SCF

BLENDED FINANCE TO CATALYSE REAL IMPACT

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Blended finance is a structuring of concessional ("first loss") public or philanthropic capital that expects lower rates of return with conventional private capital to support sustainable development. This tool can be especially powerful in emerging economies where execution risk may be higher than what is acceptable to conventional finance sources alone. Public and private capital can be combined in different ways in "special purpose vehicles", which may also include a purely philanthropic grant, or a loan component added to blended equity investments to provide technical assistance for enhancing the bankability of projects and investments

Real impact or safety net for investors?

Critiques have been raised towards blended finance, suggesting, that it provides subsidies to business with little transparency on what has been achieved.

These critiques are important. The blended finance community should take note and assess how effectively blended finance vehicles drive real change that would not otherwise happen, resulting in meaningful contributions to sustainable development.

In other words, are people's lives improved or ecosystems restored because of these vehicles in ways that could not be accomplished with conventional finance alone? Or is it simply a means for private investors to de-risk investments and increase returns?

A thorough analysis shows there are indeed cases where blended finance vehicles may have simply provided additional protection for business-as-usual investment opportunities that do not drive any meaningful change. According to Joan Larrea, chief executive of Convergence, "There are cases where straight-up aid should remain straight-up aid, and there are also many cases where private sector investors don't need any encouragement to do something because it already is lucrative enough to roll the dice and take the risk on whatever they're staring at".

Yet blended finance has also been proven to prompt private investors to channel their capital where they otherwise would not, resulting in tangible benefits for social good. For instance, The Africa Agriculture Fund (AAF) is a private equity fund created in response to the food security challenge across the African continent.

The AAF was structured as a 'blended finance' fund, mobilising private capital through an anchor group of development finance partners.

The AAF had a technical assistance facility whose mandate was to increase economic and physical access to food for low-income Africans by providing technical assistance to the portfolio companies. The AAF reached first close at US$135 million in November 2010 . The fundraising team concluded final close of the AAF in mid 2013 at US$ 246 million backed by multinational limited partners. This partnership made a positive difference in Africa's food security, and is widely recognized as a success of blended finance. We can – and must – do even better. To deliver the rapid decarbonisation and conservation required according to science to maintain a safe operating space for society, and to enable communities to grow in a sustainable way, we not only need to catalyse new finance for good, we need to maximise that impact, and know how much good is actually achieved.

The next frontier for blended finance: A case study

The Subnational Climate Finance (SCF) initiative does this by using best practice standards to ensure accountability and transparency about the sustainable impacts of its investment. Through the innovative consortium that brings together Pegasus Capital Advisors and its blended finance investors with civil society leaders Gold Standard, R20 and the International Union for Conservation of Nature (IUCN), SCF is designed to direct finance where it is most needed, manage unforeseen negative impact in a transparent way, and deliver genuine sustainable impact that is both measured and independently verified.

SCF initiative integrates an investment fund of mid-sized infrastructure projects (SCF Fund) and a grant-funded dedicated to technical assistance facility (SCF Technical Assistance).
The SCF Fund, managed by Pegasus Capital Advisors, will invest in a global portfolio of mid-sized infrastructure projects in sustainable energy, waste and sanitation, regenerative agriculture and nature-based solutions in developing countries. The Green Climate Fund (GCF) serves an anchor investor and has already committed a first-loss tranche of up to USD 150 million intended to mitigate risk at the fund level, thereby bridging the gap between public and private investors.

The grant-funded dedicated technical assistance facility is managed by IUCN with a target size of USD 28 million, of which USD 18.5 million have already been committed by the Green Climate Fund. Through this facility, IUCN, with R20 and Gold Standard, will provide technical assistance in identifying suitable projects for the fund to invest in, and train implementers to ensure that projects are feasible and can deliver environmental and social benefits in addition to financial performance. Gold Standard enables the measurement and independent certification of the Fund as well as the impact it achieves toward climate security and sustainable development.

In this way, SCF can ensure that blended finance delivers on its promise to invest in genuine sustainable development that mitigates the climate emergency, creates natural and built infrastructure that allows us to live within the limits of our planetary boundaries, and improves lives of real people in communities around the world.

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