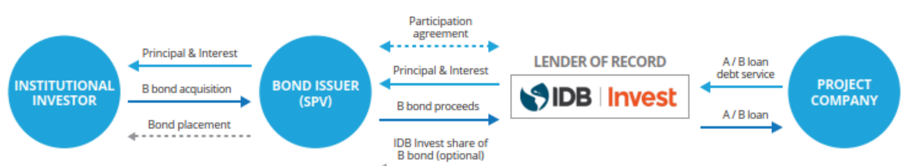
MITIGATION
BLENDED

Project Name	**La Jacinta, Natelu Yarnel, and Casablanca Giacote Solar Photovoltaic (PV) Projects**[1]
Country/Region	Uruguay
Sector	Renewable energy
Project/Investment Amount	• $256.55 million for construction financing of three solar PV projects • $95.8 million of refinancing during operations
Development Partner(s)/Stakeholders	IDB Invest
Beneficiary Ministry/ Institution	Nacional de Usinas y Transmisiones Eléctricas (UTE)
Investor(s) and Funders	**La Jacinta** Canadian Climate Fund for the Private Sector in the Americas (C2F) IDB Invest DNB Bank **Natelu Yarnel** Canadian Climate Fund for the Private Sector in the Americas (C2F) IDB Invest MetLife Investment Management **Casablanca Giacote** Canadian Climate Fund for the Private Sector in the Americas (C2F) China Co-Financing Fund for Latin America and the Caribbean IDB Invest
GUIDEBOOK TAXONOMY FINANCIAL SYSTEM ACTOR	Bilateral, Multilateral & Development Finance Institutions Private Debt Providers Institutional Investors and Asset Managers
Project Overall Goal	These three projects were among the first privately developed solar PV projects in Uruguay. IDB Invest intended for their blended financing structure to demonstrate how development banks can bring in private institutional investors by mitigating risk and help bridge the gap to market maturity. For the Casablanca Giacote project, IDB Invest implemented a performance-based incentive model that would reduce the interest rate on the concessional C2F loan if the project met various targets on recruiting female unskilled labor for construction and upskilling them.
Project Outcomes	The three projects increased the share of renewable energy from utility-scale solar photovoltaic facilities in Uruguay's national energy matrix and reduced reliance on expensive imported fossil fuels for power generation.
Alignment with Country Identified Climate Strategies, NDCs, etc. (if applicable)	The project advanced progress toward Uruguay's goal of sourcing 50% of primary energy from renewable sources by 2015, outlined in its 2005-2030 Energy Strategy. It also helped to lower consumer electricity costs and diversify electricity supply, both priorities of Strategy
Contribution of the Project to the UN SDGs	SDG 7: Affordable and Clean Energy SDG 8: Decent Work and Economic Growth

[1] This case was provided by Convergence as a contribution to the Sharm El-Sheikh Guidebook for Just Financing

	SDG 5: Gender Equality
Socioeconomic Impact	The project created 1,900 construction jobs. The Casablanca Giacote project met gender-based targets for women to comprise at least 15% of the workforce and for engineering, procurement, and construction (EPC) contracts to include gender-based provisions. Women ended up contributing over 20% of all labor hours to the projects.
Environmental Impact (on climate mitigation and/or adaptation)	The projects avoided 111,500 tonnes of CO2eq and installed 150 of solar energy capacity
Enabling Environment (Supporting Policies)	• Uruguayan government split the vertically integrated utility, UTE, into three distinct branches: generation, distribution, and transmission. It opened up the generation sector to private ownership and investment, which allowed private sponsors to bid to develop solar PV projects in response to tenders from UTE • The Uruguayan government laid out its 2005-2030 Energy Strategy, with increasing the share of renewables and bringing down electricity prices for end-users as critical priorities
Technical Assistance (If Provided)	N/A
Financing model/approach (ex: Blended finance)	Blended finance. The projects used concessional funds from C2F together with loans from IDB Invest and other lenders
Rationale for financing model/approach	The blended structure reduced the overall cost of debt for the projects, bringing the rate of return for the sponsors and senior lenders in line with historic expectations. It also improved the credit quality of the loan package by reducing counterparty risk.
Financial instrument(s) (loans (commercial/ concessional), equity, guarantee)	Concessional and commercial loans under an A/B loan structure (with IDB Invest acting as the main 'A' lender, extending their preferred creditor status for foreign exchange to other 'B' lenders) After construction of La Jacinta and Natelu Yarnel, an A/B bond structure was used to refinance the construction phase debt.
Diagram of the financing structure	A/B Loan Structure:  A/B Bond Structure: 

Executive Summary

In 2013, the Government of Uruguay launched a 200MW tender program to attract private sector participation in the development of solar photovoltaic (PV) power plants. By opening up the renewable energy sector to private ownership, the government aimed to increase the share of non-conventional renewable energy in Uruguay's energy matrix, thereby easing the country's dependence on strained hydroelectric power generation and costly, high-emission fossil fuel imports.

IDB Invest and the Canadian Climate Fund for the Private Sector in the Americas (C2F) addressed the primary market barriers to institutional investor investment in Uruguay's nascent solar market. Their joint participation reduced counterparty risk and improved project bankability. Post construction phase, IDB Invest's A / B bond product allowed for project refinancing through an instrument that appealed to investors with an appetite for long-term assets. IDB Invest and C2F's participation demonstrates a series of key insights for overcoming the inherent challenges of project finance in an emerging sector and provides a replicable model for how to draw in institutional investors to renewable energy financing in Latin America.

Analysis

What made this project successful?	• Presence of IDB Invest, which took the lead in structuring and arranging financing and extended its preferred creditor status to other institutional investors. IDB Invest was able to leverage its substantial experience with A/B financing the development of solar PV projects in Chile • Government-led deregulation of the electricity generation market enabled the entry of private independent power producers to act as project sponsors, attracting private capital • Uruguay's strong economic performance, investment grade sovereign credit rating, and close partnership between the government and utility (UTE) meant that perceived risk was not prohibitively high to begin with, enabling cross-border investment
To what extent is this model scalable?	• The blended finance model is scalable provided that the perceived risk of the country or nascent market is not prohibitively high to begin with; in this case, a strong enabling environment created by Uruguay's government and economy together with C2F's concessional financing were an attractive investment proposition for foreign investors • Commercial banks dominated the Uruguayan financial sector, restricting the types of credit available to renewable energy asset developers. The A/B bond instrument was attractive to foreign institutional investors (particularly insurance companies), expanding access to long-term capital for developers. Similar innovations in structuring could help projects in other countries overcome barriers in domestic capital markets
What are the necessary conditions to make it replicable in other countries/regions?	• An experienced development partner like IDB Invest, that can structure transactions and attract institutional investors • An ability to demonstrate project successes to scale market opportunities to a stage where concessional finance is no longer needed • Deregulated electricity markets
Constraints/Drawbacks of Financing Model	Bringing institutional investors under IDB Invest's preferred creditor status umbrella through A/B instruments is easily replicable, but depends on the presence of a development bank or similar investor with preferred status being willing to take on the role
Lessons Learnt	• Blended finance can help projects overcome challenges in nascent markets and establish a track record of commercial viability. Concessional loans from C2F filled in gaps by bringing project risk profiles in line with institutional investor expectations • Gender-focused targets can be built into project structures through Results-Based Financing when concessional finance is part of the financing structure. The Casablanca Giacote project showed that interest rate reduction incentives were effective at inducing the project sponsors to prioritize gender outcomes