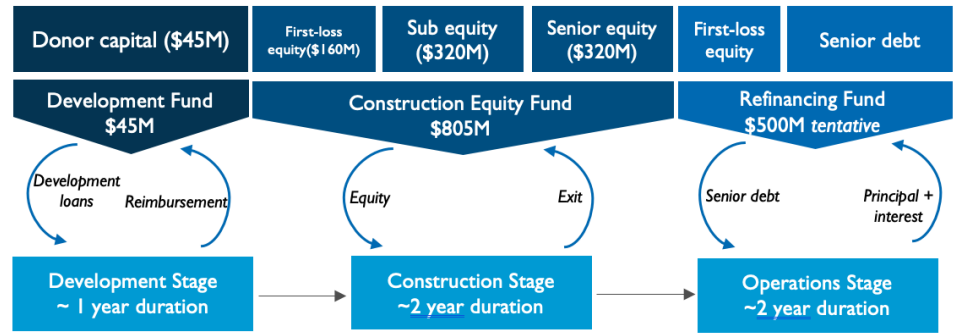


**MITIGATION
BLENDED**

FUND NAME	Climate Investor One¹
COUNTRY/REGION	LICs & MICs in Africa, Asia, and Latin America and the Caribbean
MANDATE	Accelerate privately owned renewable energy infrastructure projects while providing an attractive entry point into the sector for large scale institutional investors.
SIZE, FINANCIAL CLOSE AND TERM	Size: USD \$850 million, First Financial Close: 2017 Term of Fund: 20 years
INVESTOR(S) AND FUNDERS	Commercial Capital: Institutional Investors (Sanlam, KLP, NWB Bank, Aegon Asset Management, LPP); DFIs/MDBs (FinDev Canada, FMO, AfDB) Catalytic Capital: European OECD DAC members (Netherlands), the European Union, GCF, USAID
GUIDEBOOK TAXONOMY FINANCIAL SYSTEM ACTOR	Institutional Investors and Asset Managers Multilateral, Bilateral and Development Finance Institutions
OBJECTIVE	CIO was designed to respond to three central market barriers; (i) protracted project development and construction phases due to lack of appropriate financing; (ii) high cost of capital because of high perceived market risk; and (iii) limited exit or refinancing options for private investors. CIO intended to address the aforementioned market barriers by achieving two main outcomes: (i) creating an investment setting where institutional investors feel comfortable participating in a “high-risk” asset class at scale; and (ii) allowing private investors to commit to projects at phases in which they are traditionally reluctant to engage (i.e. pre-operations).
ENVIRONMENTAL IMPACT (ON CLIMATE MITIGATION AND/OR ADAPTATION)	Mitigation; investment in renewable energy projects
CAPITAL STRUCTURE	Development Fund: Reimbursable loans (\$45 million, wholly concessional) Construction Fund: Tier 1, \$160 million (first-loss equity), Tier 2, \$320 million (subordinated equity), Tier 3, Senior Equity (\$320 million) Refinancing Fund: Senior debt (\$500 million, wholly commercial)
FINANCING MODEL/APPROACH (EX: BLENDED FINANCE)	Concessional catalytic capital
RATIONALE FOR FINANCING MODEL/APPROACH	Concessional capital creates fiduciary investment assets at two levels: <ul style="list-style-type: none"> • Project level: Donor equity progresses early-stage climate infrastructure projects to become commercially bankable • Portfolio level: (i) Junior (first-loss) equity and portfolio approach provide equity investors preferred returns and diversification and (ii) Junior (first-loss) debt and portfolio approach provide debt investors senior rank and diversification, improving expected returns
FINANCIAL INSTRUMENT(S) (LOANS (COMMERCIAL/ CONCESSIONAL), EQUITY, GUARANTEE)	Loans and equity to eligible projects

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

DIAGRAM OF THE FINANCING STRUCTURE



Executive Summary

Climate Investor One was established with funding from Institutional Investor, SanLam, the largest insurance company in Africa, and listed on the Johannesburg Stock Exchange. Sanlam Investment Holding partnered in 2017 with several European institutional investors and African infrastructure fund specialists to establish a financing facility (Climate Investor One) for investment in green projects and infrastructure.

Climate Investor One is a blended finance vehicle designed to accelerate the development, construction, and implementation of renewable energy infrastructure projects in emerging markets. Comprised of three inter-linked investment funds, the Development Fund, the Construction Equity Fund, and the Refinancing Facility, CIO provides fit-for-purpose financing across the project finance lifecycle. The Fund aims to support ~30 projects over its 15-year investment term in 10+ countries.

The Fund targets wind, solar, hydropower, and other forms of renewable energy projects owned and operated by independent power producers (IPPs). CIO employs a “whole-of-life” financing approach via three separate sub-funds to finance a project in three phases of project maturity:

- 1) a Development Fund (DF): funded by donor equity to progress the project through the development phase to the construction phase;
- 2) a Construction Equity Fund (CEF): funded by three tiers (senior equity, subordinated equity and first-loss equity) to progress the project through construction phase to project completion;
- 3) a Refinancing Fund (RF) (currently fundraising): to finance the project during the operation phase when the asset is earning revenues CIO provides IPPs the ability to tap into a singular project financing entity, accelerating both fundraising and project activities. The whole-of-life financing method also allows CIO to recycle invested capital. As a project progresses through its development lifecycle and receives refinancing, capital is replenished to each sub-fund, whether in the form of development loan repayment, or equity exits once working loans are secured. This self-contained and end-to-end project finance structure allows CIO to maximize the number of projects it supports. CIO was also able to overcome the lack of deal flow caused by limited private capital availability by creating an investment asset that met institutional investor requirements: (i) the fund employed a portfolio approach to renewable energy asset creation, enabling CIO to deliver financial instruments of sufficient ticket size; (ii) it integrated credit enhancement mechanisms (repayment waterfall, credit guarantee) for market equivalent risk adjusted returns; and (iii) ensured a steady pipeline of bankable investments through the wholly concessional development fund.

Analysis

WHAT MADE THIS PROJECT SUCCESSFUL?

- Innovation: CIO’s “whole-of-life” project approach and CIO’s different capital allows it to address all major stages of a project, from pre-construction to operation. This allows CIO to control their own pipeline of well-studied projects and allow investors to tap into a singular project financing entity, accelerating both fundraising and funding activities. It also allows CIO to recycle invested capital, maximizing the number of projects it supports.
- Addressing barriers to investment: CIO channels capital to projects at pre-operations phases of development, during which many projects most struggle to access capital.
- Addressing barriers to investment: CIO uses a blended structure to mobilize private capital by de-risking it with subordinate tranches provided by development institutions.

TO WHAT EXTENT IS THIS MODEL SCALABLE?

The model is highly scalable. In 2019, the CIO began the process of spinning off a follow-on vehicle, Climate Investor Two (CI2). CI2 is also predicated on a whole-of-life project financing approach and will replicate CIO’s blended finance structure and geographic scope for climate change adaptation projects focused on water, sanitation, and oceans. CI2 targets a USD 1 billion construction fund raised primarily from private institutional investors. In November 2021, CI2 achieved first close at USD 675 million.

The model is highly replicable, as shown by the fact that CIO operates in 76 potential countries across Africa, Asia, and South and Central America and is actively investing in projects in

	Morocco, Nigeria, Uganda, Tanzania, and Djibouti in Africa, and in Nepal, India, Philippines, Vietnam, Myanmar and a pan-Asia platform in Asia.
WHAT ARE THE NECESSARY CONDITIONS TO MAKE IT REPLICABLE IN OTHER COUNTRIES/REGIONS?	The model is likely replicable to projects beyond renewable energy that use proven technologies with predictable revenues but struggle to attract private funding due to developing economy challenges. For projects with emerging technologies or unclear revenue streams, such as nature-based solutions, more needs to be done to increase investor confidence.
CONSTRAINTS/DRAWBACKS OF FINANCING MODEL	Complex structuring results in high transaction costs, which require scale to offset. The involvement of institutional investors, even with de-risking in the form of concessional
LESSONS LEARNT	<ul style="list-style-type: none"> • Using a “whole-of-life” approach is extremely valuable in catalyzing an investment that requires investment at each stage. The one-stop-shop nature of this approach can maximize the efficiency of capital and provide an attractive turnkey solution for investors. • Installation of proven climate mitigation technologies can be scaled in developing countries by the widespread application of catalytic capital. Blended finance can help introduce institutional investors to new sectors, regions, and asset classes. • Aggregation structures are critical to attracting institutional investors to developing countries at scale.