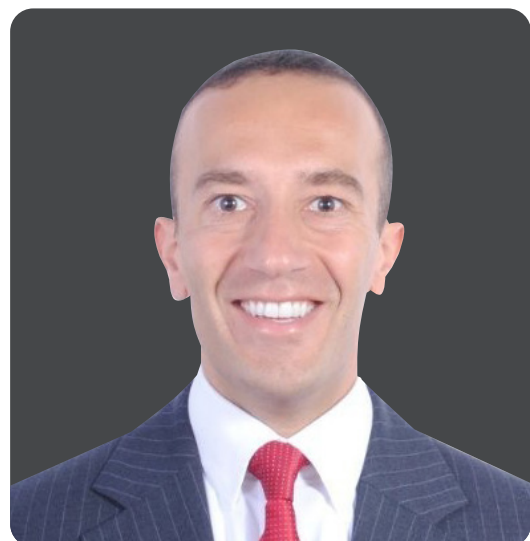


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Husam Abdel Al

Senior Director, Origination & Sustainable Finance, Investment Banking
Mashreq

Blended Finance: A Powerful Avenue for Public-Private Collaborations

As we navigate the complexities of the global climate crisis, it becomes clear that innovative solutions are needed. The capacity of blended finance to bring together public and private capital presents a powerful avenue to accelerate the transition to a low-carbon economy. Estimates indicate that achieving net zero by 2050 will require \$2.7tn in global annual investments. Even though that may seem like a large sum of capital, it accounts for only 2.6% of global GDP. For instance, during the Covid-19 pandemic, the world mobilized about 20% of its GDP to overcome the health emergency.

Governments and the public sector cannot tackle this challenge on their own. While the public sector remains the largest originator of climate finance, the private sector must expand the volume of finance geared towards net zero. In the UAE, the government pledged \$125bn to reach net zero. Nevertheless, it is estimated that the country will need \$680bn to achieve that milestone. The \$555bn gap will need to be originated from the private sector.

Project Pipelines and Pricing Are Key to Unlock Financing from Banks

A common challenge for commercial banks when financing projects in emerging markets occurs when there is not a good pipeline of projects, or if there is a project pipeline, the project's pricing does not align with the banks' return perspective. In certain projects, bankability may be impacted by commercial feasibility or risky new technology.

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Yariv Cohen
CEO & Founder
Ignite Power

Two major trends are driving capital investment in Africa

The first trend is technology, enabling precise tracking of installations, capital flows, recipients, and demographics. The ability to trace and direct capital to its intended destination is a significant trend underpinning most non-publicly sourced capital flows in Africa. The second trend is the need for climate financing. There is substantial progress in the carbon credit markets. Although an agreement for Article 6.4 of the Paris Agreement has not been reached yet, Article 6.2 is up and running. We anticipate significant capital inflows from the US, Europe, Japan, UAE, geared towards financial solutions backed by carbon credits. The combination of these two trends is contributing to a substantial increase in climate investments in Africa.

Multilateral agencies and philanthropies can make projects bankable

The World Bank is providing funds for our solar installations in Africa, which banks can take on as a project off-taker, as they feel more comfortable with that payment. The rest of the payment comes from clients who are rural homes in Africa. Despite paying us in the high 90s, banks do not consider this cash flow worthy. In partnership with the Climate Policy Initiative (CPI) and Convergence, we credit wrap that cash flow, bringing a guarantee that gives the cash flow a AAA rating, making it a bankable product.

Philanthropies are becoming risk-takers

Large philanthropies, such as the Bloomberg, Bezos, and Zuckerberg foundations, are becoming more risk-tolerant than multilateral banks. Multilaterals are receptive to paying for results, but when more creative structures are proposed, philanthropies can provide greater support. These organizations take the risk between the actual payment of the client and the perception of the payment of the client. When we add in that arbitrage of risk perception, we can find areas with a high leverage on the blended finance approach.

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Labanya Prakash Jena

Head, Center for Sustainable Finance, India
Climate Policy Initiative

Mobilized climate finance from the public sector alone is not enough.

The Climate Policy Initiative tracks the amount of capital flowing into climate sectors every year. In 2023, around \$1.2tn of capital was mobilized into climate sectors. However, the capital needed to reach net zero by 2050 is in the range of \$5-7tn. The amount of capital deployed from public sources is not enough. For instance, examining the combined balance sheets of all multilateral development banks (MDBs), the total amounts to only \$1tn. We need to attract a massive amount of private capital. The challenge remains around the associated risks to climate investments. It is possible for developed countries to mobilize the required amounts of capital, as they have a variety of capital available from both fiscal stimulus, as well as organizations such as venture capitals and private equity funds that can take positions in the early stages of technologies in the climate segments.

India is moving in the right direction to mobilize climate finance.

Policymakers and regulators are giving very positive signals about the country's commitment to decarbonize the economy. For instance, the amount of capital from the government budget allocated to climate technologies is massive. Recently, the government announced a subsidy of up to 60% of the capital cost for households that purchase and install rooftop solar PVs. That will help improve the energy quality of India, as 70% of the electricity in the country is still generated from coal. Consequently, many households may no longer rely on the grid to consume electricity. We expect a massive amount of capital to be attracted from foreign investors as well. Nevertheless, the private sector in India is not ready to provide the necessary amount of capital, as the risk is too high. Blended finance can play a role in combining public and private capital to reduce the risk of projects. Additionally, private actors expect certain returns on their investments, which they are not able to generate in some sectors from the climate technology space. Guarantees from blended finance structures could also help address this issue.

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Ennis Rimawi
Managing Director
Catalyst MENA Climate Funds

Blending public and private financing to accelerate the energy transition is crucial

To increase the penetration of renewables in the electricity mix of emerging markets from 20–30% up to 70–80%, we need to explore more innovative approaches that require blended finance for increased adoption. For example, we are currently working on large-scale battery storage projects and promoting them today. However, governments often prefer to wait five or six years for battery prices to drop further. Our approach involves collaboration with several partners, primarily EU governments, which contribute grant tranches for battery projects, lowering costs for the final off-taker.

What elements need to be framed to make projects in emerging markets bankable?

It is really about the risk of the projects. For instance, Lebanon faces a significant energy shortage today. Large renewable energy projects with battery storage could be developed, and the cost would be less than the fuel the population is paying for diesel generators. However, these projects are not inherently bankable. Cases like this are where multilateral and government programs come into play. In Benin, the US Government supported the Benin Energy Compact, enabling private sector players to carry out investments and generate electricity for the grid, while a AAA-rated government made payments and provided payment guarantees.

Project risks are normally shared among financing parties

The player looking to be the catalyst typically prefers not to assume 100% of the risk. We have seen cases, for example, where the Swedish Government takes 50% of the risk, and the remaining part is covered by commercial investors, other government-related entities, or impact investors.

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