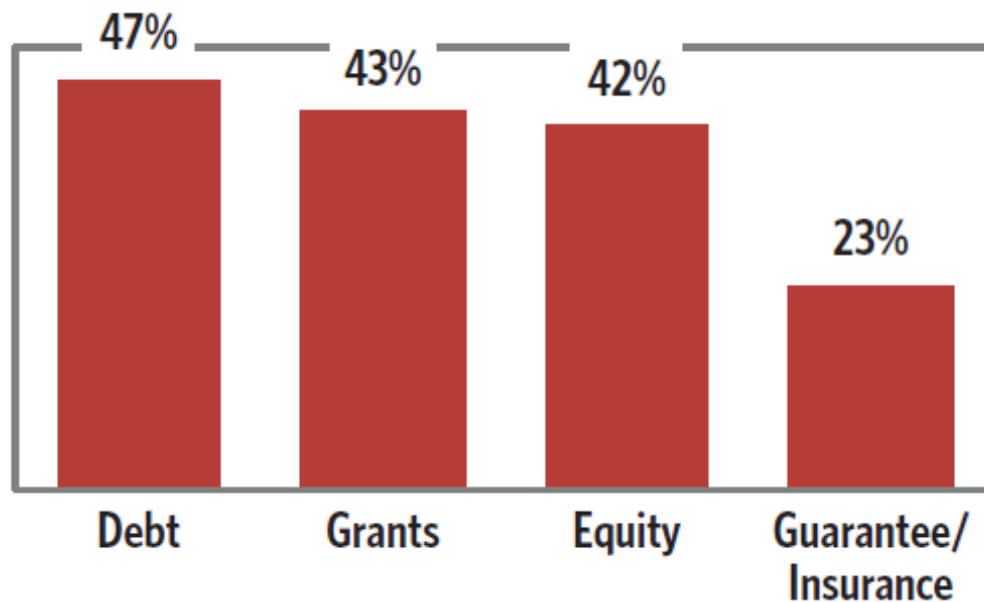
What are the trends in blended finance?

Initiatives not always address the most cited barriers

➤ ...especially currency and off-taker risk.

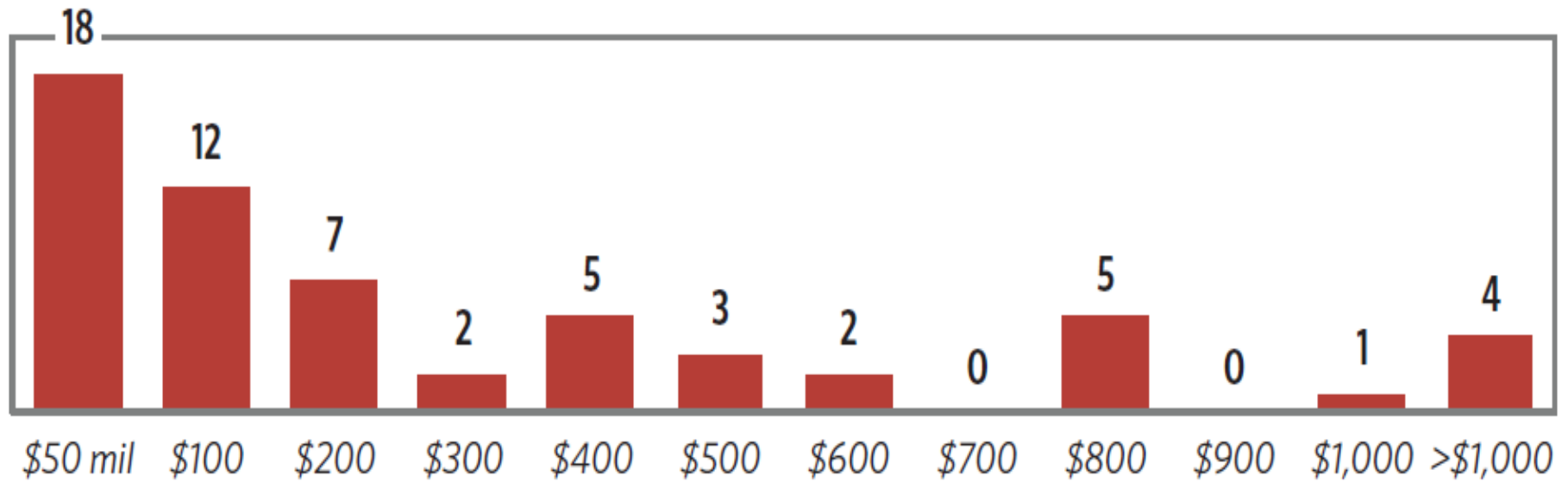


Most initiatives focus on direct investment



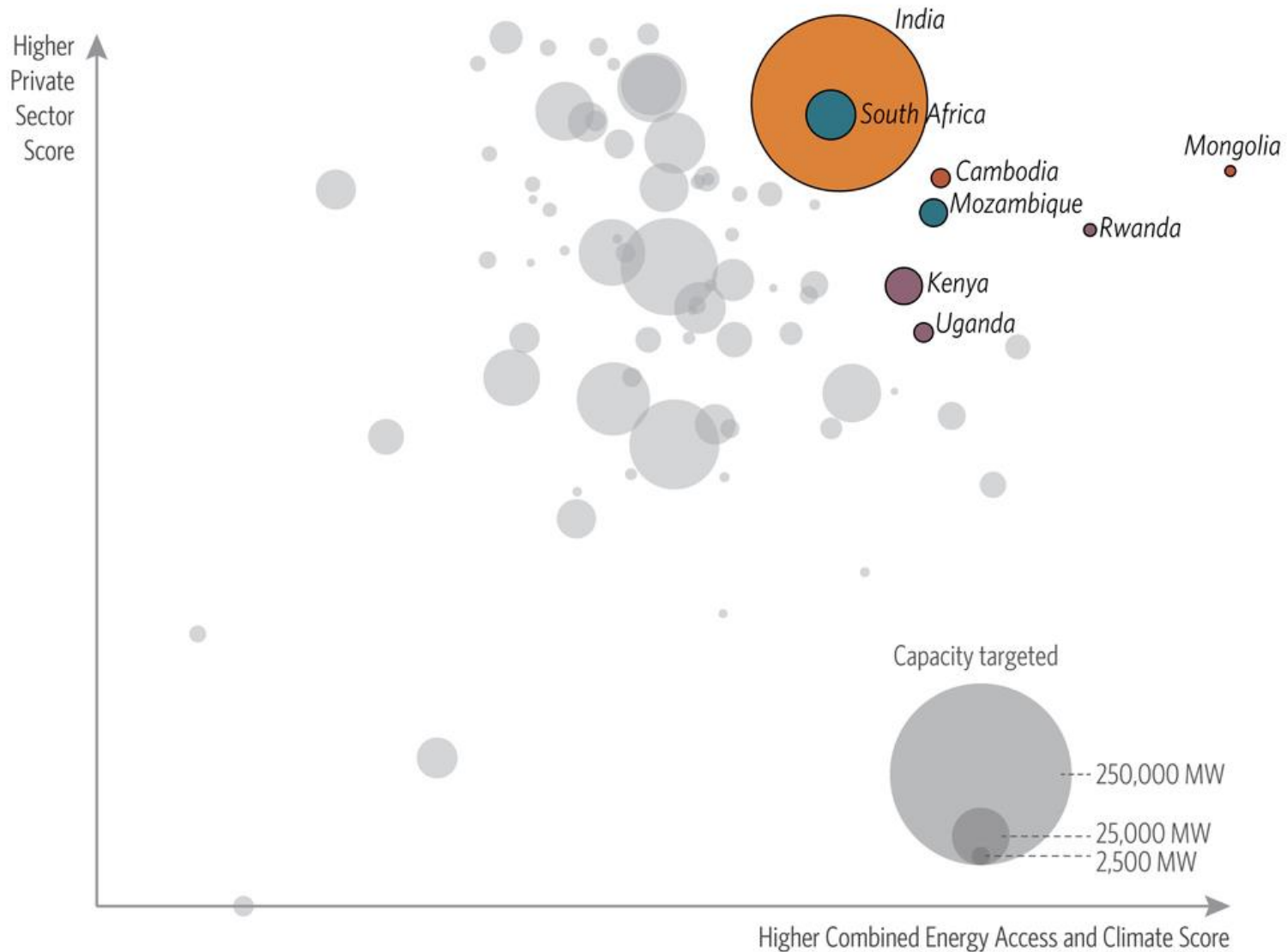
- **Not enough use of guarantees, which have track record of effectiveness in mobilizing private investment.**
- **Guarantees are 5% of commitments in multilateral institutions but generate 45% of private sector mobilization**

Most initiatives are too small to attract institutional investors.



What are the opportunities for impact?

Focus on high impact potential regions 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.

➤ **Develop and support intermediaries.**

- *They can bridge investors and pipeline, the public and private sectors, and international and local institutions.*

➤ **Scale ideas that work.**

- *This can require different approaches from innovation.*

➤ **Streamline and mainstream.**

- *Reduce transaction costs, incorporate technical assistance, train and maintain staff, align institutional incentives, standardize designs and agreements.*

Examples from the Lab

Unlocking innovation: The Lab



The Lab identifies, develops, and launches sustainable finance instruments that can drive investments into a low-carbon economy.

Lab instruments – renewables & energy efficiency



Contact

Valerio Micale

Valerio.micale@cpiclimatofinance.org



CLIMATE
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INITIATIVE

BRAZIL
CHINA
EUROPE
INDIA
INDONESIA
UNITED STATES

235 Montgomery St. 13th Floor
San Francisco, CA
94104, USA
climatepolicyinitiative.org