The Bankability Gap and the Role of Blended Finance

Bankability Gap

A significant barrier to green and climate finance in the Asia-Pacific region is the lack of identifiable investment-ready projects. Despite an increasing demand for green projects, many countries in the region - particularly in small island developing States (SIDs) and least developed countries (LDCs) - do not meet common investment risk management criteria. As a result, the necessary funds are not flowing to projects in vulnerable countries.

In addition, it is often difficult to raise green and climate finance in high-risk environments or environments in which risks are perceived to be high. This includes conflict effected countries, pioneering projects, or those reliant on new technologies, uncertain regulatory environments and other first mover challenges. The levels of real and perceived risks in the region create a bankability gap between supply and demand for green and climate finance at the project level. In these environments, it becomes **extremely challenging to raise capital**.

These risks can make projects unbankable without concessional and **blended finance to overcome perceived risks**.

What is blended and concessional finance?

| Concessional Finance | Financing available on terms more favourable than those available in the commercial market. Donor institutions may be willing to offer developing countries and projects concessional finance to accelerate green investments. |
| Blended Finance | Combines concessional finance sourced from donors or other sources, with commercial finance from the private sector and can include credit guarantees and subordinated debt. |
ESCAP and GGGI are working together to support the Asia-Pacific region in reaching its climate targets. Together we believe that NDCs need to be drastically enhanced to achieve carbon neutrality by 2050, however, these commitments need to be accommodated by policy action and financing to support investment in a green future.

Where is blended finance needed?

Blended finance allows for innovation and supports measured risk taking in the development of new solutions which can be brought to market, tested and scaled once proven.

<table>
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<tr>
<th>Early Stage Project</th>
<th>Start-up Stage</th>
<th>High Risk Environments</th>
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<tbody>
<tr>
<td>This is the experimental and testing stage. Technological feasibility and market readiness are uncertain.</td>
<td>This is where the solution is launched in the market often with an attempt to scale-up the solutions.</td>
<td>This can include conflict-affected countries, small island developing States, least developed countries and/or pioneering projects.</td>
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Blended Finance in Action
First Advanced Municipal Solid Waste to Energy Project, Vietnam

In order to reach low-income countries’ green growth objectives, it will be necessary to identify and scale up new approaches to project structuring. Blended finance together with advanced risk mitigation mechanisms can be effective in attracting the required funds from commercial and institutional investors.

One example is GGGI’s work in Vietnam. GGGI was tasked with the role of financial advisor to complete project financing for the construction of the modern municipal-solid-waste-to-energy power plant. Blended debt finance was important for providing confidence to the domestic private sector equity investors in the project. It also made high-risk, non-recourse project debt finance more attractive for the local commercial bank partner.

USD60 million were invested in building the 10 MW power plant that generates energy from 500 tons of solid waste per day.

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- Financial Support
- Innovative Climate Finance Solutions
- Research and Analysis
- Advocacy
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