



E3G

BRIEFING PAPER June 2022

UNLEASHING INVESTMENT BALANCING RETURN EXPECTATIONS TO MAXIMISE IMPACT

HEATHER MCKAY, EDUARDO LOPEZ, KATE LEVICK¹

This briefing sets out recommendations and case studies for the UK Treasury as it decides on a financial return target for the UK Infrastructure Bank. The paper aims to support the UK Infrastructure Bank in structuring its return expectations and ensure that it can play a unique role in co-investing in new and growing sustainable markets while simultaneously delivering positive social and environmental impacts.

The cost-of-living crisis and drive for UK energy security has demonstrated the critical need for accelerated investment in the net zero solutions of tomorrow. The Chancellor's steer² to the UK Infrastructure Bank recognised its potential to establish a world-leading approach to mission-led public investment. The Bank, with a dual mandate of levelling up and addressing climate change, will provide £22bn of financing to create social, economic, and environmental benefits across the UK. However, the Treasury has required the Bank to achieve a target(s) of financial return, which has not yet been specified. This decision will be crucial to the Bank's future impact, and its success in meeting the UK's policy objectives.

The UK can learn from the choices made by and for other public investment banks around the world when deciding its approach to balancing financial returns and other types of return, and this briefing sets out three recommendations for the Bank, together with case studies from public banks.

¹ The authors of this paper would like to thank the following contributors to this briefing: Rufus Grantham, Head of Urban Transition Finance, Co-Head of UK & Ireland, Bankers without Boundaries, Alice Bordini Staden, Managing Director, GLC Advisors Limited, Sarah Gordon, CEO, Impact Investing Institute, Dimitri Zenghelis, Special Advisor, Bennett Institute for Public Policy, University of Cambridge and Senior Visiting Fellow, Grantham Research Institute, London School of Economics, Gavin Templeton, Partner, Pollination and Polly Billington, CEO, UK100

² **UK Government (2022), Chancellor's Letter to the UK Infrastructure Bank**



E3G

The Treasury should:

1. Set financial return expectations at a level which enables the Bank to make long-term and low-yield investments—and signal this decision to markets as soon as possible
2. Apply the required rate of financial return to the portfolio, not on a project level, and use a flexible range of financing tools and KPIs
3. Build the Bank’s Advisory Function as quickly as possible to maximise overall return

Implementing these recommendations will require the Bank to have the right expertise, and we recommend that as the Bank scales up it hires a mix of individuals with deep expertise in public banking, private sector investor and clean energy systems and infrastructure.

Why are choices around financial return important?

The UK Infrastructure Bank will hold an important role in the UK’s transition to net zero emissions by 2050 and to levelling up³ by leveraging private investment into underserved markets and addressing market failures. To make wise use of limited public finance the investments made by the Bank’s investments must be both additional (avoiding crowding out private sector investments) and transformative (crowding in private investments which would not otherwise have been made to exploit and accelerate new innovation).

Public policy banks can play a unique role as a co-investor with the private sector to grow markets and to deliver social and environmental impact⁴. This is because public investment has several advantages that are not available to the private sector including: mission-driven investment; delivering patient capital with a higher risk profile; acting as a keystone investor in innovative yet untried funding models; and taking a different approach to policy and other investment risks. This process of taking on and owning policy risk reduces the private cost of capital – and is complementary to the Bank’s mandate. Moreover, supporting proof of concept and moving returns from theoretical to proven in new markets and innovative technologies will be an important role for the Bank to scale new markets. Finally, the ability to take long-term positions in new markets will be a unique aspect of the Bank’s investment approach. This difference in capability

³ The Bank must invest in projects that address climate change while delivering positive results such as the creation of new markets, economic growth and clean, connected communities.

⁴ [OECD \(2015\), Green Investment Banks: Policy Perspectives](#)



E3G

between public banks and private finance must be at the heart of the UK Infrastructure Bank's investment strategy.

Public policy banks will be expected to achieve both financial and policy goals. In common with other public finance institutions, the overall return expectations for the UK Infrastructure Bank must maximise additionality - measured by economic, social financial and environmental returns⁵. The Bank has an opportunity to demonstrate best practice through transparently publishing its expectations for return – financial and social and environmental – and evaluating and refining this approach over time. A transparent 'scoring' approach will allow relevant stakeholders to feed into and support the Bank's understanding of investment return, and of how to address market failures in subsequent projects. It will also be useful for the Bank to understand how existing public institutions have already addressed this challenge and managed trade-offs⁶.

Private sector impact investment funds may also be a source of learning for the UK Infrastructure Bank, especially as the City of London is a leading hub of such funds. However, private sector firms and funds do not have the same full range of advantages and capabilities that is available to public investment institutions. For example:

- > Private firms must assess policy risk when deciding to invest whereas a public finance institution can, simply by investing, reduce policy risk perception for other investors.
- > Public finance institutions can reduce investment risk for themselves and for co-investors by providing technical assistance to project developers and future market participants.

The environmental and social return expectations for the UK Infrastructure Bank will be shaped by the government's Net Zero Strategy⁷ and Levelling Up White Paper⁸. The economic return expectation is set by Treasury, and it can be expected that economic return targets will fall into two categories: returns that accrue directly to the Bank's balance sheets (for which there will be a specific financial return expectation); and those that will accrue to the UK economy because of the Bank's activities. There will be opportunities for the Bank to play

⁵ **E3G also recommends** that the Bank applies a 'Do No Significant Harm' principle to avoid trade-offs between its different policy goals.

⁶ **E3G has previously summarised principles for green public bank design** in the context of the UK Infrastructure Bank.

⁷ **UK Government (2021), Net Zero Strategy: Build Back Better**

⁸ **UK Government (2022), Levelling Up the United Kingdom**



E3G

a coordinating role in strengthening the relationship between these two categories, for example, building markets to support the internalisation of these wider economic, social, and environmental returns.

Setting the Bank's financial return expectation must be done thoughtfully, considering learnings from other public investment institutions in order to optimise the trade-offs between the different type of return. Key questions for the Treasury will include:

- > How will the return requirement influence the duration of investments that can be made by the Bank, and will it enable investment in longer-term projects that support 'market making' for new industries, and economic regeneration? Will the Bank be able to invest in projects which will have a high social, environmental, or broader economic return (in line with its policy mandates) but a lower financial return?
- > Will the Bank be able to support innovation and 'frontier' products to demonstrate viability and enable markets to go to scale⁹?
- > To meet its overall financial return target(s), will the Bank be able to take on sufficient risk to take a market-making role, and avoid investing crowding out private sector investment?

Recommendations for the UK Infrastructure Bank financial return target

E3G has three recommendations for the Treasury as it decides on a financial return target for the UK Infrastructure Bank.

1. Set financial return expectations at a level which enables the Bank to make long-term and low-yield investments – and should signal this decision to markets as soon as possible.

The Bank will need to secure a sufficient Internal Rate of Returns (IRR) on its investments¹⁰. Calculating IRR involves three variables: the income received over the lifetime of the project over and above the repayment of the original investment, the duration of the project/investment period, and the 'hurdle' rate

⁹ The growth of the offshore wind industry is a good example of scaling due to the Green Investment Bank.

¹⁰ Given that the Bank is expected to deliver more than financial returns and accept more risk than the average market player, RAROC may be a better metric for the bank. The Bank should be able to invest in transactions with a high financial return but whose risk is too high for the broader market. By decomposing the RAROC into its risk and return elements in individual cases, the Bank can recognise and invest in transactions with a high financial return but whose risk is too high for the wider market.



E3G

to be applied to future income over this period¹¹. If the ‘hurdle’ rate is in line with standard Treasury expectations for public investment (most likely the Green Book rate of 3.5%¹²), this means that the decision on IRR is likely to involve the remaining two variables: income expectation and duration.

These two variables have an inverse relationship. If an IRR must be achieved within a relatively short timeframe (i.e., a short payback period to recoup the initial investment and make a surplus), then it generally follows that the ‘income’ from any investment by the Bank must be high¹³. If a long investment period is permitted, then the annual income can be lower. In addition, income which does not need to be received immediately will enable a more flexible approach to investment.

The UK Infrastructure Bank is in a unique position as a public bank of delivering patient capital. This means that while it can return a yield, the returns profile will look different than private investment vehicles. It is also tasked with addressing market failures and must avoid crowding out private finance by making investments which would have been made anyway by the private sector. Taking a long-term approach will therefore support the bank in generating an economic return, while also delivering on its policy objectives. This means that:

- > **The returns period should be as long as possible.** Applying a patient capital approach will enable the Bank to invest in transformative long-term projects which build new markets¹⁴. Setting a long returns period will also avoid the risk of forcing up the annual income requirement to achieve payback and surplus, which would result in crowding out. The Treasury has already set out in the Bank’s Framework Document a 5-Year interim period for the return target¹⁵. Extending this for certain types of projects will enable the bank flexibility.
- > **Expectations for income should be set at a low level.** Income expectations which approach the level expected in the private sector may result in the Bank chasing after the same investment opportunities as

¹¹ The Bank may wish to vary the ‘hurdle’ rate it applies to its different impact assessment categories i.e., a lower ‘financial hurdle rate’ to enable investments but a high ‘social’ or ‘climate’ hurdle rate to ensure the right incentives are in place for investment.

¹² It is assumed that the government will most likely use the 3.5% discount rate set out in the Green Book: **Green Book supplementary guidance: discounting**

¹³ In short term investments this often takes the form of capital gain.

¹⁴ Examples include building partnerships with local stakeholder networks for distributed energy projects (long payback), nature and adaptation projects (likely low income), energy efficiency in buildings (depending on the project, a combination of long payback and low income).

¹⁵ Progress needs to be demonstrated by 2023/24 and met by 2025/6



E3G

private sector firms and failing to be additional. If market participants see the Bank as a competitor rather than a partner, it will rapidly lose market trust. It is therefore important that the bank clearly justifies its investment choices according to their ‘additionality’.

- > Given the specific nature of the projects in which the Bank will invest, it may also wish to **consider varying the discount rate dependent on the investment portfolio**. The discount rate should be set to adequately reflect the impact of climate change on future generations. Bridging between the Green Book rate and Stern’s suggested rate of 1.4%¹⁶ may provide a more realistic picture of a project’s socio-economic returns¹⁷.

The risk that returns policy could constrain the Bank’s transformative potential are not hypothetical. The previous UK Green Investment Bank had a target nominal return rate of 3.5% annually¹⁸, which limited the type of projects the GIB could invest in and led to concerns that the Bank crowded out private finance. The Bank’s investments in offshore wind are widely credited with enabling the UK’s leadership in this area, along with other policy instruments, but little progress was made to develop other difficult markets such as energy efficiency in the built environment.

Given this pre-existing market experience, and a degree of caution among current UK market participants as to whether the UK Infrastructure Bank will experience similar constraints, it will be important to set a suitable returns expectation as soon as possible and to communicate this to markets. This will greatly assist the Bank in building relationships, constructing new deals, and establishing its market niche.

2. Apply the required rate of financial return to the portfolio, not on a project level, and use a flexible range of financing tools and KPIs

The UK Infrastructure Bank is tasked with providing an innovative range of financing instruments to meet its policy goals¹⁹. However, innovation entails risk, and risk means accepting that some investments will not provide the returns hoped for. It may also mean accepting that returns from some investments in early-stage projects may also not be straight line, but rather may be made in the late stages of a project. In making its investments, public bodies can therefore learn from the portfolio strategies of venture capitalist firms, structuring investments across a risk-return spectrum so that lower risk investments help to

¹⁶ Stern (2006), *The Economics of Climate Change: The Stern Review*

¹⁷ IDB (2015), *Time Goes By: Recent Developments on the Theory and Practice of the Discount Rate*

¹⁸ On total investments, after operating costs but before tax, *Annual Report 2014-2015, UK Green Investment Bank Plc*

¹⁹ UK Government (2021), *UK Infrastructure Bank*

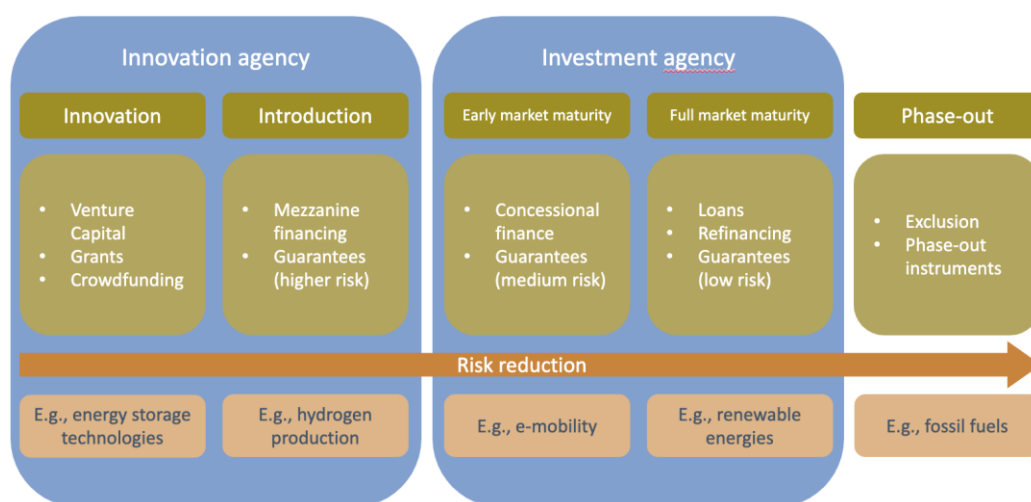


E3G

cover higher risk ones²⁰. A balanced risk management approach across the Bank's overall portfolio will enable the Bank to offset less successful investments against those which are more profitable.

Beyond risk management alone, setting a financial returns target at portfolio level will maximise the Bank's ability to be flexible in balancing return across its entire varied portfolio. It will permit the Bank to make a range of different types of investment using different instruments, and over different time periods. To avoid crowding out, the Bank should develop clear exit strategies for when markets mature²¹. The Bank should also employ a principle of capital preservation²² i.e., a focus on originating and mitigating risk in transactions and then recycling capital (conserving and deploying as little capital as possible for the shortest possible time) to invest in the next project.

The following E3G diagram²³ demonstrates a range of financing structures that can be provided to projects with varying degrees of risk and technological maturity. The diagram illustrates a snapshot of the risk and technological maturity of a given intervention at a specific level of risk, as well as the proposed financing tools that can be used to support at each stage. These would not need to exclusively be provided by the Bank but rather give an idea of how the Bank may work alongside other providers of public capital, investment and support e.g., Public Works Loans Board (PWLB). To send clear signals to market participants, the Bank's strategic plan should clearly identify the sectors where Bank will be intervening and taking more risks.



²⁰ UCL (2017), Patient Strategic Finance: opportunities for state investment banks in the UK

²¹ E3G (2021), UK Infrastructure Bank investment principles

²² The Bank should conserve and deploy as little capital as possible for the shortest possible time to preserve and grow the capital base to ensure there is sufficient capital to invest in the next big project.

²³ E3G (2022), Transformation finanzieren in Deutschland und der welt



E3G

Addressing critical sectors like energy efficiency may be challenging, given the high upfront costs of retrofit and long payback times as well as the need to address policy barriers. However, as the built environment accounts for 23% of the UK's total emissions and has direct consequences for the cost-of-living crisis, it is important that the Bank invests flexibly to transform the sector. The Bank can learn from international examples, for example the use of concessional finance in the KfW context²⁴ (see case studies). This may be useful for the Bank to introduce over time. If concessional finance is included in the Bank's mandate, it must be used strategically and sparingly, with strict guardrails around its application to ensure the private sector is taking a fair share of the risk i.e., 2nd loss waterfalls, longer tenors. This functionality may need to be housed in a separate portfolio of the bank. Alternatively, the Bank could establish an MoU with the Crown Commercial Services to coordinate other available government finance to support the Bank.

It is also important that the Bank publishes clear metrics about impact and return. This will enable the Bank to develop a scoring approach over time, measuring success against initial expectations of financial and environmental and social return and evaluating this against the outcome²⁵. This is important for both agenda setting in the market and becoming a hub of knowledge of the best investment approach. For example, town-level heat projects are likely to result in 'swing returns' (where outcomes significantly diverge, positively or negatively, from what was expected). However, the key deliverable will be the increased understanding of which technologies (electric or hydrogen) or project delivery methods (e.g., house-by-house or street-by-street) are more effective in delivering social and environmental value efficiently. The value from these learnings may be intangible but more significant than the financial returns or losses profile for an individual project. Support for innovation and early-stage technologies will also require a more holistic project evaluation approach.

3. Build the Bank's Advisory Function as quickly as possible to maximise overall return

As discussed above, the UK Infrastructure Bank has a range of options and capabilities which are not available to the private sector but are key to the role of public investment banks in building new markets. One of these is the ability to reduce investment risk for itself and other market participants (including local authorities) by providing technical assistance and supporting the creation of a project pipeline for investment.

²⁴UCL Energy Institute (2011), *The KfW experience in the reduction of energy use in and CO2 emissions from buildings: operation, impacts and lessons for the UK*

²⁵ An example of this impact evaluation 'scorecard' approach can be found in [WHEB's annual report](#), providing a cross comparison between 'fundamental quality' and 'impact intensity' for each company:



E3G

The Treasury has said that the UK Infrastructure Bank will create an ‘advisory Function’ to accompany its investment strategy²⁶. This function should provide technical assistance, essential to build capabilities and capacity across the UK and project development to ensure that a suitable range of projects is brought into the investment pipeline, leveraging private investment into new markets with significant social and environmental co-benefits - such as those in natural capital²⁷ and the built environment²⁸. By reducing investment risk, the function will help to ensure that the Bank is able to meet its financial returns requirement, as well as its broader economic, social and environmental goals^{29,30}. One example of where a centralised resource has been successfully made available to local authorities is the Inclusive Growth Network³¹, and we would collectively encourage the Bank to make a full evaluation of the most effective interventions of this kind when considering how to deliver this service.

To support the Bank in delivering this advisory service, HM Treasury must set out the correct regulatory approvals for the Bank to provide financial advice so it can be paid to provide financial advice. This, or a ‘sweaty equity’ approach, could provide the Bank with a source of ‘income’ which will support the Bank in achieving its financial return targets while also providing a valued market service.

This ‘learning’ value creation will also be supported by the Bank implementing good governance and leadership. Hiring experienced professionals in banking and investment, as well as in energy systems and infrastructure, is important to ensure the Bank’s investments are mission led and transformational, ensuring that the Bank’s investment and operating principles permeate from the top down.

Furthermore, leveraging the Bank’s unique position as a public institution to create a positive feedback loop between the market and the Government is essential to further remove any capacity or policy barriers.

²⁶ UK Government (2021), Policy Design of the UK Infrastructure Bank

²⁷ E3G (2022), UK infrastructure Bank and E3G Roundtable: Creating resilient markets for nature

²⁸ E3G (2022), UK Infrastructure Bank: a place-based strategy for success decarbonising the built environment

²⁹ HM Treasury (2021), Chancellor’s letter to the UK Infrastructure Bank

³⁰ E3G (2022), UK Infrastructure Bank: Local Authority Service

³¹ CPP (2021), Inclusive Growth Network



E3G

Conclusion

The UK Infrastructure Bank has an opportunity to be a world-leading test case for what mission-led public investment can achieve – generating more prosperous, more sustainable outcomes for people, families, and communities across the UK. The recent Levelling Up White Paper has recognised the Bank's potential, noting the critical need to invest across the country to support innovation and regeneration³². The challenge ahead is immense, and the success of the endeavour will lie in not just in the detail of the strategic plan but its approach to delivering return.

About E3G

E3G is an independent European climate change think tank with a global outlook. We work on the frontier of the climate landscape, tackling the barriers and advancing the solutions to a safe climate. Our goal is to translate climate politics, economics and policies into action.

E3G builds broad-based coalitions to deliver a safe climate, working closely with like-minded partners in government, politics, civil society, science, the media, public interest foundations and elsewhere to leverage change.

More information is available at www.e3g.org

Copyright

This work is licensed under the Creative Commons Attribution-NonCommercial-ShareAlike 2.0 License. © E3G 2022

³² HMG (2022), *Levelling Up in the UK*



E3G

ANNEX: CASE STUDIES AND RESOURCES

Below are some case studies from public banks and private financial institutions which have succeeded in correcting market failures while opening new net zero market opportunities. The Bank can learn from these examples when building its own investment strategy.

IDB – Energy Savings Insurance Program (2017)³³

The Inter-American Development Bank's (IADB) green finance partnership with National Development Banks supports partners to:

- Develop strategies, plans and internal capacities (financial structuring, financial product development, project identification, environmental and social risk management systems, etc.) to implement and prioritise green investment pathways
- Access financing instruments (loans, guarantees, grants) from IADB resources and international climate funds (donor finance, Green Climate Fund (GCF), Climate Investment Funds (CIFs) etc.) with appropriate terms to develop the required blended financing solutions for clients that pioneer low-carbon investments, helping to manage the higher costs and risks that first movers face.

The ESI program consists in providing an insurance product covering projected energy savings for specifically defined and verifiable energy efficiency (EE) measures as agreed upon in a standard contract between small and medium businesses and EE services and technology providers. Compensation is paid to a firm if the promised financial benefits associated with EE savings are not realised. Participation in the program of local insurance companies and international reinsurers is secured by the integration of third-party verifiers and EE services and technology providers, as well as dedicated credit lines at adequate conditions to promote a pipeline of EE projects.

KfW – Energy Efficient Building Program (2007)

Since 2007, KfW has been supporting the decarbonisation of the built environment through the Energy Efficient Construction and Refurbishment Programmes. The program provides promotional loans up to a maximum of 75000 EUR per housing unit to build or refurbish housing units following the KfW-

³³ IDB (2018), **Supporting National Development Banks to drive investment in the Nationally Determined Contributions of Brazil, Mexico, and Chile**



E3G

Efficiency House Standard. Between 2007 and 2017 over four million housing units were built or refurbished to be more energy efficient³⁴. The success of the program triggered private investments of > EUR 260 billion in building measures, which has created on average 320,000 jobs per year in the construction sector, and reduced energy costs and import dependence for heating by EUR 6.2 bn. Additionally it has cut significant greenhouse gas reductions approximately 20Mt CO₂ per year³⁵ (3% of Germany's annual GHG emissions). The bank is not profit-maximizing per se, but usually aims to achieve a profit of at least €1 billion per year³⁶.

Canada Infrastructure Bank (CIB) – Oneida Energy Storage LP (2021)³⁷

The Canada Infrastructure Bank invested \$170 million CAD towards the Oneida Energy Storage project in Southwestern Ontario, costing half billion dollars. This is one of North America's largest energy storage projects, expected to reduce GHG emissions by 4.1 M tonnes per year. When constructed, it will meet future energy needs of Indigenous communities by providing clean, reliable power capacity by storing energy generated from renewables during off peak periods and releasing it to the grid during peak energy demand periods. Involvement from the CIB was instrumental in closing the financing gap, ensuring a balanced risk transfer and bring first-of-its kind projects to First Nations communities in Canada. CIB's financing assisted to support and scale novel clean energy technologies in the Canadian market. This reduced energy costs to taxpayers, provided employment opportunities while also meeting community energy needs sustainably. Energy storage projects of this type are essential to enable the UK power sector to decarbonise entirely, but FOAL projects of this type are unlikely to be financed through private sources only, so this is a specific area where the Bank could make a difference.

Chilean Economic Development Organisation (CORFO) – Cerro Dominador CSP/Solar PV Plant (2014)³⁸

The Cerro Dominador Power Plant was the first concentrated solar power (CSP) generation project to be implemented in South America, generating 220 MW of continuous clean energy annually while reducing 870,000 tons of carbon emissions per year. However, its implementation in Chile posed numerous technological and financial risks which deterred private investment. The

³⁴ KfW (2017), Ten years of the KfW's "energy-efficient construction and refurbishment" programmes

³⁵ OECD (2013), Mobilizing private sector investment: KfW Case Studies and Conclusions

³⁶ S&P Global Ratings (2020), Ratings Direct - KfW

³⁷ Canada Infrastructure Bank (2020), Oneida Energy Storage

³⁸ IDB (2017), Chile CTF-IDB Concentrated Solar Power Project



E3G

development of this project required a substantial investment of USD \$1.4 billion that was sourced through a mixture of blended finance from public and private sources, as well as multilateral financial institutions. To de-risk investments in this novel technology, Chile's national development bank (CORFO) negotiated loans from the Inter-American Development Bank (IDB) and KfW to raise concessional financing to cover the high cost of the plant³⁹, and a USD \$65 million grant provided by KfW and channelled through CORFO. The plant began operating in June 2021 and it is projected to generate over 46.47 million USD of annual sales.⁴⁰ This project has also demonstrated the viability of CSP technology, which has led to a fall in prices from \$182/MWh in 2019 to \$75/MWh in 2021⁴¹. The success of Cerro Dominador has led to a follow up CSP project that was auctioned at \$34/MWh in August 2021, opening a viable market for CSP generation in Chile.

CORFO was instrumental in attracting foreign investment to decrease capital expenditure costs of the project. Despite CSP power generation not being a viable solution for the UK, this example demonstrates how strategic leadership in technical assistance and bridging between finance sources can be replicated by the Bank.

European Investment Bank (EIB) – Telayuela Solar Plant Spain (2019)⁴²

The Telayuela solar power plant is one of the largest solar projects in Europe. It generates approximately 600 GWh of renewable energy per year, enough to power around 150,000 households at a competitive price, while offsetting 170,000 tons of carbon dioxide emissions annually. The EIB invested €120 million of the total cost €401 million⁴³ for the construction and operation of the solar PV plant, transmitting 4,300 GWh of power for ten years under a long-term power purchase agreement. The power plant came online in 2020, and has proved commercially viable, generating annual sales of approximately €25m (\$28m) from the first full year of operation, while also creating over 400 construction jobs throughout the construction period.

³⁹ This package included a USD \$66.12 million loan for them Clean Technology Fund (CTF), and a USD \$30 million loan from the IDB-managed Canadian Climate Fund for the Private Sector in the Americas. KfW provided a 100 million Euro credit line for commercial banks to engage the local financial sector and the European Union provided a grant worth 15 million Euro. The remainder total required to fill the total investment gap was sourced by the developer through a loan from international commercial banks including ABN Amro, BTG Pactual, Commerzbank, Deutsche Bank, Natixis, Santander and Societe Generale which amounted to USD \$541 million.

⁴⁰ **D&B (2015), Cerro Dominador UK, LLP**

⁴¹ **Reuters Events Renewables (2020), Global CSP costs dive as learnings kick in, cost of capital key driver**

⁴² **European Commission (2019), Climate Change: the EIB finances one of the largest solar plants in Spain**

⁴³ **European Investment Bank (2020), La Cabrera y Telayuela Solar PV**



E3G

Due to Telayuela's success, the EIB has expanded its portfolio of renewable energy investments to develop more renewable energy projects through the provision of co-financing teams, through innovative co-financing schemes with private investors. In 2022 the EIB signed an agreement to grant uni-tranche loans for solar PV and onshore wind projects in Spain and Portugal from 2021 to 2024⁴⁴, promoting the generation of about 430MW of new renewable energy. Thus, continuing to open the markets for renewable energy.

Impact Investing Institute⁴⁵

The following case studies provide examples of financing approaches which have delivered social, environmental, and financial returns:

- **Danish Climate Fund:** The Danish Climate Investment Fund (KIF) extends funds through equity and mezzanine financing to mitigation and adaptation projects in low- and middle-income countries. The KIF targets a 12% annual IRR and prefers a 6% IRR per annum for private limited partners (PLPs) through which it mitigates risks.
- **The London Fund:** The London Fund was launched in January 2020 as a collaboration between two Local Government Pension Schemes (LGPS) investment pools – the London Collective Investment Vehicle (LCIV) and Local Pension Partnership Investments (LPPI). The Fund was created to enable London LGPS funds to access investment opportunities to deliver positive social and environmental benefits for Londoners and sustainable long-term, risk-adjusted returns for pension investors. The Fund invests in projects on residential property, community regeneration, digital infrastructure, and clean energy.

LCIV is the alternative investment fund manager responsible for risk management while LPPI has delegated responsibility for portfolio management. The London Fund combines the local knowledge of both parties which offers greater access to resources and a wider investment pipeline than could be achieved through individual management.

- **Bristol and Bath Regional Capital:** Bristol and Bath's Regional Capital (BBRC) supports the region's development through civic-led, commercially focused and innovative investment. The BBRC works with investors to offer investment opportunities that provide a financial and social return supporting local

⁴⁴ European Investment Bank (2022), Spain: EIB to provide €100 million to co-finance solar PV and wind energy projects on the Iberian Peninsula

⁴⁵ Impact Investing Institute (2022), Case Studies



E3G

projects. The BBRC also works with local projects and enterprises to provide financing advice and access to loans and finance at competitive rates, as well as working with the community to create civic partnerships.

The Global Innovation Lab for Climate Finance⁴⁶

The Climate Finance Lab lists successful green finance instruments that have been successful in supporting net-zero projects including energy efficiency, renewable energy, sustainable transport, climate-smart agriculture, and curbing deforestation, while also reducing private investor risks and improving financial returns through a variety of mechanisms. Since 2014 the Lab has launched 49 solutions to drive over USD 3.0 billion investment to action on climate change and sustainable development.

About E3G

E3G is an independent European climate change think tank with a global outlook. We work on the frontier of the climate landscape, tackling the barriers and advancing the solutions to a safe climate. Our goal is to translate climate politics, economics and policies into action.

E3G builds broad-based coalitions to deliver a safe climate, working closely with like-minded partners in government, politics, civil society, science, the media, public interest foundations and elsewhere to leverage change.

More information is available at www.e3g.org

Copyright

This work is licensed under the Creative Commons Attribution-NonCommercial-ShareAlike 2.0 License. © E3G 2022

⁴⁶ **Climate Finance Lab (2021)**