BLENDED FINANCE
workshop for project developers and fund seekers

Luanda, Angola - November 2019
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.

BLENDDED 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

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
CONSTRANTS

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

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

INSTITUTIONAL INVESTORS
Environmental, Social & Governance (ESG) report

CORPORATIONS
- Carbon Divestment Campaign
- Greening supply chains
- Negative screening

Impact / Thematic

BLENDED FINANCE – combines private and public capital

Ethical / Advocacy

Integrated

Traditional Finance

Philanthropic

IMPACT INVESTORS
GREEN VENTURE CAPITAL
GREEN BANKS
green bonds

UBS
BlackRock
J.P. Morgan
GPIF
GLOBAL SUCCESS OF BLENDED FINANCE REQUIRES SIGNIFICANT PARTICIPATION FROM KEY STAKEHOLDER GROUPS

DEVELOPMENT AGENCIES
- Global Affairs Canada
- USAID
- Department for International Development
- Aecid
- Sida
- JICA
- AFD

MULTILATERAL DEVELOPMENT BANKS AND NATIONAL DEVELOPMENT FINANCE INSTITUTIONS
- IFC
- gef
- CDC
- OPEC
- EDFI
- OPIC
- BIDB
- FMO
- KfW DEG

PRIVATE INVESTORS
- Deutsche Bank
- UBS
- Allianz
- storebrand
- BNP Paribas
- AXA
- Christian Super
- Citi
- Cordiant
- JPMorgan Chase & Co.

PHILANTHROPIC FOUNDATIONS
- Bill & Melinda Gates Foundation
- MacArthur Foundation
- Rockefeller Foundation
- Omidyar Network
- Ford Foundation
- DOEN Foundation
- Calvert Foundation
- Shell Foundation
- ACCION
- AGA KHAN FOUNDATION

CONVERGENCE
**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 x 1.06 = $10.6m
- Private funder receives: 1.07 x $8m = 8.56 (7% on $8m)
- Public funder receives: 1.02 x $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 
  $ = Capital gain + 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
Public investors are concessional within the capital structure: take subordinate and/or junior terms compared to private co-investors.

Risk reduction tools that protect investors against capital losses:

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

Example: Rhino project
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 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 $\rightarrow$ SPV $\rightarrow$ 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) $\rightarrow$ SPV $\rightarrow$ Impact Investors

• Result: risk transfer + efficiency + Government will have more money later to repay
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
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)
**Blended Finance:** private equity investments + public $ (small business loans)

**Revenue:**
- Investors (timber companies) purchasing forests, or purchasing land and reforested; 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?

Next steps

POLICY

Projects
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