OECD Blended Finance Guidance for Clean Energy

Key messages

CONTEXT

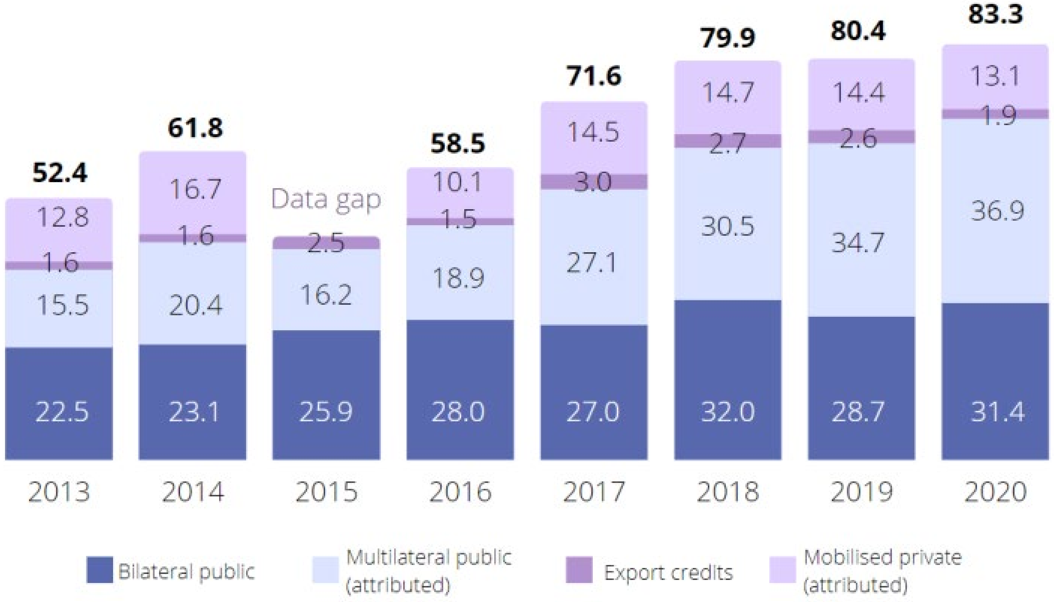
Meeting the Paris Agreement goals will require a huge and rapid scaling of finance from all sources towards climate action.

Finance remains one of the most intractable barriers to accelerated climate action. While governments and the private sector have ramped up investments in climate action in recent years, finance flows remain significantly below what is needed.

~USD 850 billion
estimated climate finance flows in 2021
Source: CPI 2022

~USD 2.4 trillion
estimated annual climate investment needs in developing countries to 2030
Source: IHLEG (2022)

Climate finance provided and mobilised in 2013-2020 (USD billion)



Source: OECD (2022)

The scale of the challenge is such that all sources of finance – public, private, domestic and international – need to be mobilised rapidly towards climate action. In particular, the huge stocks of commercial capital need to be tapped more effectively.

A significant shift of development finance towards private capital mobilisation, including through blended finance, would help maximise its impact. In 2020, USD 68.3bn of public finance mobilised only USD 13.1bn of private climate finance.

KEY MESSAGE 1

A systematic approach to blended finance can help maximise its development impact, minimise the risk of market distortion, and preserve scarce public finance

STEP 1: Identify development objective
e.g. energy access, industrial development, decarbonisation

STEP 2: Identify financing gap
including availability of commercial finance to investments in particular country and sector contexts

STEP 3: Identify barriers to investment
e.g. information asymmetries, political and policy risk, technical risk, off-taker and transmission line risk.

STEP 4: Choose financial instruments while minimising concessionality *e.g. grants. guarantees, risk insurance, concessional debt, equity.*

STEP 5: Coordinate intervention with the ecosystem
ensuring coordination at policy and projects levels with relevant government entities and private sector..

STEP 6a: Monitor and evaluate development impact
to ensure blended finance interventions are meeting development as well as commercial objectives

STEP 6b: Exit once commercial markets are functioning *to ensure scarce public finance is recycled to new frontier projects.*

KEY MESSAGE 2

The nature of underlying barriers to investment should be the key determinant in the design of blended finance interventions

OFF-GRID RENEWABLES / ENERGY EFFICIENCY

BARRIERS TO INVESTMENT	BLENDED FINANCE SOLUTIONS
Scale and transaction costs Small projects/developers with little track record struggle to attract investor interest.	**Aggregation & securitisation** Pooling of projects into large, rateable, and investable financial products; pooling process and documentation.
Stability of revenues New markets, products, and business models without proven revenue models unattractive to investors.	**Guarantees** Financial guarantees to protect against default on non-performance.
Information asymmetries Difficulty in conducting due diligence and assessing commercial viability of new products and markets.	**Grants** Grants to support early-stage investment or project preparation.

UTILITY-SCALE RENEWABLES / OTHER CLEAN ENERGY AND INTEGRATION

BARRIERS TO INVESTMENT	BLENDED FINANCE SOLUTIONS
Long planning and construction phases Exposure to high degree of political, policy, and other risks during long construction phases; long payback periods.	**Political risk insurance** Insurance to protect against breach of contract or other changes in political or policy context affecting projects.
Counterparty, transmission line, and off-taker risk Complex interdependencies on parallel infrastructure and payment models involving a range of stakeholders.	**Partial risk and revenue guarantees** Guarantees to protect against specific risks, or to ensure minimum revenues.
Revenue uncertainty and volatility Long-term market conditions for newer technologies highly uncertain.	**Performance insurance** Insurance to cover against financial non-performance, ensuring investors achieve minimum agreed returns.

KEY MESSAGE 3

Anchoring blended finance in a wider suite of measures and support, and strong co-ordination and institutional arrangements are critical to maximising its effectiveness