



World Bank Group

Blended Finance and International Capital Flows supporting the transition to Net Zero

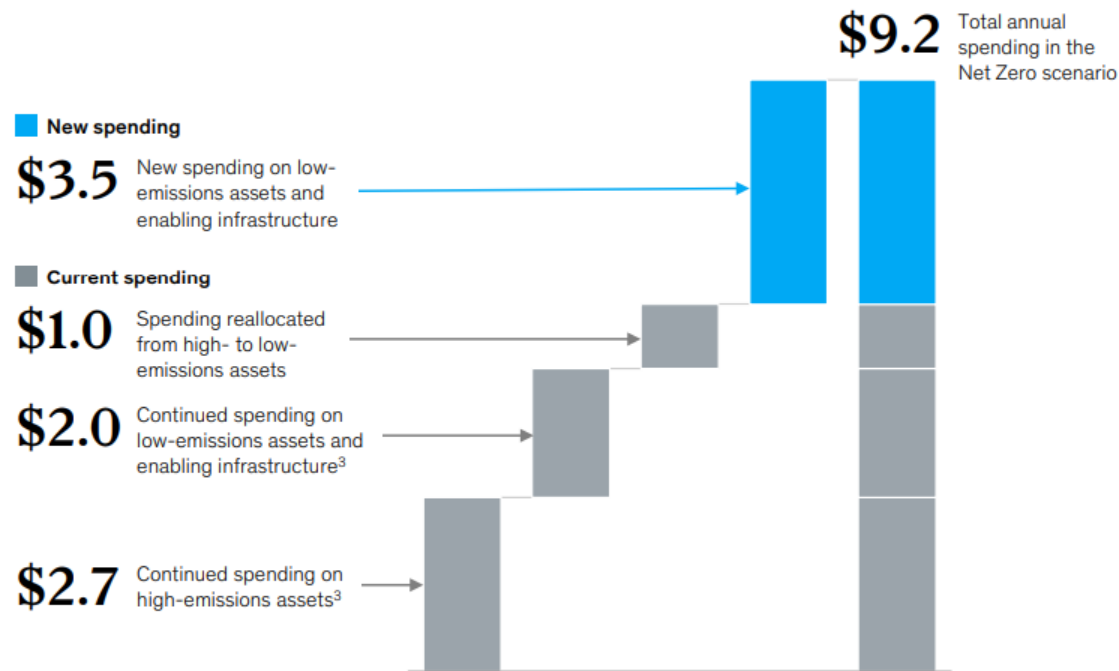
NGS Plenary –
Singapore, 26 April 2023



Investment needs for a just transition to a climate resilient and low-carbon society are enormous, especially for countries that least contributed to global warming

US\$ 273 trillion needed in energy and land use system for Net Zero between 2021-2050 (NGFS)

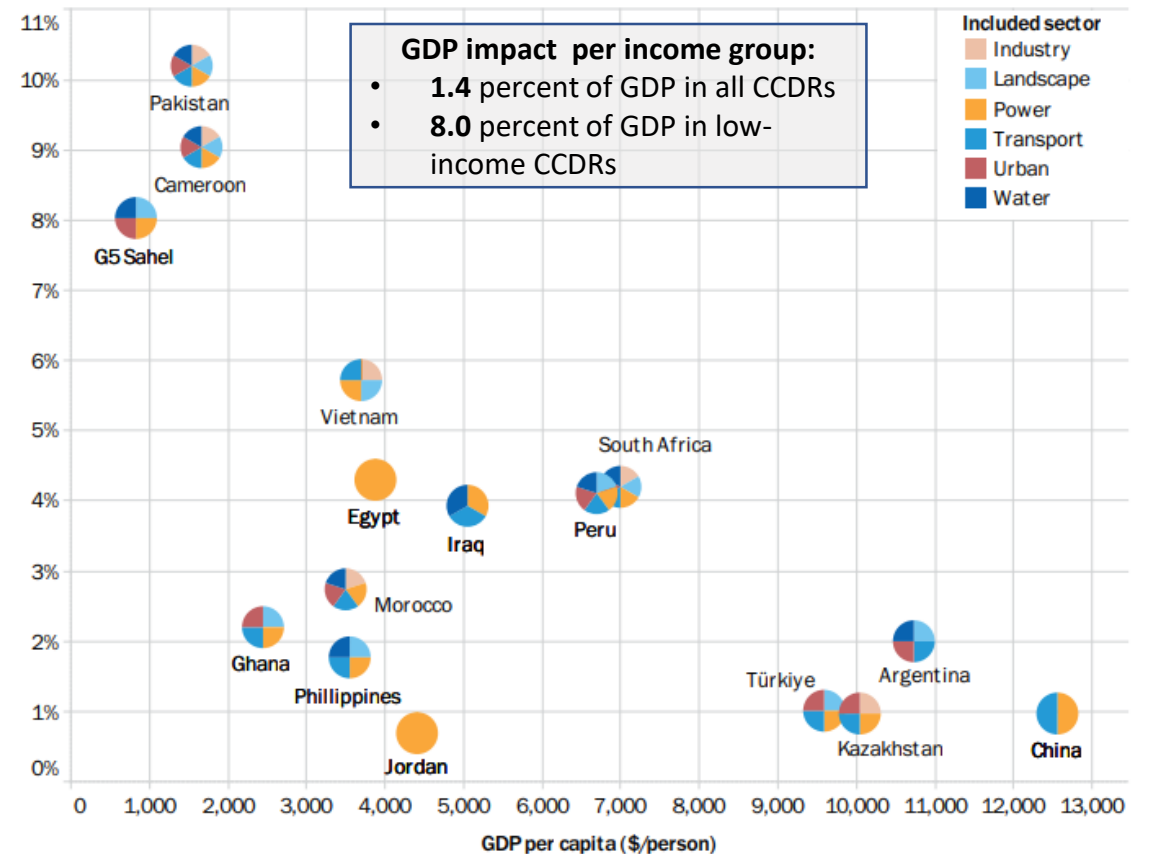
85 % of GHG emissions are generated by Energy and Land Use



Source: NGFS, McKinsey

Investments needs are larger in countries that contributed least to global warming (World Bank)

Investment needs for a resilient and low-carbon pathway, 2022–30



Source: World Bank CCDR

Blended finance is needed, combining multiple sources of finance

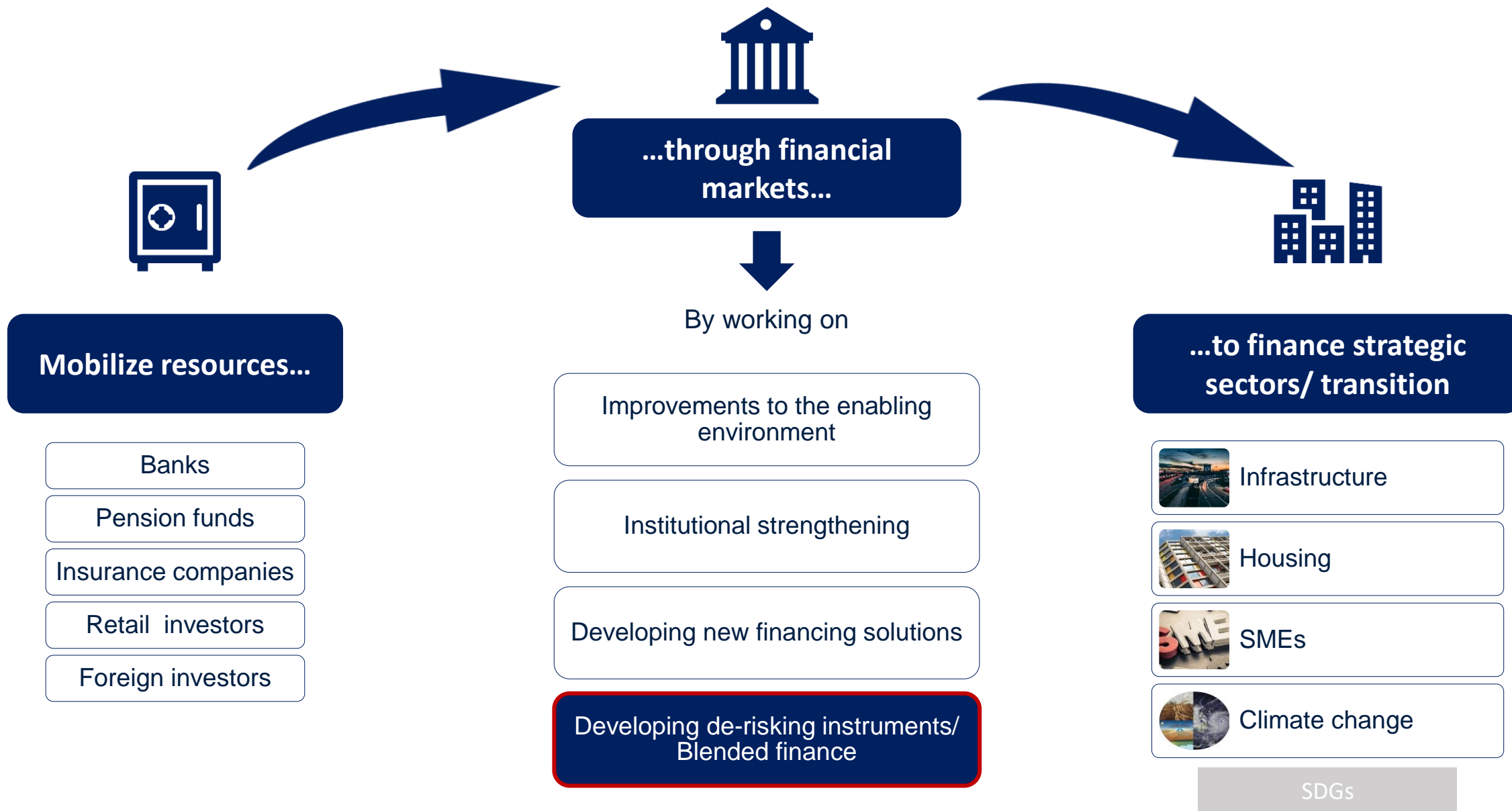
- Public resources
- Private resources
- Blended finance as bridge



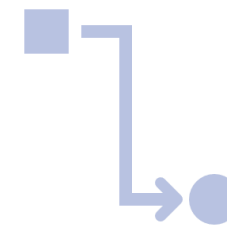
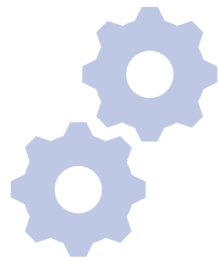
What is blended finance?

Combining concessional finance from donors or third parties alongside DFIs' normal account finance and/or commercial finance from other investors, to develop private sector markets, address the SDGs, and mobilize private resources - *DFI Working Group 2017*

Blended Finance covers many sectors and does not occur in the void



Blended finance - a theory of change to meet SDGs



Challenge

- Enormous investment needs
- Deficient private and financial sector enabling environment
- Affordability gap
- Credit risk and credibility gap

Action

- Private and financial sector policy and regulations
- Upstream reforms
- Project preparation facilities
- Private capital connectors

Outcome

- Conducive enabling environment
- Pipeline of strategic projects
- Innovative instruments/ vehicles operational

Impact

- Transition to net zero
- Sustainable development goals
- Economic development

Blended finance already critical to the WBG in its efforts to facilitate private capital

WBG channeled US\$ 413 billion in FY18-22 to LICs and MICs through...

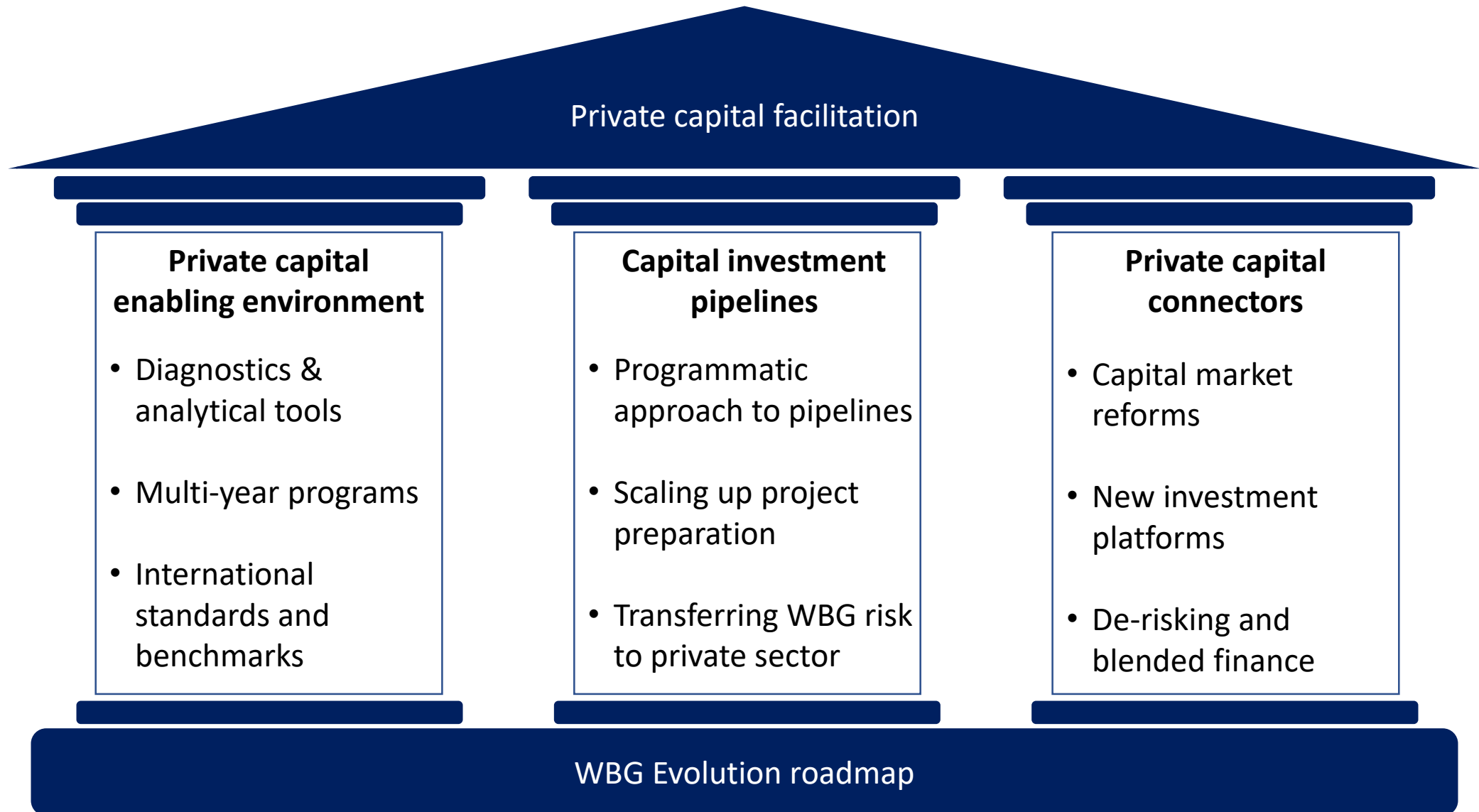
- Policy Advice / Lending
- Co-financing
- Issuing bonds
- Guarantees
- Catastrophe risk insurance
- Procurement



Key principles

- Debt sustainability of borrowers
- Cascade approach
- Risk sharing through blended finance

Private capital facilitation is being scaled up through the recently proposed WBG Evolution Roadmap



The connectors: implementing a blended finance strategy

- Domestic institutional investors
- Role of Strategic Investment Funds
- Role of Domestic DFIs

Domestic supply
of capital



- Wholesale approaches
- De-risking
- Results based finance and carbon markets

Cross border
supply of capital



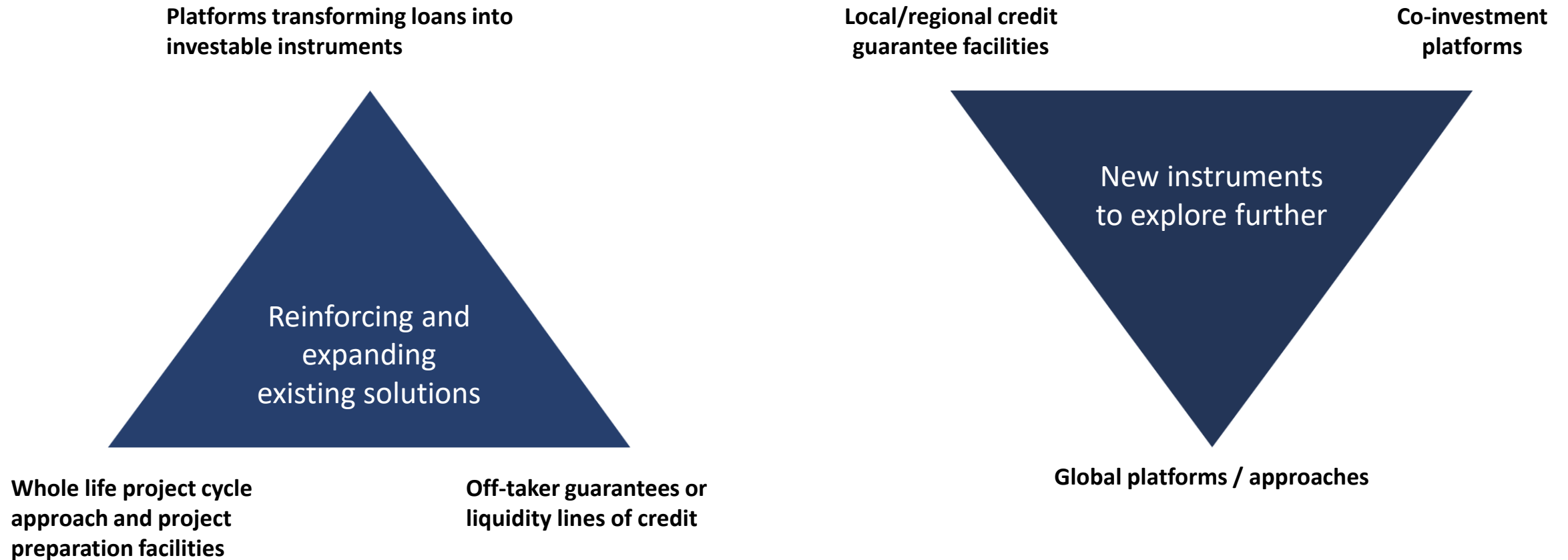
- Enhanced use of IBRD Guarantees
- Scaled up IFC and MIGA successful structures
- Global insurance/guarantee facility for standardized investment grade securities for infrastructure

Expanding
instruments
toolkit



Lessons and recommendations from institutional investors and sustainable infrastructure case studies

Institutional Investors and Sustainable Infrastructure Finance, 2023 WB Report



Colombia 4G toll road program: a blended finance comprehensive intervention

CHALLENGES

- Major gap in infrastructure since 2010
- Very high cost of building roads due to geography
- High inefficiencies and corruption in public works
- Fiscal constraints and limits to indebtedness due to fiscal responsibility law
- Need to mobilize long term hard and local currency in scale

SOLUTIONS

- Blending finance to subsidize construction cost and preconstruction risks
- PPP FRAMEWORK (programmatic approach) to attract the private sector
- A new institutional framework to manage the PPP framework (ANI) and mobilize resources (FDN)
- Design of new financial instruments: Debt Funds and Project Bonds
- **Second Phase:** ESG methodologies in PPP Projects

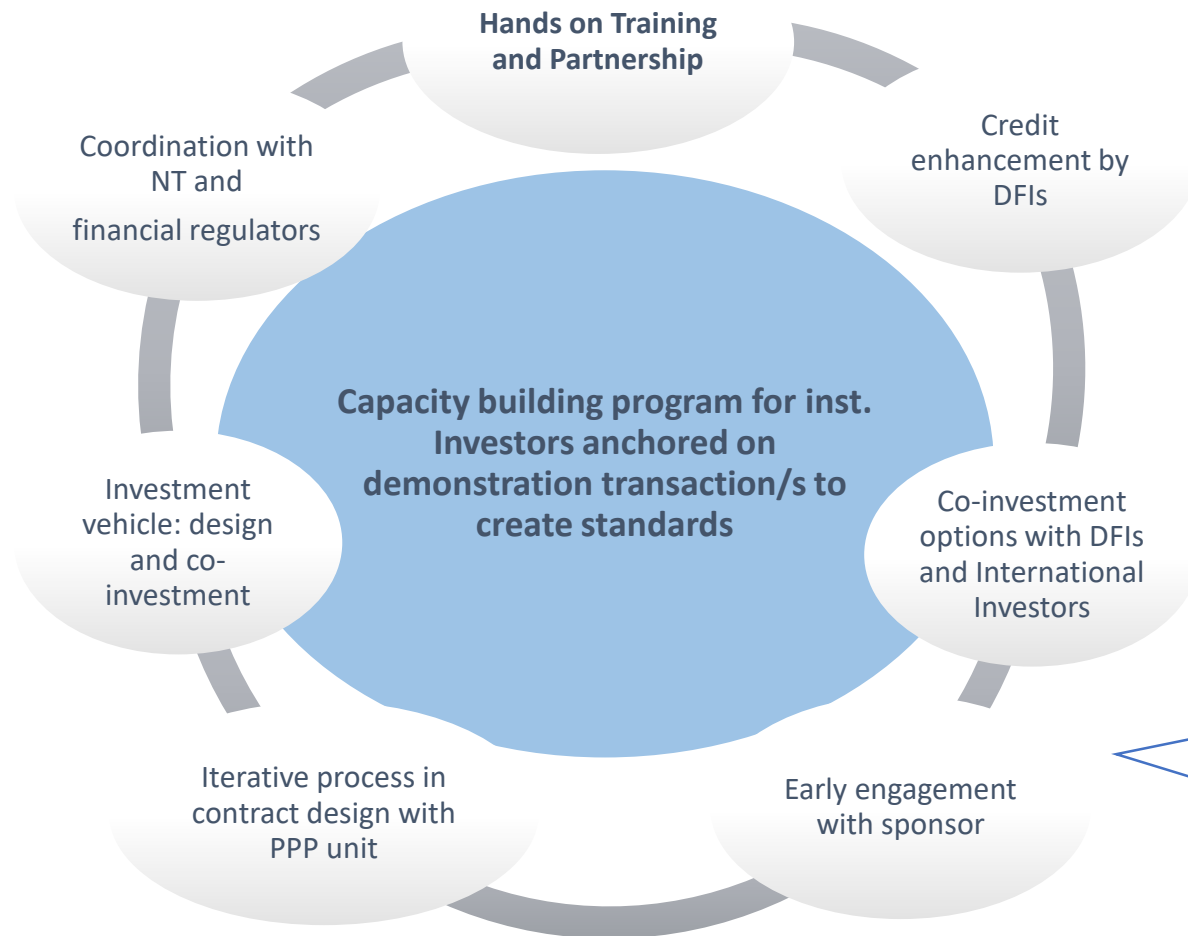
BLENDING WAS KEY

- 60% of the projects blended: 50% of government money and 50% of toll roads
- Government capped pre-construction and traffic risks
- FDN operated as blending vehicle to credit enhance the projects

RESULTS

- Around 21 projects in financial close
- 86% of finance on local currency
- 25 % of debt from capital markets

Kenya: Iterative Process with Stakeholders Anchored on a Demonstration Transaction



RESULTS

- 1) Establishment of the Kenya Investment Consortium (KEPFIC), first of its kind in Kenya and in the continent
- 2) Development of new capital market solutions for infrastructure finance
- 3) KEPFIC financed first investment by end of 2022 (Anny Road Program)

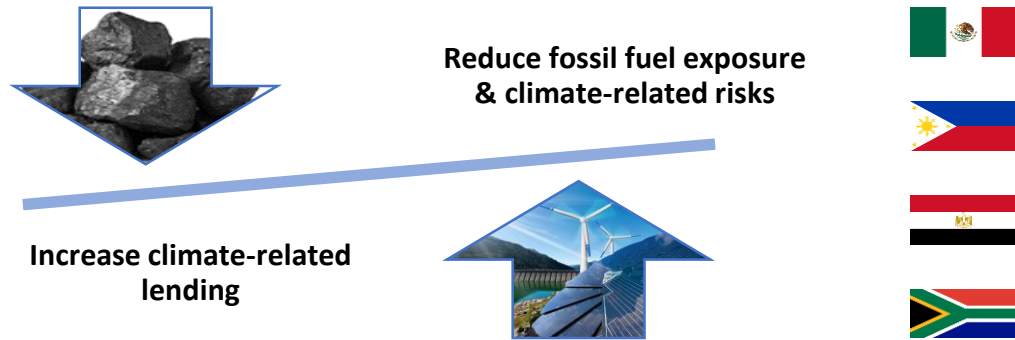
Parallel agenda in reinforcing enabling environment

- Government debt markets
- Fiscal Commitment and Contingent Liability for tendered projects
- Investment regulations

30by30zero – a programmatic blended approach to mobilize private sector finance

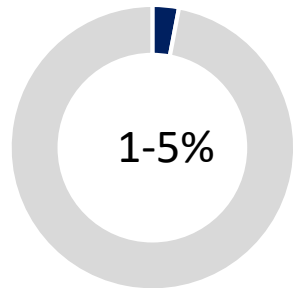
Aspiring a 30% green lending target in selected portfolios by 2030

30 by 30 zero – Dual Objectives



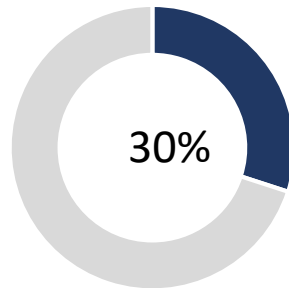
Estimated average climate share in loan portfolios 30by30 countries

Aspirational target for a selection of portfolios



1-5%

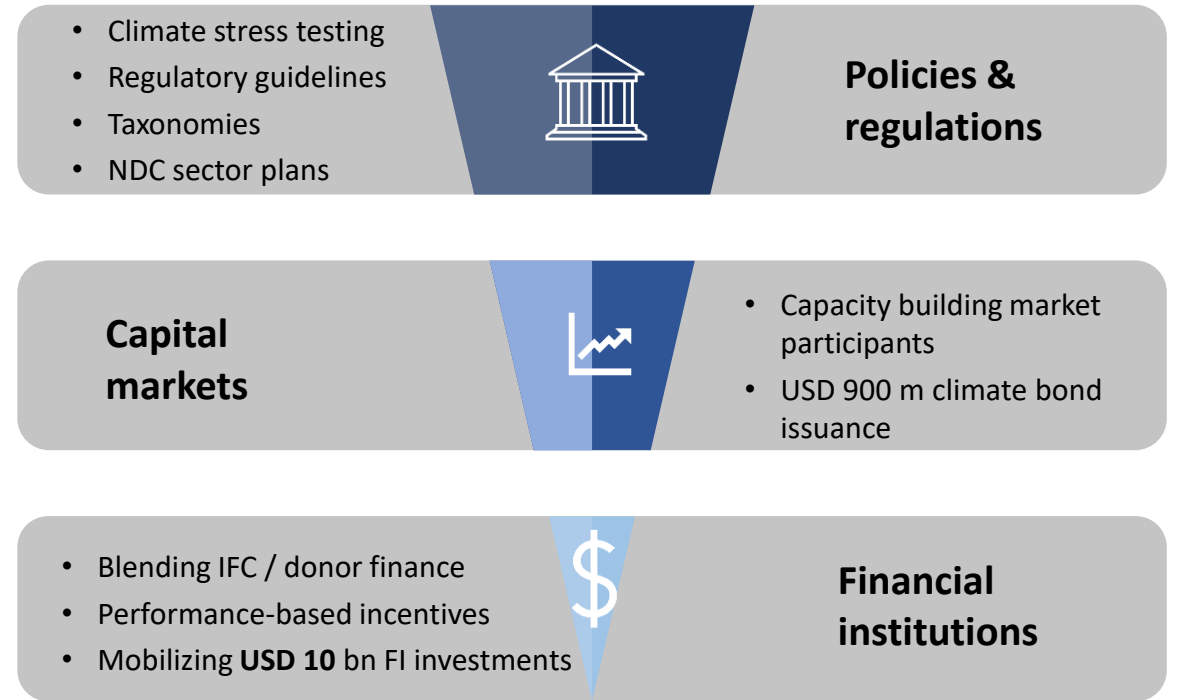
Currently



30%

2030

Mixing private capital enabling interventions with blended finance investments in banks



Scaling up climate finance

Source – IFC. The target was based on an analysis of 21 emerging markets and countries' NDC commitments.

Concluding remarks

- The effectiveness of blended finance depends on the enabling environment: **financial sector policy and regulations are key**
- Developing **deeper local currency financial sectors** in EMDEs is critical to lower FX and financing risks, and reduce blended finance needs.
- Blended finance and mandates of **NGFS members**:
 - as supervisor
 - as regulator
 - as advisor
 - as convener