



BLENDED FINANCE

workshop for project developers and fund seekers

Luanda, Angola - November 2019



ABOUT

PART 1: CONTEXT: NEEDS, ACTORS, CONSTRAINT & INSTRUMENTS

PART 2: PROJECT EXAMPLES AND TEMPLATES

GREEN FINANCE: use of financial products and services (loans, bonds, private and public equity, insurance instruments) in ‘green’ (eco-friendly) projects. Green finance is **more than climate finance**: it includes land, forests, water, oceans, etc.

BLENDED FINANCE: mixing (blending) both public and private funds, where public funds serve to attract larger private capital investments through absorbing some risks (de-risking the project)

1. CONTEXT:

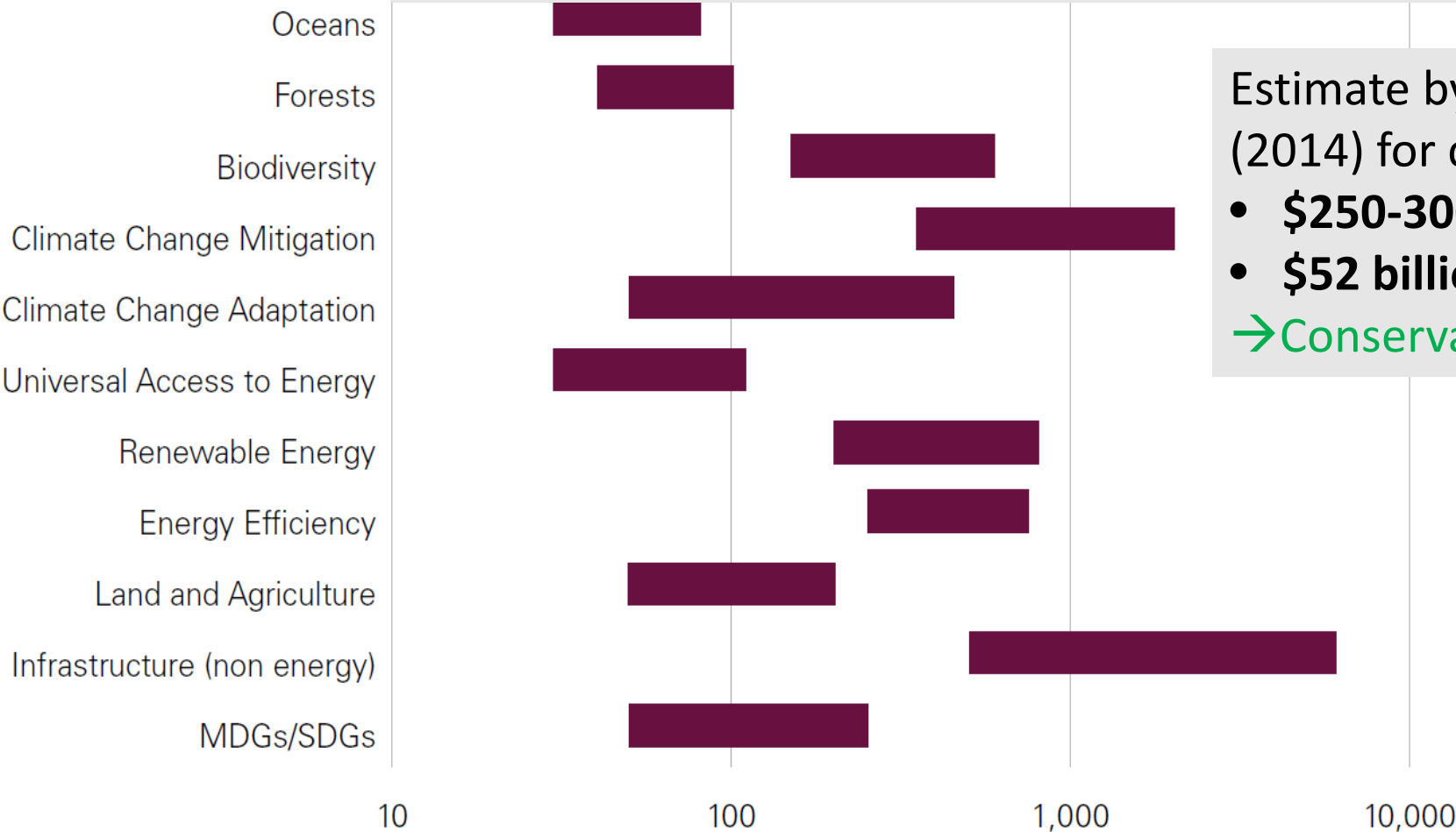
NEEDS, ACTORS, CONSTRAINTS AND INSTRUMENTS



FINANCING NEEDS FOR CONSERVATION: \$400-600 BILLIONS / YEAR

Investment requirements: ranges of estimates in \$ Billions per year

Estimate by UNTT working group on Sustainable Development Financing (2013)



Estimate by Credit Suisse, WWF & McKinsey (2014) for conservation finance:

- **\$250-300 billion per year needed**
 - **\$52 billion was available in 2014**
- Conservation gap = approx. \$200 billion

PUBLIC FUNDS COVER < 15% OF THE GAP | < 1% OF PRIVATE FUNDS COVER THE GAP



CONSTRAINTS

SO WHERE IS THAT 1% OF PRIVATE CAPITAL TO COVER CONSERVATION GAP?

1. POLICY, INSTITUTIONS AND REGULATIONS

- Legal and regulatory framework
- Financial markets and Institutional development

2. PROJECT-LEVEL

- **Risk:** Lack of bankable projects (insufficient return), lack of management track record; and Scale
- **Solution:** reduce risk at project level using blended finance – combining public funds (grants, loans, equity, guarantees) with private capital



POLICY

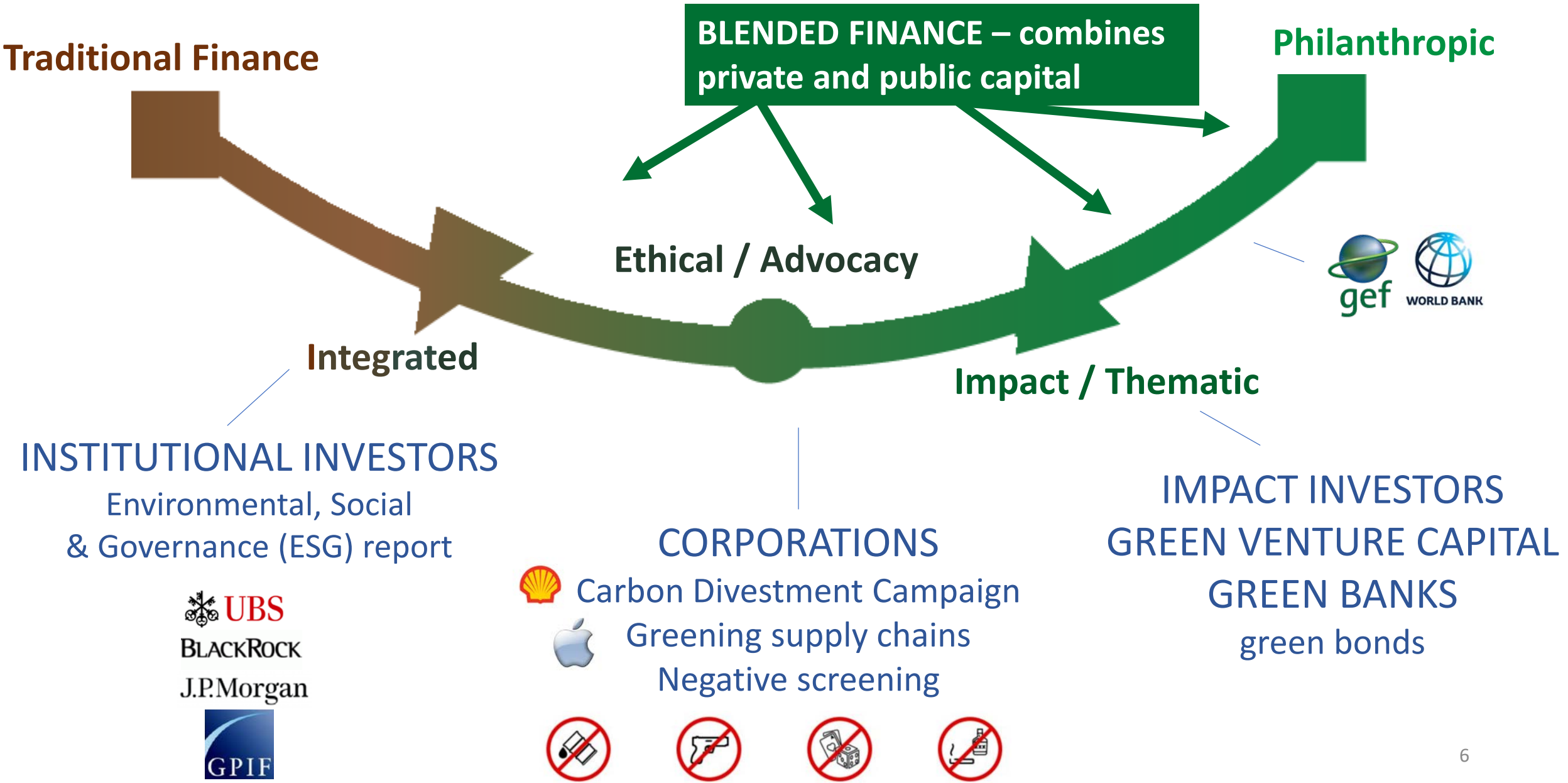
PROJECTS

IMPORTANT: PRIVATE SECTOR ENGAGEMENT INCLUDES NOT ONLY FINANCING, BUT BRINGING INNOVATION, INCREASING EFFICIENCY, COST SAVINGS ETC.

WE FOCUS ON FINANCE HERE – BLENDED FINANCE IN PARTICULAR



GREEN INVESTMENT TYPES on the spectrum of sustainability smile



GLOBAL SUCCESS OF BLENDED FINANCE REQUIRES SIGNIFICANT PARTICIPATION FROM KEY STAKEHOLDER GROUPS

DEVELOPMENT AGENCIES



MULTILATERAL DEVELOPMENT BANKS AND NATIONAL DEVELOPMENT FINANCE INSTITUTIONS



PRIVATE INVESTORS



PHILANTHROPIC FOUNDATIONS

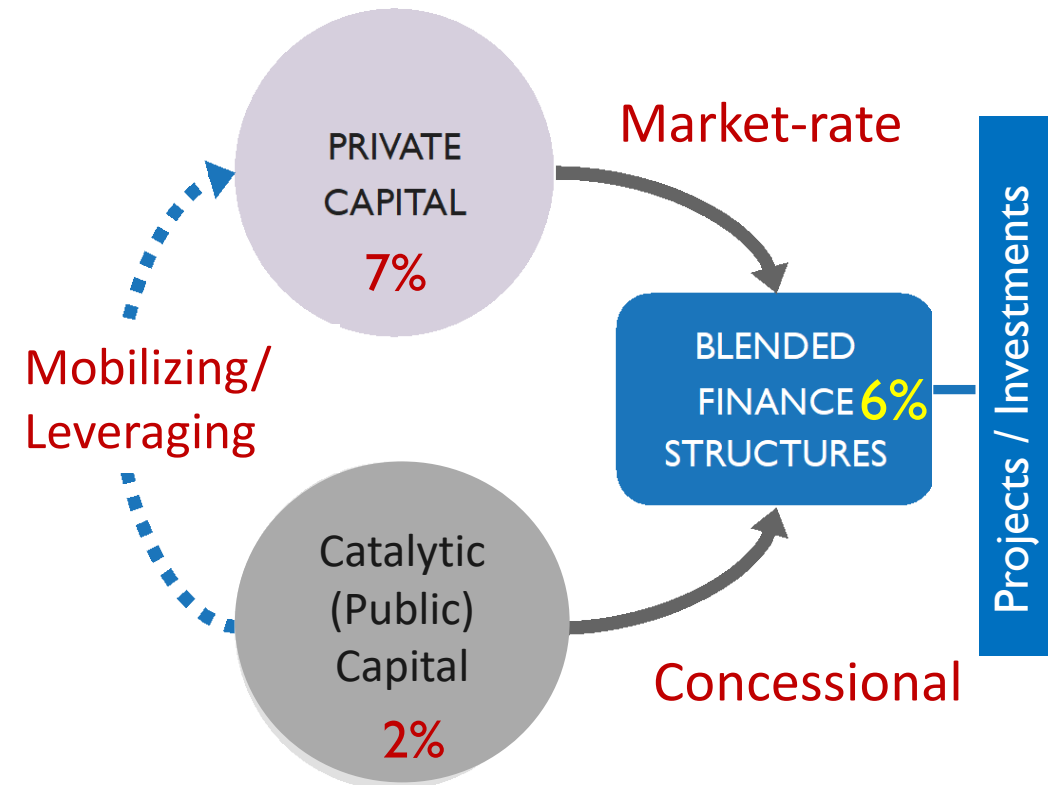


BLENDED FINANCE

Definition: use of **public/development finance and philanthropic funds (catalytic capital)** to mobilize private capital

Example: Reducing cost of credit by blending Public & Private capital

- Project generates **6%**
- Private funder needs **7%** on \$8m credit
- Public funder accepts **2%** on \$2m credit (or grant)
- Total: \$10m, project generates **6%**, $\$10m \times 1.06 = \$10.6m$
- Private funder receives: $1.07 \times \$8m = 8.56$ (**7%** on \$8m)
- Public funder receives: $1.02 \times \$2m = 2.04$ (**2%** on 2m)
(or nothing if grant)





MAIN FINANCIAL INSTRUMENTS IN BLENDED FINANCE

DEBT

Loan: private transaction, interest payment, specific time, collateral

Bond: public (min \$100m)

Seniority matters:

- Debt is senior to Equity
- Senior vs junior debt
- Senior: safer, lower %

EQUITY

Ownership in the business
 $\$ = \text{Capital gain} + \text{Dividends}$

Seniority matters:

- Preferred vs common (junior) shares in liquidation
- Dividends different/greater

RISK MNGT INSTRUMENTS

GUARANTEES / INSURANCE / DERIVATIVES

Guarantee - the guarantor will take the first “hit” (up to a predefined limit) in exchange for a fee

Credit guarantee – covers non payment by private borrowers

Performance guarantee - for the contractor to perform the obligations

MAIN ARCHETYPES & INSTRUMENTS USED IN BLENDED FINANCE

DEBT OR EQUITY

Public investors are concessional within the capital structure: take subordinate and/or junior terms compared to private co-investors

CAPITAL STRUCTURE

Senior Debt

Subordinated Debt

Equity

Junior Equity

Private investors

Public

LEVEL OF SENIORITY

RISK MNGT INSTRUMENTS

Risk reduction tools that protect investors against capital losses

CAPITAL STRUCTURE

Guarantee

Senior Debt

Equity

OUTCOMES BASED FINANCING

- Payment based on measurable outcomes
- Outcome payor (usually governments or foundations) provides funding if and when the outcome is achieved

Example: Rhino project

Proven Outcomes

Payments



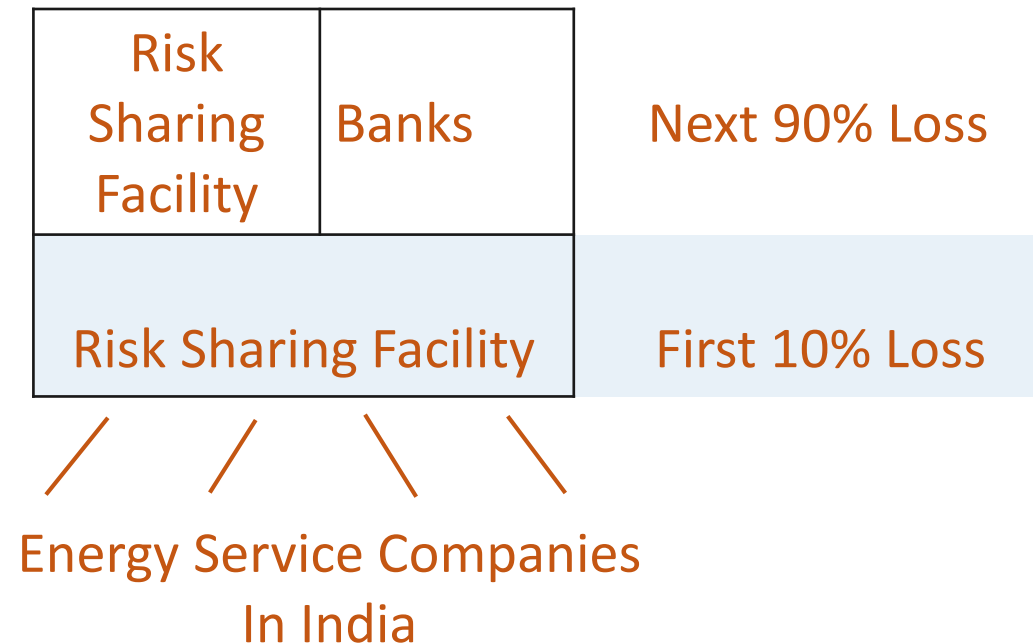
1. CONTEXT:
NEEDS, ACTORS, CONSTRAINTS AND INSTRUMENTS

2. PROJECT EXAMPLES & TEMPLATES

GEF-5: GUARANTEES FOR ENERGY EFFICIENCY PROGRAM

GEF \$18m as guarantees, co-financing \$152m
World Bank

- **Background:** Energy Service Companies - private enterprises implementing improvements to reduce energy consumption - seek lending for equipment and process improvements
- **Barriers:** companies lack access to commercial credit - high collateral required by the banks
- **Solution:** credit enhancement guarantee program, establishing Partial Risk Sharing Facility to share risk with commercial banks



GEF-6 NGI: JUNIOR EQUITY FOR AGRO-FORESTRY



**GEF invested in \$12m junior equity, co-financing \$50.8m
African Development Bank (AfDB)**

- **Background:** support for sustainable land management and agro-forestry production
- **Barriers:** private investors reluctant to invest in agro-forestry due to: long payback periods, lack of track record, product price uncertainty
- **Solution:**
 - Moringa Agro-Forestry Fund for Africa, managed by the AfDB
 - GEF takes junior equity position - lowers risks for private investors
 - Fund: 6 replicable agroforestry projects in sustainable land management
 - Burkina Faso, Cote d'Ivoire, Kenya, Mali, Tanzania, Zambia, Congo DR
- **Activities/revenues:** plantation forestry and agricultural products



HOTELS INSURE CORAL REEFS

Who:

- **Hotels** + local organizations dependent on tourism + **Government of Mexico**
- pay premiums (between \$1m-\$7.5m per year) in a collective insurance fund - backed by the government and managed by **Swiss Re**

Insurance policy:

- 60km stretch of reef and beach, monitored
- If storms damage the reef system, the insurer (Swiss Re) will pay out around \$25m-\$70m in any given year
- Payouts will be used for restoration of the reef by **TNC**



OUTCOMES-BASED FINANCING FOR RHINO CONSERVATION

- Impact Investors pay into Special Purpose Vehicle (SPV) that provide funds to NGO to increase rhino population:

Impact investors → SPV → NGO for achieving outcomes

- SPV is set up: to channel funds + account for losses/profits
- Full/partial repayment based on indicators achieved:

Outcome Payers (donors, Gov) → SPV → Impact Investors

- Result: risk transfer + efficiency + Government will have more money later to repay



Rhino II impact investment project

Implementing agent:



Supporters:



Implementing partners:



CONSERVATION INVESTMENT TEMPLATES

by Coalition for Private Investors In Conservation



Templates in the areas of:

- Coastal resilience
- Forest landscape conservation
- Green infrastructure for watershed management
- Sustainable agricultural
- Sustainable coastal fisheries

Selected templates – next slides. [More at CPICFinance.com](http://CPICFinance.com)

Partners:





TEMPLATE: PPP FOR MARINE CONSERVATION



Geography: Caribbean island states, South East Asia

Investments: loans to businesses (PPPs) for the management of MPAs

Revenue: Visitors fees + tourism activities: diving, snorkeling, tours, water sports

Revenue dependency: min 100k 'blue' tourists per year and 200k fee visitors

MPAs management via Special Purpose Vehicle (SPV)

- to receive loan from investors and invest in MPAs
- get user fees and pay back to investors
- to keep liabilities, taxation, and regulation as a distinct legal entity

Investment sought: average debt \$2.5m per SPV, 8 years, 2 years grace period

Investors: DFIs, private impact investor funds, and national stakeholders (HNWIs)





TEMPLATE: FOREST CONSERVATION



Blended Finance: private equity investments + public \$ (small business loans)

Revenue:

- Investors (timber companies) purchasing forests, or purchasing land and reforesting; sustainably manage it according to sustainability certifications
- \$ sale of land rights to Conservation Organization via conservation easement
- Sustainable logging fees
- Carbon credits sold by land owners with sequestration commitment
- Permits from sportsmen club

Revenue dependency:

- Legislation allowing conservation easements for cash/tax credit
- Conservation Organization with sufficient capital
- Land with critical value/size



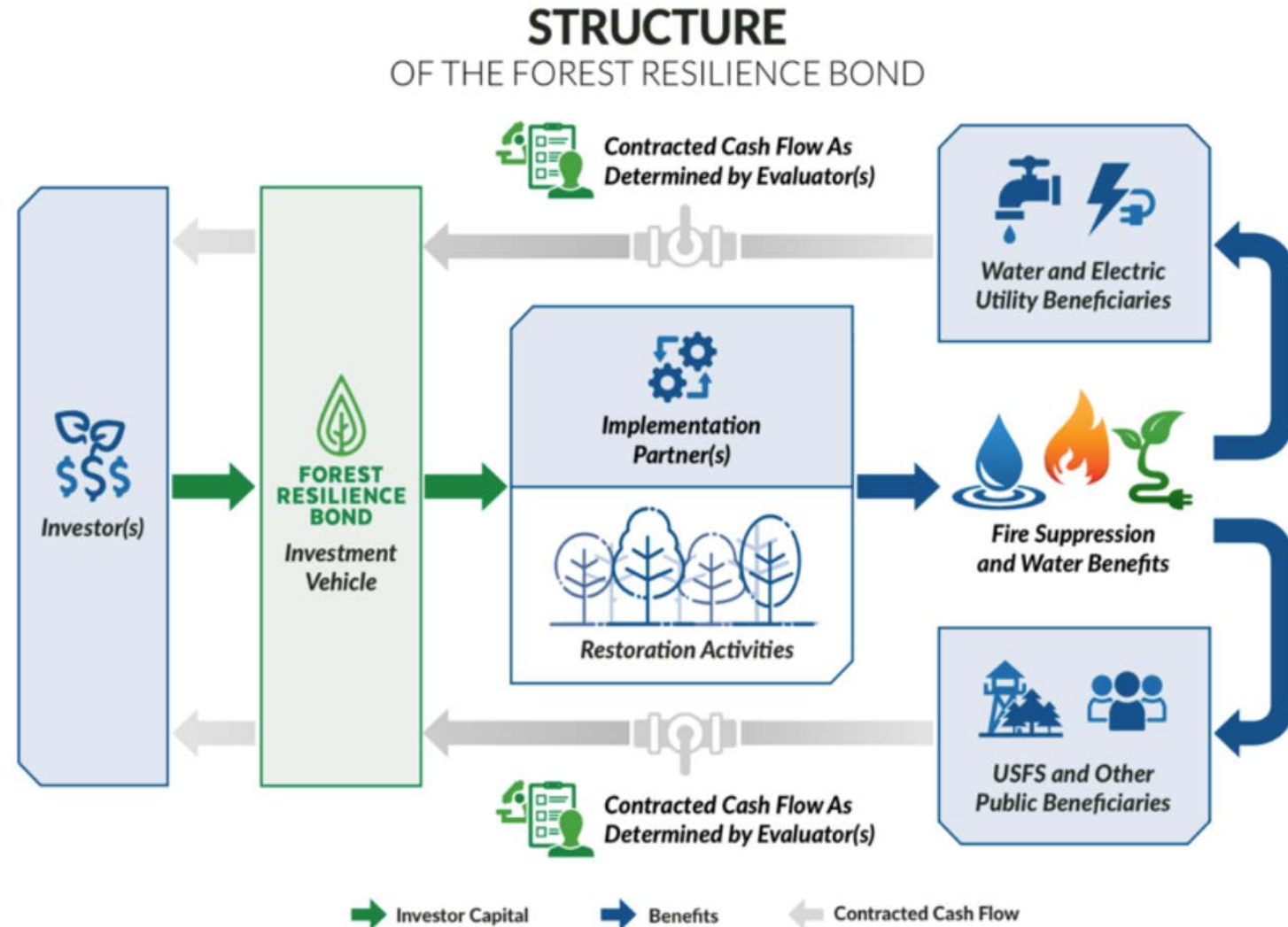
TEMPLATE: FOREST RESILIENCE BOND

- Metrics of success
- Investors - provide upfront capital
- Implementing partners - restoration
- Evaluators - measure success
- \$: Beneficiaries → SPV → Investors

Benefit: reduced risk of severe wildfire

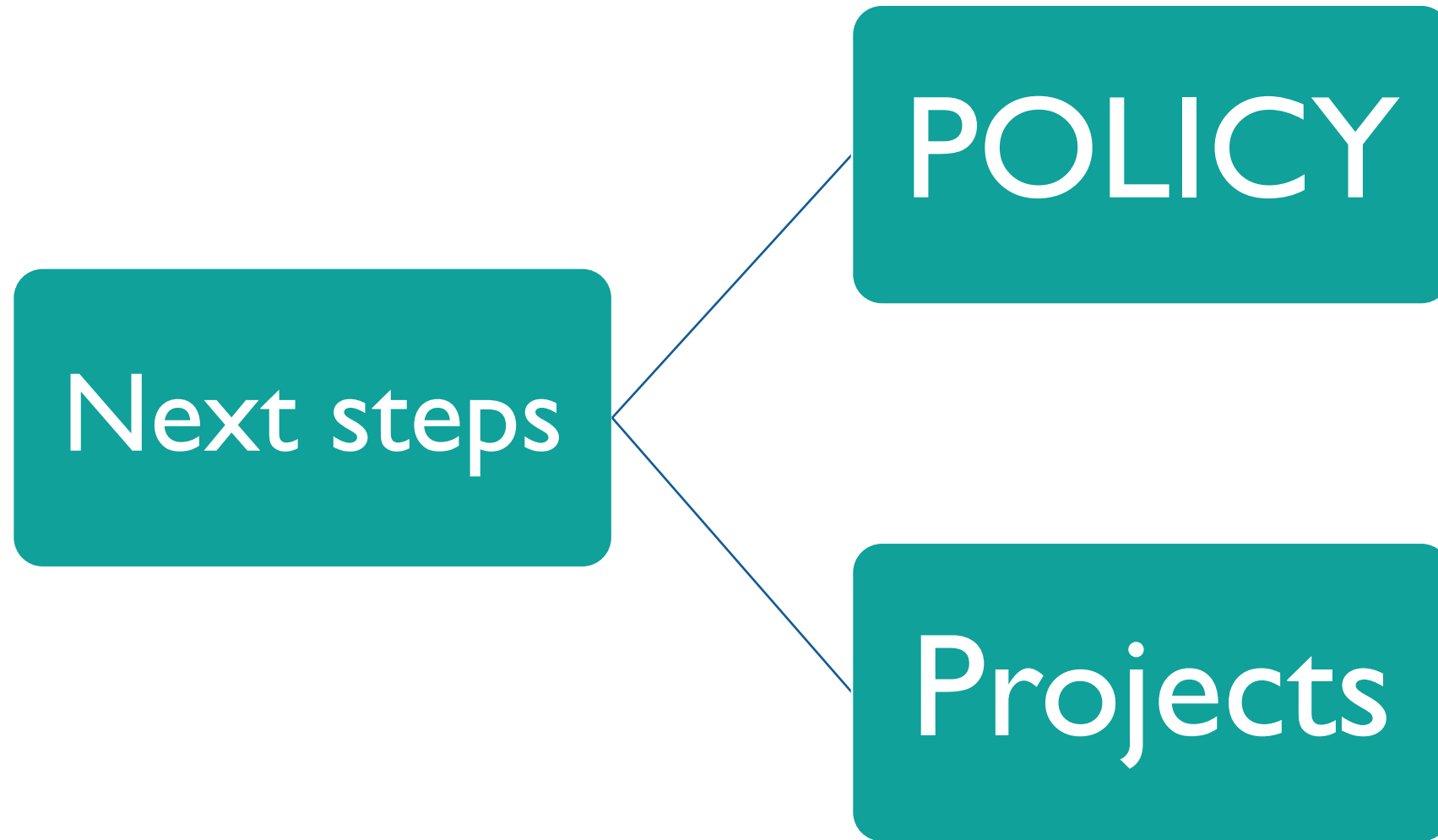
Beneficiaries:

- forest service
- water and electric utilities
- state and local governments
- private landowners
- water-dependent companies



Source: Blue Forest Conservation and Encourage Capital (2017)

WHAT DO WE DO NOW?





SELECTED PRIVATE GREEN FINANCE ACTORS

INSTITUTIONAL INVESTORS

- via CPIC or NaturVest at TNC – project preparation
- UBS, Credit Suisse, BlackRock, GPIF – ESG investments

IMPACT INVESTORS

- Mirova, NatureVest, Encourage Capital (Forest Bond example), Global Impact Inv Network

VENTURE CAPITAL

- WB InfoDev Climate Technology program; GEF/UNIDO CleanTech Open

PARTNERSHIPS

- Coalition for Private Investors in Conservation (CPICfinance.com)
- Convergence - blended finance facility and database (www.convergence.finance)
- Green Banks - contact Coalition for Green Capital (coalitionforgreencapital.com)



QUESTIONS?

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RESOURCES

- 20+ studies on Private Sector Conservation Finance
<http://cpicfinance.com/resources>
- Convergence database on Blended Finance transactions
<https://www.convergence.finance>
- Green Finance Network on LinkedIn: 500+ global practitioners