INVESTOR'S
ROUND TABLE DISCUSSION

24 OCTOBER 2023

Mobilizing Domestic Institutional Investment for Climate Finance

An interactive session with Foreign Commonwealth & Development Office Nigeria for Domestic Institutional Investors to unlock impact and climate-aligned infrastructure

Background

In May 2022, the Foreign Commonwealth and Development Office (FCDO) seeded the Climate Finance Blending Facility (CFBF or the "Facility"), a catalytic first loss multi-donor facility with £10 million concessional funding, to co-finance clean energy investments alongside InfraCredit's local currency guarantees in Nigeria. Till date, the Facility has helped de-risk, reduced the capital cost and catalysed domestic institutional investment to scale up private sector financing of affordable local currency capital for eligible off-grid clean energy infrastructure for unserved and underserved markets in Nigeria.

According to Nigeria's Integrated Energy Planning Tool, it is estimated that up to US $16.6 Bln of funding will be required to finance off-grid energy infrastructure for solar mini-grids and stand-alone solar systems that will electrify over 80 million households and small businesses not connected to the grid, to achieve universal energy access by 2030. Nigerian domestic institutional investors assets under management in local currency, is estimated at over US$22 billion, but less than 2% is currently invested as domestic credit to the private sector due to perceived risks, limited quality projects and high cost of capital for the project owners due to high interest rate environment.

InfraCredit in collaboration with the FCDO organized an interactive session at the British Deputy Commissioner's Residence with domestic institutional investors on how to scale up climate finance from the private sector, the role of blended finance models in derisking investments and successful case study projects recently funded by domestic investors working with InfraCredit in Nigeria.

Strategic Objective

To further scale the participation of domestic institutional investors in off-grid clean energy (as co-financing partners along with FCDO), which will give renewable energy project developers access to long term finance whilst increasing energy access in the rural communities and consequently improving rural economy.

Explore the use of blended finance tools such as the CFBF to unlock "green finance" in local currency in pension assets investible as domestic credit to the private sector.

The expected outcome of the session is to motivate these domestic institutional investors towards unlocking financing for more climate-aligned energy projects in Nigeria and secure their commitment to climate goals.

Participants

The session attracted 47 participants across 22 domestic institutional investors including 13 Pension Funds Managers, 4 Insurance Companies and 5 Fund Managers

INSTITUTIONAL INVESTORS

Summary of Feedbacks from Domestic Institutional Investors

Constraints to domestic institutional investment in off-grid energy financing
Include size, liquidity/secondary market tradability, risk and return expectation gap, shallow understanding of the asset class

Regulatory policy options for domestic institutional investment in accelerating the transition to clean energy
Regulations should allow PFAs participate in the private debt market. Increased allocation to Infrastructure funds

Unlocking financing for clean energy - role of innovative funding models including blended finance, guarantees and first loss
Investors expressed satisfaction with the blended finance models and would want more of such models to derisk their investment in the asset class

Motivations for scaling domestic institutional investment in off-grid energy financing
Investors are willing to allocate more financing to clean energy for as long as the first loss is in place

The role of development partners and donor agencies in addressing the energy deficit and funding gap
To address the energy and funding gap, Investors asked that development partners support other aspects of the energy financing value chain including the supply chain to make the project bankable

Guaranteed private corporate infrastructure bond as an asset class – key considerations and enabling policies
Establish a secondary market as these private bonds are not liquid.
A fair pricing to compensate investors for the risks of illiquid bond
The guarantee is inevitable for this asset class

Accelerating off grid energy projects through modular/mini-sized infrastructure – concerns and considerations
Investors agreed that modular Infrastructure will be useful in addressing energy deficit for the underserved and unserved. However, the project must be sizable enough to be worthwhile for the time required for review, and approvals

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