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Blended Finance for Sustainable Infrastructure

Neha Bhatia

India Partner Sustainable Finance, ERM

19 January 2023

Sustainable Infrastructure in a changing world

Sustainable Infrastructure

- Infrastructure that is planned, designed, constructed, operated and decommissioned in a manner that ensures economic and financial, social, environmental (including climate resilience), and institutional sustainability over the **entire infrastructure life cycle**.
- It can include built infrastructure, natural infrastructure or hybrid infrastructure that contains elements of both.
- Links all 17 UN SDG targets, and directly or indirectly influences 92% of all individual SDG targets

\$7 trillion

needed each year till 2030 to
meet the UN Sustainable
Development Goals

How do we fund it?

Source: UNEP, OECD



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Blended Finance: a quick introduction

What is Blended Finance

- Blended Finance is an approach to create funding structures “layered” by risk appetite, “blending” together concessional and commercial funding
- “Concessional capital” with the greatest risk-absorptive capacity is meant to **act as the catalyst** to attract layers of private funding at commercially acceptable terms
- Projects are made **more bankable** by de-risking structures in the form of insurance, guarantees, first-loss absorption, etc

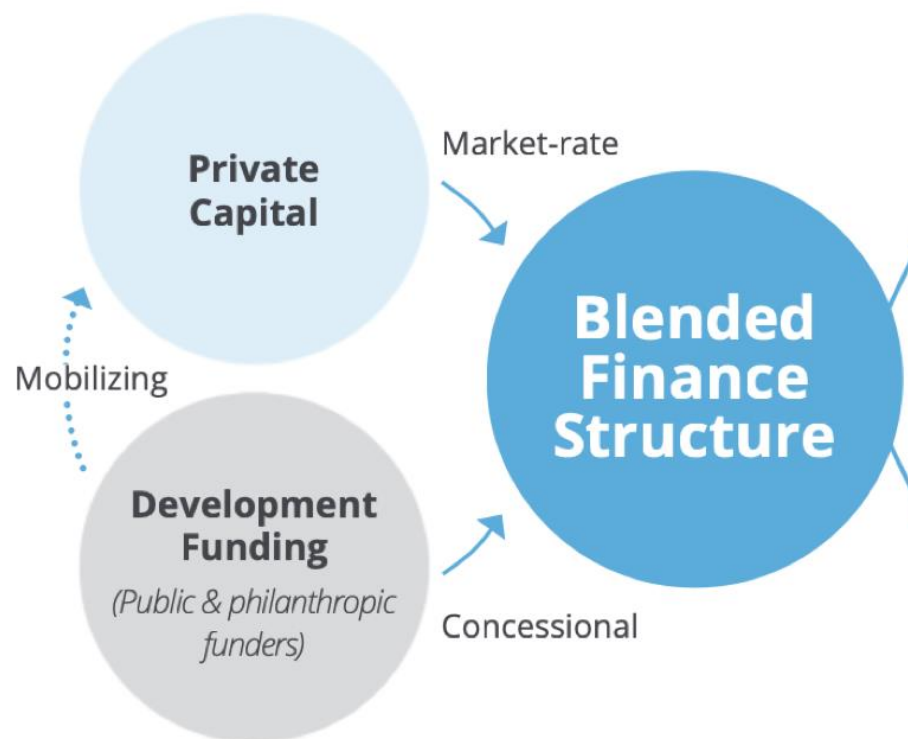


Design is key to successful funding



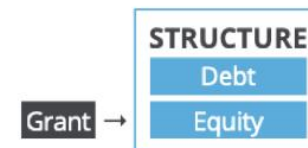
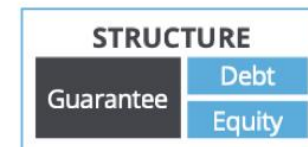
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Blended Finance: different forms



EXAMPLE STRUCTURES

- 1 Private equity or debt funds with concessional public or philanthropic funding attracting institutional investment
- 2 Bond or note issuances with concessionally priced guarantees or insurance from public or philanthropic funders
- 3 Grant funding from public or philanthropic funders to build capacity of investments to achieve expected financial and social return
- 4 Grant funding from public or philanthropic funders to design or structure projects to attract institutional investment



Source: Convergence



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Blended Finance Structures in Action:

1. Urban Transportation in India and Vietnam



Developmental requirement: Develop electric mass mobility solutions in India and Vietnam.
India: 225 e-buses operating in 56 high intensity traffic areas, expected to serve 5m passengers annually
Vietnam: Up to 140 e-buses. Develop charging infrastructure



Impediments: High upfront cost of fleet replacement and development of charging infrastructure with clean sources of electricity.



Solution: Concessional capital to purchase e-bus fleet; Capex to develop charging infrastructure through solar + battery solutions at bus depots (off grid charging) – via **Climate Innovation and Development Fund**, jointly funded by ADB, Bloomberg Philanthropies and Goldman Sachs.



Structure design:

CIDF: Capex +
Concessional capital

E-BUS PROJECT
Operational revenues
provide investor returns

Private sector funding
(debt + equity)



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Blended Finance Structures in Action:

2. Offshore Wind in Emerging Markets



Developmental requirement: Generate wind energy off the coast of countries such as Brazil, Indonesia, India, the Philippines, South Africa, Sri Lanka, and Vietnam that present an **opportunity for cost-competitive, large-scale fixed or floating offshore wind projects located close to areas of high energy demand.**



Impediments: Wind energy is likely to see \$500b of investment by 2030. There is existing precedent in Europe on technological feasibility with existing framework developed over time, and most private capital flows there.
Issues: Need for reliable data, upfront capex funding, feasibility study, concessionaire framework.



Solution: Bringing together grant funding to raise awareness, technical partners to develop standards and design feasibility, and provide upfront capex funding via multilateral financing vehicles (World Bank ESAMP, UK Government grant, Global Wind Energy Council, TU Denmark (*Wind Atlas* data), IFC)



Structure design:

UK Government grant funding +
World Bank ESAMP + GWEC + TU
Denmark (technical + awareness) +
IFC developmental capital



OFFSHORE WIND
Operational revenues from
power generation



Private sector funding
(debt + equity + insurance)

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Blended Finance Structures in Action:

3. Ocean Conservancy in Belize



Developmental requirement: Belize is highly dependent on marine ecosystem for food and jobs, with most of the national income generated through tourism (including reef-based) and commercial fisheries. This requires a healthy marine ecosystem.



Impediments: While benefits of marine preservation will result in commercial gains, it requires a holistic state-led approach. Lack of private sector funding, and high cost of government debt (Belize is rated B- by S&P)



Solution: The Nature Conservancy (TNC) lent funds to Belize government to buy back existing \$550m of debt; financed by issuing \$364m in blue bonds, underwritten by Credit Suisse – with 10Y grace period and a long 19Y maturity – supported by International Development Finance Corporation (DFC) providing Political Risk Insurance (PRI). The “savings” generated on debt (c. \$180m) enable Belize government to invest in marine conservancy of 30% of its ocean areas.

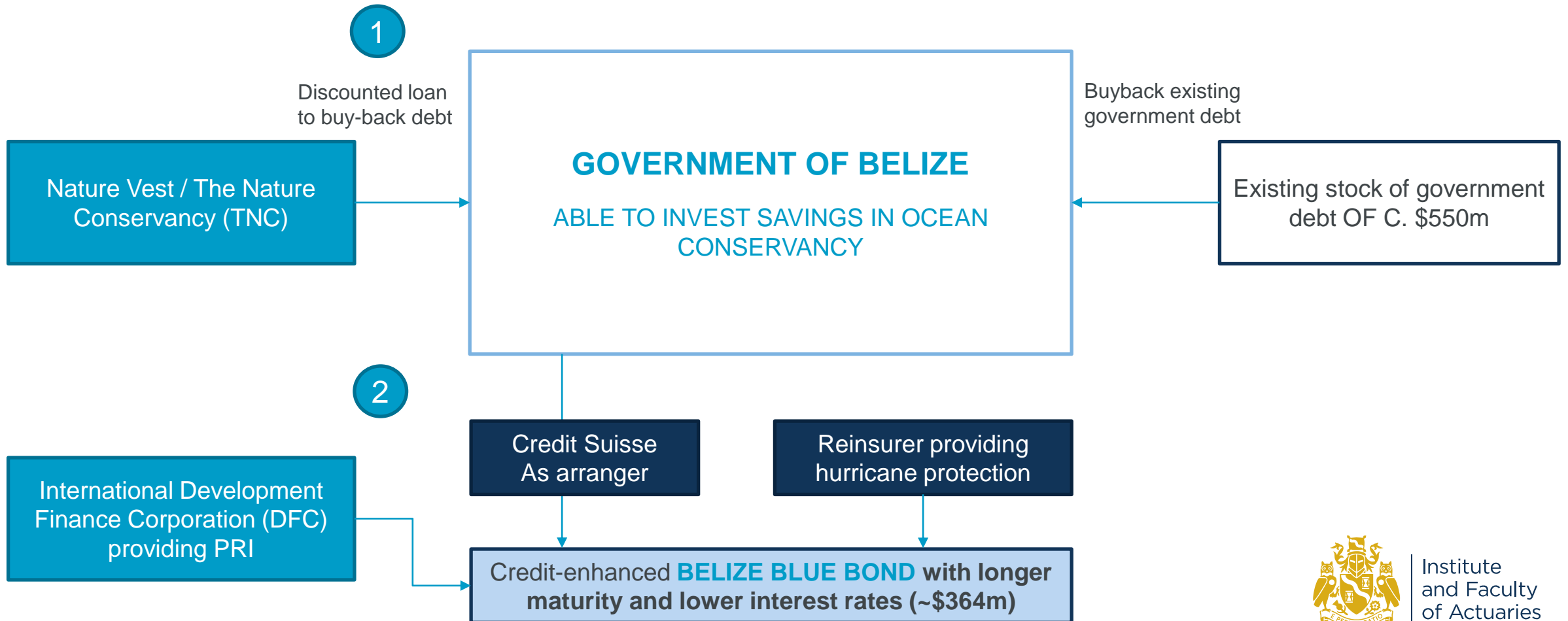


Structure design: see next slide

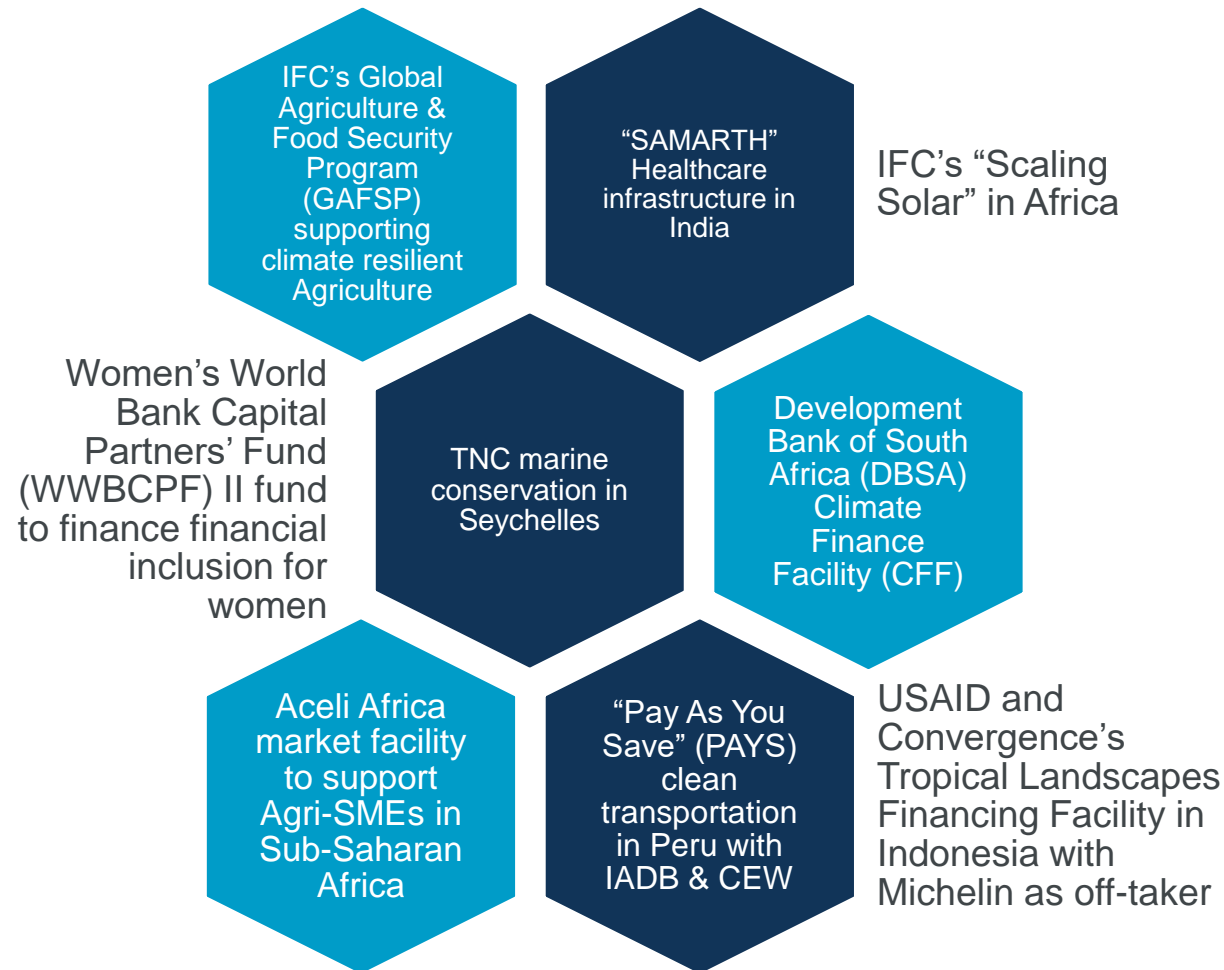


Blended Finance Structures in Action:

3. Ocean Conservancy in Belize – Structure design



.. and many more success stories



KEY SUCCESS FACTORS

- ✓ Clear identification of need for intervention
- ✓ Structure designed to meet the key risks
- ✓ Early alignment between risk-takers and technical partners
- ✓ Scalability and private investment as part of structure design



Scaling Blended Finance: Creating Bankable Projects

Scaling smaller projects

- Creating Fund companies or Programs that aggregate private capital, dispense smaller loans, and avoid duplication costs and repeat due diligence by creating project templates

Feasibility study

- Grant funding and Technical Assistance for feasibility study and pilot projects; especially useful to establish the business case and project plan for new technology deployment

Capex for upfront investment

- Transition to green infra and clean energy requires higher upfront investment that can be done via bridge loans and initial capex funding; expected to be repaid once operational

Horizon transformation

- Structure upfront funding and repayment schedules to balance the requirements of private investors (shorter horizon) with project needs (longer horizon) by assuming extra risk

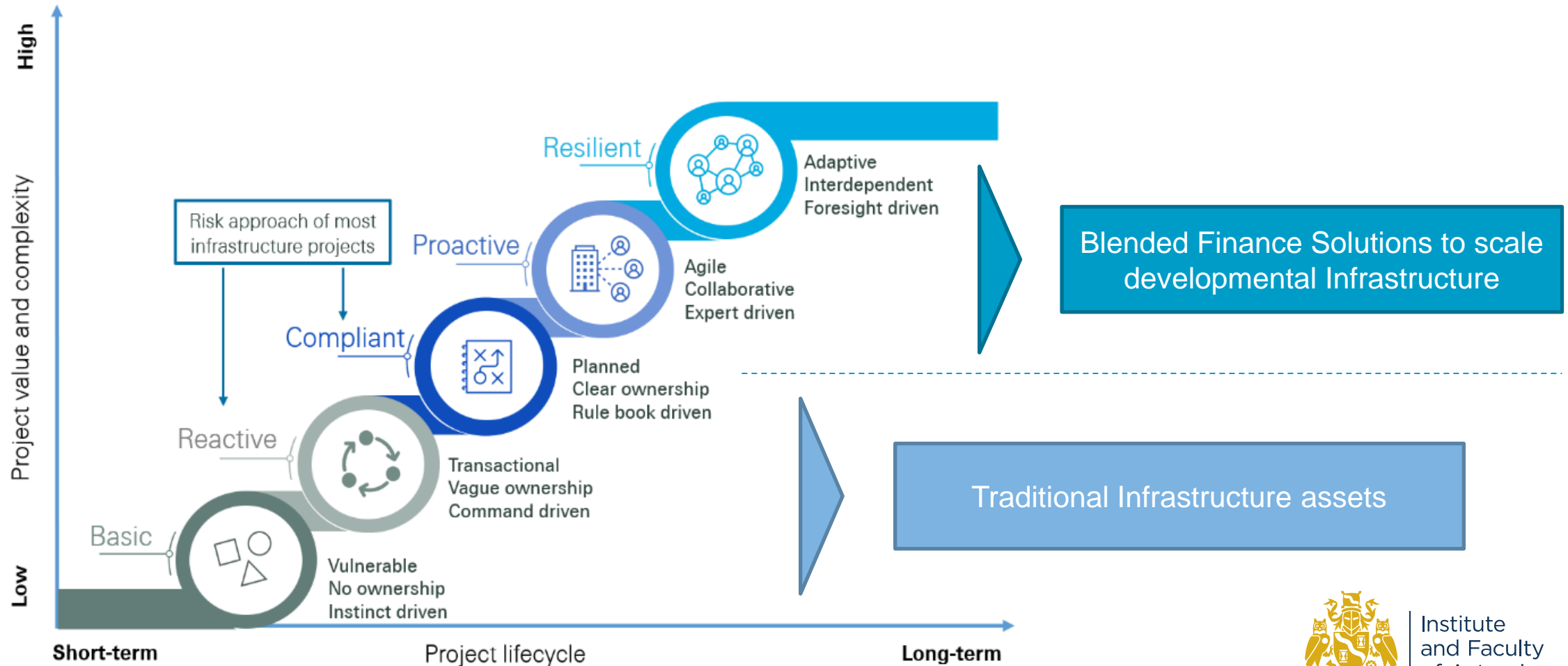
Efficient risk allocation

- Involve multiple public and private players to allocate appropriate risks, e.g. PRI via multi-lats, insurable risks via insurance covers, FX risks via capital markets, etc.

Lowering Capital Costs

- Using either direct concessional finance or a combination of one or more above structures to lower overall cost of capital of the project to make the risk-return profile attractive

Design is key: Start early, scale better to succeed



Source: Swiss Re Institute



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Any Questions?

Any Comments?



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Feedback



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Thank you!

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