IFC’s EXPERIENCE BLENDING CONCESSIONAL FUNDS TO MOBILIZE PRIVATE FINANCING

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WHAT IS “BLENDED FINANCE” FOR IFC?

Concessional co-investment = Financing at softer terms through price, tenor, rank, security or a combination to reduce project risk

Concessional funds can take higher risk and/or lower returns than IFC to enable high-impact projects
WHY/WHEN DOES IFC BLEND CONCESSIONAL FUNDS?

- When a project is not commercially viable due to **high perceived or real risks** and/or costs
  - Blended finance can help “fill the temporary gap” in the market and accelerate/catalyze private sector investments
  - In sectors/markets that can become **commercially viable** over time

**Blended climate finance allows IFC to engage in new sectors, technologies, and countries sooner and/or at larger scale**
IFC’s Principles for Deploying Blended Finance

1. **Moves Beyond IFC Additionality**: Only supports transactions where a subsidy is needed.

2. **Avoids Market Distortion/Seeks Minimum Concessionality**: Provide minimal subsidy to make the project happen, with minimal market distortion.

3. **Leads to Sustainability**: Should not be applied where long term subsidies are required; limited in time; couple with advisory services (as needed) to broaden impact and achieve market transformation.

4. **Good Governance**: Conflicts of interest addressed by Blended Finance Committee, a sub-committee of IFC’s Senior Management, and a dedicated separate investment team.

**IFC pool of multilateral and bi-lateral concessional funds for climate**

- Climate Investment Funds
- Canada Climate Change Program
- Global Environment Facility

*IFC’s Blended Finance has a track record of being a disciplined investor with strong governance*
Committed Projects | Donor Investment | IFC Investment | Total Project Cost
---|---|---|---
48 | $381M | $1,295M | $5,638M

**Breakdown of Blended Climate Finance (BCF) Commitments**

**By Department**
- Infra: $212 (14)
- FIG: $118 (28)
- MAS: $52 (6)

**By Instrument**
- Senior Debt: $280 (30.5)
- Sub-Debt: $54 (4.5)
- Equity: $20.5 (4)
- Gtee: $26 (9)

**By Region**
- CSA: $42 (5)
- CAF: $76 (8)
- CLA: $89 (7)
- CEA: $67 (11)
- EMENA: $107 (17)

Note: Figures in US$ million as of October 2016; Numbers in (brackets) refer to project count; commitment figures above include cancelled projects and amounts (US$28 million), and exclude IFC Catalyst Fund for both BCF (US$76.5M) and IFC (US$75M).
Lessons of Experience
RELEVANCE OF CROWDING IN PRIVATE SECTOR ACTIVITIES

Increasingly recognized over time

~5% of GEF funding for private sector

~30% of CIF funding for private sector

“Substantive allocation” of GCF under a separate Private Sector Facility

Bilateral allocations to MDBs (e.g., Canada’s facilities with IFC, IDB and ADB)

Flexibility (country, technology/sector) can help follow investment opportunities in the private sector

Private Sector can be leveraged through both direct and indirect MDB interventions or “direct access” mechanisms through national entities
RELEVANCE OF MDB/IFI CO-FINANCING

Aligns interest of all parties over the life of the project

Balances innovation with financial discipline, which allows scaling-up

Helps to manage transaction costs for contributors
RELEVANCE OF UNDERSTANDING PRIVATE SECTOR TIMELINES AND REQUIREMENTS

Iterative multi-donor facility processes typically do not match private sector decision timeline

Delegated Authority to the implementing entity helps:

- Align timeline of funding decisions to project cycle
- Provide flexibility to react and respond faster to changes in project and market conditions

Key to successful engagement by implementing entities

- Well articulated risk appetite
- Clear eligibility criteria
- Established Principles & Governance framework to manage potential conflicts of interest (e.g., in IFC separate team and separate approval body)
STRUCTURING TO ENSURE “MINIMUM CONCESSIONALITY”

- “Minimum Concessionality” to avoid market distortion
  - “Concessionality” goes beyond pricing (instrument, ranking, etc.)
  - Helps maximize leverage of private sector and align incentives with other project financiers

- When possible, structure subsidies linked to demonstrated higher costs, clear utilization of funds, or achievement of milestones in projects with financial intermediaries
  - For example, ex-post interest rate reduction when targets are reached
DFI working Group on “Blended Finance for Private Sector Operations”

• **Working Group Objective**

  • Seek to establish a set of enhanced common principles and guidelines for the use of blended finance in private sector projects. **Timeline:** October 2017

  • Provide a coordinated approach, with a common understanding of the good practices to use and structure blended finance to improve development effectiveness and better leverage concessional resources to crowd-in private sector finance. **Complementarity** with other BF work streams.

• **Participants:** EBRD, AsDB, IIC, AfDB, EIB, ICD, AIIB, EDFI, IFC
Annex: Stories of Impact

Examples from Blended Finance
Catalyzing Major Solar PV Growth in Thailand

Project Background:
In 2008, solar energy accounted for less than 2 MW of installed capacity in Thailand. While solar technology costs started to fall and the government began providing incentives for solar developers, it was practically impossible to secure financing from local banks as there was no track record of performance of this technology in Thailand.

Use of Blended Finance:
Blended finance provided a loan with concessional pricing and longer tenor alongside IFC’s own account loan to support expansion of one of the early solar PV developers in Thailand, a solar power company, by 12MW.

Blended finance was used to help reduce long-term project finance risks for lenders and sent positive signals to the local financial markets for utility-scale solar.

Expected Market Transformation:
The financial success of these early solar farms has helped drive private investments in Thailand’s clean energy sector. Today, the company is one of Thailand’s largest solar farm developers with over 250 MW installed solar capacity and plans to expand beyond Thailand.

This project is a winner of UNFCCC 2014 Momentum for Change Lighthouse Activities Award
• Blended finance supported a series of investments to three Turkish banks for sustainable energy financing (SEF).

• Over time, the subsidy has been reduced and now SEF financing in this sector is taking place on a **fully commercial basis**, with IFC providing a US$96 million commercial loan to Yapi Kredi, whose EE portfolio grew from US$20 million to US$200 million in just two years and on track to reach US$750 by 2016.