Canada-IFC Blended Climate Finance Program

2022 Implementation Progress Report

IN PARTNERSHIP

Canada

IFC International Finance Corporation WORLD BANK GROUP

Creating Markets, Creating Opportunities

Table of Contents

ABBREVIATIONS & ACRONYMS

AIMM	Anticipated Impact Measurement and Monitoring system
BCFP	Blended Climate Finance Program
CCCP	IFC-Canada Climate Change Program
DFI	Development Finance Institution
FI	Financial Institution
GHG	Greenhouse Gas
GoC	Government of Canada
IFC	International Finance Corporation
ODA	Overseas Development Assistance
PV	Photovoltaic
RE	Renewable Energy
WBG	World Bank Group

The following report provides an update on the Canada-IFC Blended Climate Finance Program implementation progress and results that have occurred between July 1, 2021 and June 30, 2022. With blended concessional financing support from the Program, a new project was committed this year: Kampong Solar is one of the first large-scale solar projects in Cambodia awarded through a competitive tender. The Program continues to see results from the other six committed projects, with notable effects from COVID-19, increasing global fragility and general economic slowdown.

More information on IFC Blended Concessional Finance and the Canada-IFC Blended Climate Finance Program is available at www.ifc.org/blendedfinance

Program Overview

The Blended Climate Finance Program (BCFP or the "Program"), established in 2018, is a partnership between the Government of Canada ("GoC") and International Finance Corporation (IFC) to catalyze private sector financing for resilient infrastructure, climate-smart agriculture, and renewable energy. The Program provides concessional financing (financing at below-market terms) for private-sector led projects across the globe, with a growing focus on the poorest and most vulnerable countries. The BCFP promotes gender-responsive climate action, recognizing that climate change disproportionally affects girls and women.

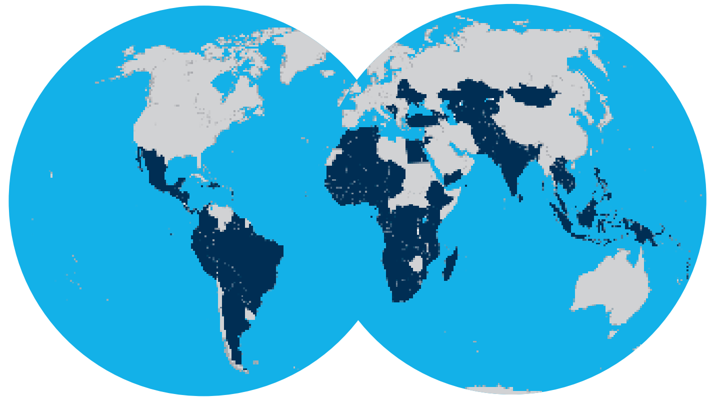
Key Features

- **Size of the fund:** CA$250 million
- **Duration:** 5 years (2018-2023)
- **Priority sectors:** Climate mitigation, adaptation, and resilience
- **Geographies:** Global/ODA eligible countries
- **Instruments:** Senior debt or subordinated debt

CANADA AND IFC

Canada was IFC's first bilateral provider of blended concessional finance across all sectors and themes. In 2015, pursuant to the Paris Agreement, the GoC announced it would contribute a historic 2.65 billion Canadian dollars over five years to help developing countries tackle climate change, with a focus on adaptation and resilience efforts for the world's most poor and vulnerable countries. [In 2021, Canada announced a doubling of its international climate finance, from CA$2.65 billion (2015–2021) to CA$5.3 billion (2021–2026), signaling Canada's continued commitment to the global fight against climate change.] In line with this commitment, the Canada-IFC partnership on climate grew from the IFC-Canada Climate Change Program (CA$291 million, 2011-2018) to include two other programs that further mobilize private capital for global climate action: the Canada-IFC Blended Climate Finance Program (CA$250 million, March 2018) and the Canada-IFC Renewable Energy Program for Africa (CA$150 million, December 2017).

PROGRAM GOVERNANCE AND TRANSPARENCY



IFC acts as a Program implementing entity, blending Canada's concessional funds alongside IFC's own commercial resources to support projects that have met both the DFI Enhanced Blended Concessional Finance Principles[1] and Program eligibility requirements.

Disciplined use of concessional financing allows IFC to boost climate-smart private investments where they would not otherwise exist, ensuring there is no market distortion and that these new markets can continue on fully commercial terms in the future.

IFC is a global Development Finance Institution (DFI) leader in transparency, publicly disclosing the transaction-level subsidy levels for each project along with justification for why it is necessary in the Summary of Investment Information posted on IFC's external website. To date, IFC is the only DFI to have taken this step on disclosure. To avoid distorting markets and using scarce resources solely to benefit the investor, all IFC encourages all DFI's to prioritize governance, coordination, transparency, and the use of minimum concessionality.

ELIGIBLE COUNTRIES

Program funds can only be invested in eligible projects in countries eligible to receive Official Development Assistance (ODA) from the GoC, which include the following:

Africa

Algeria
Angola
Benin
Burkina Faso
Burundi
Botswana
Cabo
Verde
Cameroon
Republic of Congo (aka Congo-Brazzaville)
Côte d'Ivoire
Chad
Comoros
Democratic Republic of Congo
Djibouti
Egypt
Equatorial
Guinea
Ethiopia
Gabon
Gambia
Ghana
Guinea
Guinea-Bissau
Kenya
Lesotho
Liberia
Madagascar
Malawi
Mali
Mauritius
Mauritania
Morocco
Mozambique
Namibia
Niger
Nigeria
Rwanda
Sao Tome & Principe
Senegal
Sierra Leone
South Africa
Sudan, South
Sudan
Eswatini (formerly Swaziland)
Tanzania
Togo
Tunisia
Turkmenistan
Uganda
Zambia

Asia-Pacific

Afghanistan
Azerbaijan
Bangladesh
Bhutan
Cambodia
Cook Islands
Fiji
Georgia
India
Indonesia
Kazakhstan
Kiribati
Kyrgyz Republic
Laos
Malaysia
Maldives
Marshall Islands
Micronesia
Mongolia
Myanmar
Nauru
Nepal
Palau
Pakistan
Papua New Guinea
Philippines
Samoa
Sri Lanka
Solomon Islands
Tajikistan
Timor-Leste
Thailand
Tokelau
Tonga
Tuvalu
Uzbekistan
Vanuatu
Viet Nam
Yemen

South America

Argentina
Bolivia
Brazil
Chile
Colombia
Ecuador
Paraguay
Peru

Caribbean and Central America

Belize
Costa Rica
Dominica
Dominican Republic
El Salvador
Grenada
Guatemala
Guyana
Haïti
Honduras
Jamaica
Mexico
Montserrat
Nicaragua
Panama
Saint Lucia
Saint Vincent & the Grenadines
Suriname

Eastern Europe & Middle East

Albania
Armenia
Belarus
Bosnia & Herzegovina
Jordan
Kosovo
Lebanon
Macedonia
Moldova
Montenegro
Serbia
Turkiye
Ukraine
West Bank and Gaza

ELIGIBLE SECTORS

The BCFP is designed to support a wide range of projects and be adaptive to challenging environments and markets. Program funds are dedicated to projects in climate mitigation as well as adaptation and resilience.

Climate mitigation

To support climate mitigation efforts, the Program targets investments catalyzing private sector financing flows into renewable energies such as solar power, wind, hydropower and biofuels like bioethanol. Activities also include industrial process improvements to support the reduction of greenhouse-gas emissions and accelerate the transition to a low-carbon economy in these markets.

Climate adaptation and resilience

To catalyze private investment in climate adaptation and resilience, the BCFP targets projects that reduce vulnerability to the effects of climate change, such as improving resilience of water treatment plants, changes in the design of sanitation to respond to extreme weather events, investments in the development of climate resilience crops and high-efficiency irrigation systems in agriculture, as well as gender-responsive emergency response systems. Market-based climate disaster risk financing solutions (e.g. insurance) to support timely post-disaster recovery by governments, businesses, communities, and households, are other examples of eligible investments to support adaptation and resilience.

Implementation update

BCFP INVESTMENT PORTFOLIO AS OF JUNE 30, 2022

Table 1: **BCFP Committed Projects**

All figures in USD unless otherwise stated

Project	Country	Year Committed	BCFP Funding	IFC Funding	Other Funding	Total Project Cost
			in million US$			
Climate Smart Agriculture						
Sri Lanka Agri-finance Program (SLAFP):	Sri Lanka	2018				
Alliance			2	8.1	-	10.1
Central Finance			3	12	-	15
Total SLAFP			**5**	**20.1**	**-**	**25.1**
Waste Management						
Belgrade Waste-to-Energy[a]	Serbia	2019	22.1	78.4	279.2	379.7[b]
Energy Efficiency leasing						
BBVA Leasing	Mexico	2020	15	120[c]	50	185
Solar Generation						
Scaling Solar UZ	Uzbekistan	2020	17.5	20.0	62.5	100
Kampong Solar	Cambodia	2022	4	4	32	40
Pharmaceuticals/Green buildings						
Neolpharma	Mexico	2021	15	15	70	100
Total			**78.6**	**257.5**	**493.7**	**829.8**

a USD-equivalent amounts shown assuming 1.12 USD/EUR exchange rate.
b Financing in EUR at exchange rate of 1.12. Total cost of EUR339 million; EUR20 million from BCFP.
c Including a trust loan of up to US$50 million from IFC acting in its capacity as the implementing entity for the Managed Co-Lending Portfolio Program (MCPP).

INVESTMENT CONTEXT

The BCFP portfolio of 7 investment projects, in aggregate, are expected to achieve around 520,000 tCO2e/year in emissions reduction. As of December 31, 2021, two projects began reporting data, showing 32,643 tCO2e/year emissions reduction and annual energy savings of 4,716 MWhe.

In fiscal year 2022, the Program continued developing a pipeline and also committed Kampong Solar in Cambodia. The speed of developing a pipeline of projects and converting them into portfolio was effected by COVID-19, particularly for the real sector projects. Several projects that had initially been included in the pipeline were dropped as their progress deteriorated significantly.

Lessons Learned: Pace of project development in challenging environment

The first batch of projects committed under the BCFP was primarily composed of financial institutions (FIs) projects (e.g., Sri Lanka Agri Finance and BBVA Leasing). Over time, however, as business development efforts continued, the portfolio composition began rebalancing through a growing share of real sector projects. Real sector activities complement the work through FIs and typically include catalytic infrastructure projects, which however, require much longer gestation time.

Statistically, compared to loans to FIs, real sector projects require more lead time to go through the project development cycle. Within the current BCFP portfolio, on average, it took 8 months for a FI project to reach commitment, compared to 27 months for a single real sector project to get committed. These timelines are slightly longer than IFC's own account historical track record, which is natural to expect given the more innovative nature of the projects that receive blended finance support. In addition, COVID-19 has notably slowed down project development across all regions and sectors, particularly affecting real sector projects.

IFC has a strong program pipeline, with a significant focus on real sector and huge potential for impact and first-of-its-kind pilot activities. Currently, the demand for BCFP funds from a pipeline of projects actively pursued by IFC notably exceeds the size of the BCFP program. IFC will continue advancing the projects, prioritizing the ones that are most impactful and with high probability of commitment.

Canada's ongoing support during one of the most uncertain times in recent history with the COVID-19-recovery, Russia's invasion of Ukraine, and twin climate and economic crises is pivotal in supporting emerging markets and developing economies (EMDEs) with an inclusive, green recovery that demonstrates global leadership to other large donor countries.

Stories of Impact

A new era for solar in Cambodia

KAMPONG, CAMBODIA

New project committed FY22

Before COVID-19, Cambodia was experiencing a period of rapid economic growth, increased electrification rates, and a corresponding growth in energy demand. Despite some recent economic contraction, the country is challenged to keep up with this rapid demand growth while continuing to expand access to previously unserved areas and addressing issues of energy security, affordability, and environmental sustainability. According to the International Energy Agency, Cambodia's electrification rate is the second-lowest among South East Asian countries. Nearly one million Cambodian households have no access to grid electricity and are reliant on car batteries, wood, and other traditional fuels for energy. In addition, electricity tariffs in Cambodia have been high, which makes access to electricity unaffordable to the poor while constraining economic competitiveness and discouraging investment.

Expanded access to modern and affordable forms of energy is essential for Cambodia's social and economic advancement.

Renewable energy sources like solar present a critical opportunity to add to the energy generation mix. IFC's first investment in Cambodia's power sector, Kampong Solar is a greenfield 60 MW solar power plant to be located in Cambodia's Kampong Chhnang province. This is the first phase of a 100 MW solar park planned by the Government of Cambodia, and the first large-scale tendered project in the country.

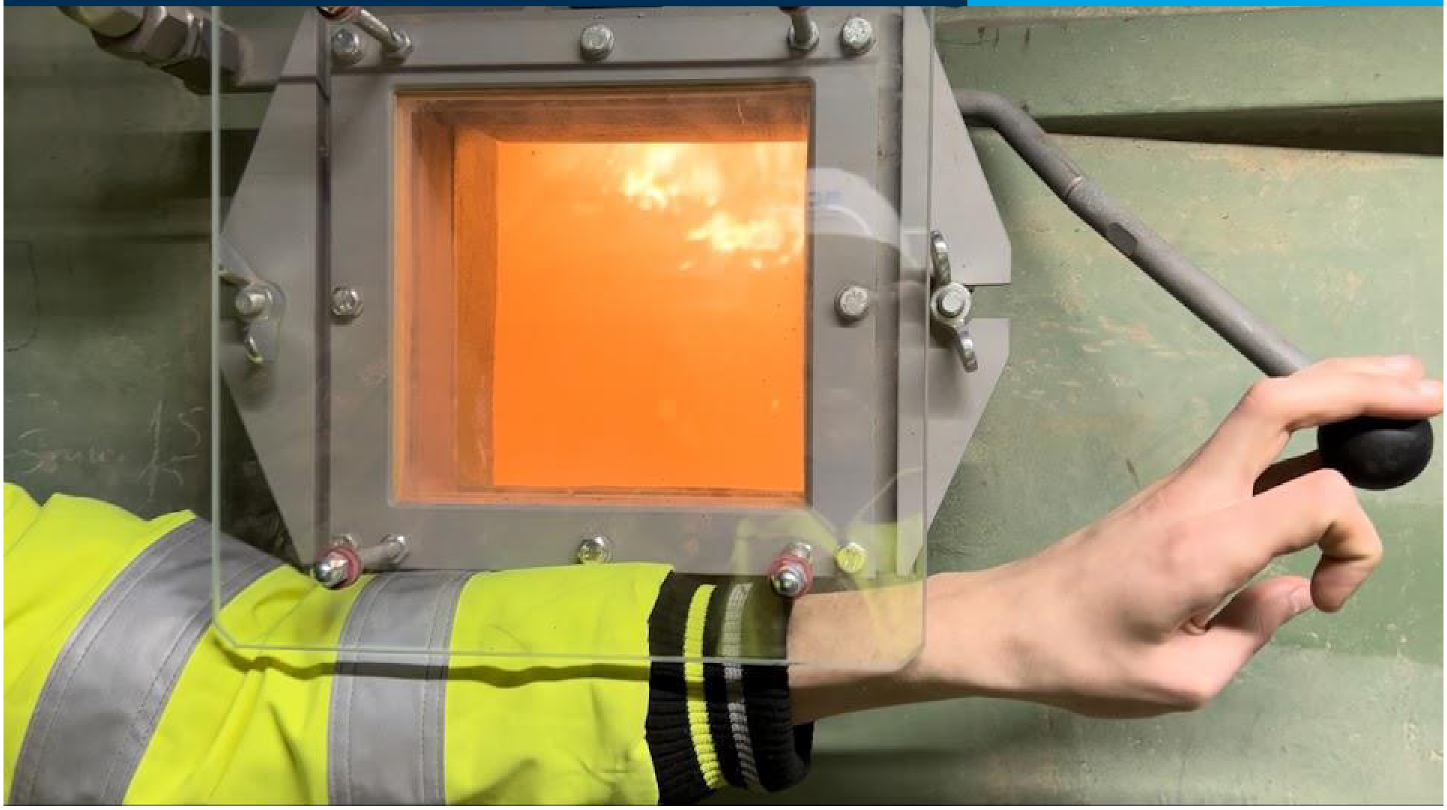
Rationale for blended concessional finance

The total project cost is US$40 million, including US$4 million from IFC's own account and US$4 million from the Canada-IFC Blended Climate Finance Program. The subsidy provided by the blended finance component is estimated to be 1.8 percent of total project costs. The concessionality from the BCFP loan was offered upfront to the bidders as part of the competitive bidding process to incentivize participation in this high impact project and drive down the resulted electricity tariff to support affordability. The solar tender was able to achieve one of the lowest power purchase tariffs in Southeast Asia because of the blended finance component.

Impact

Through support of one of Cambodia's first solar auctions, Canada and IFC are helping Kampong Solar establish itself as a strong example for future solar project tenders in the country.

These types of RE projects are key to increasing the supply of reliable, affordable and clean energy for a growing population (the project also has significant emissions reduction of nearly 100,000 tons of CO_2 annually.)



Urgent need for concessional finance for MICs, in particular for climate

There is no path to development and improved prosperity without the private sector.

However, the scope for private sector development is being challenged in unprecedented ways. Increased fragility and conflict, surging inflation, unsustainable debt levels, climate change, supply shortages, and more instability are making private investors less inclined to deploy funds, just when their involvement is needed most to address global challenges. In the current context, concessional financing that addresses temporary market risks and incentivizes investors to follow is vital to near term economic recovery and achieving the Sustainable Development Goals.

Blended finance has contributed to sustainable development impact in challenging markets and novel sectors for close to 20 years. If collectively the global development community can reach the scale needed, the next decade will be the most impactful.

MIDDLE INCOME COUNTRIES (MICS)

Rapid growth in MICs continues to drive up GHG emissions, investment to address climate change is more urgent than ever and climate finance remains elusive in these countries. With expectations of IFC leading the scale-up and acceleration of private sector climate finance investment flows, IFC estimates that, over the next five years, its need for blended finance funding will reach the several-billion dollar scale, with a particular need in MICs where key development issues, including climate change, fragility, and food security, are threatening to reverse decades of development gains. IFC focuses on opportunities to unlock innovations in MICs by pushing high impact and first-of-their kind projects across the finish line with the de-risking support of blended finance. Blended finance can also help support the vision of many governments to have a green recovery and accelerate the path of decarbonization, mobilizing private capital to support a green, just transition.

While the funding gap for MICs is acute, the magnitude and complexity of today's global challenges calls for an expanded availability of concessional resources to developing countries across the income spectrum – including protecting and increasing those resources already at the disposal of LICs and other IDA-eligible countries. Continued and expanded blended finance funding from countries like Canada will be critical to address these global challenges head on.

BEYOND TRADITIONAL RENEWABLES

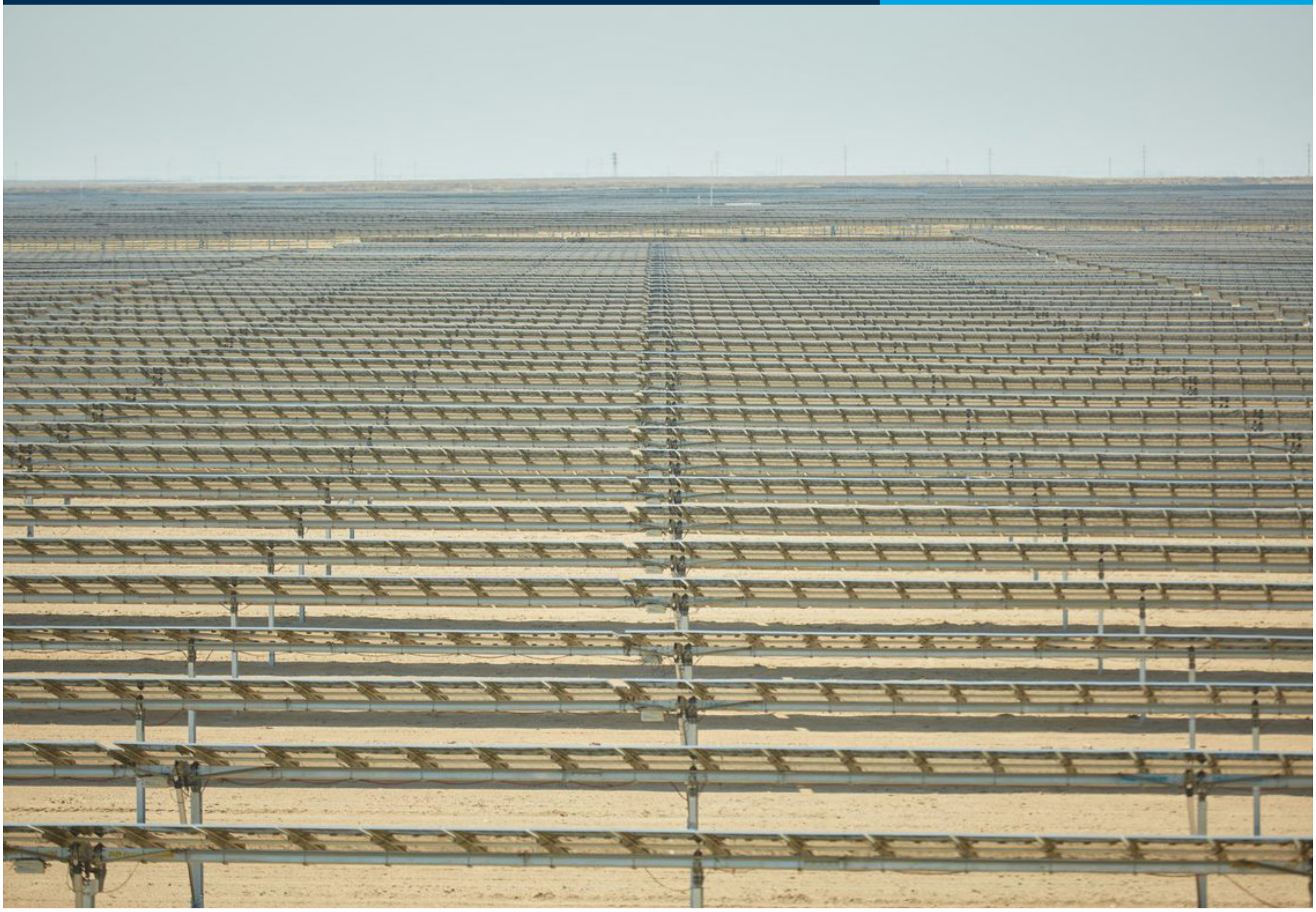
Using blended finance to de-risk climate technologies remains a critical area of focus. There are specific innovative sectors and indicative projects that will need blended finance support, including:

- **Offshore wind** (e.g., 1.4 GW offshore wind project in Vietnam, Philippines)
- **Green hydrogen** (e.g., IFC is engaging on green hydrogen pilot projects in India, Egypt, Brazil)
- **Battery storage/transmission** (e.g., solar power-to-mine project in South Africa; battery storage projects in Indonesia, India, Mauritius, Samoa in development)
- **Water supply** (e.g., including desalination and wastewater treatment projects in Jordan, Morocco, Egypt.)
- **Waste-to-Energy** (e.g., IFC in discussion with private sector to support bids for two WTE projects in Indonesia)
- **Industry and Supply Chain Decarbonization** (e.g., transition of hard-to-abate industries in India, Philippines, Indonesia, South Africa)

NEED FOR FLEXIBLE CAPITAL

The vast majority of IFC's blended financing sources, including all three of Canada's blended finance programs, are "returnable capital," meaning that contributors expect return of the capital invested at the portfolio-level. In this model, reflows (interest, fees, dividends, and repayment of principal) are regularly returned to the provider of concessional funds with the objective of having a returnable capital facility. The expectation of capital protection (i) limits the level of concessionality that can be provided in any investment instrument, and (ii) precludes the use of capital depleting (or flexible) instruments, which, have proven vital to reaching new customer segments (e.g. women, SMEs), supporting new or expensive technologies, and facilitating behavior shifts. Examples of such instruments include performance-based incentives (PBIs), which use concessional funds to encourage clients to achieve strategic objectives (e.g., gender or climate); viability gap funding, or investment grants that can reduce the high upfront capital costs associated with technology intensive climate projects; and cross-currency swap buy-downs. Flexible or "grant-like" instruments can leverage significantly higher levels of IFC and other investors' resources in support of private sector projects.

Flexible capital can address the multi-faceted risks for a robust and impactful private sector project. Non-returnable capital facilities are generally more flexible and can be better aligned to the needs of a climate adaptation project, for example, where the cost of climate-proofing the project may need to be at least partially defrayed through concessional support.



Conclusion

For nearly 20 years, blended finance at IFC has contributed to sustainable development impact in challenging markets and novel sectors.

In the current polycrisis context, concessional financing that addresses temporary market risks and incentivizes investors to follow is vital to near term economic recovery and addressing global challenges like climate change.Canada's ambitious funding envelope on climate remains well placed with IFC, leveraging IFC's global footprint, expertise, and blended finance experience and leadership among DFIs. With continued alignment on impact and partnership from Canada, IFC is focused on opportunities to unlock climate innovation where diligent use of blended finance can help nudge sustainable, high impact and first-of-their kind projects and technologies across the finish line for deep development impact.

Annexes

ANNEX A: PORTFOLIO OF PROJECTS

The following annex details the investment projects committed under the BCFP as of June 30, 2022. All numbers in USD unless otherwise indicated. Note that greenhouse gas emission reduction numbers lag and reflect results to December 31, 2021.

BBVA Leasing					
Country	Mexico	Total Project Cost	$185 million	Program leverage to all parties	11.3x
Product	Senior Debt	IFC Funds	$120 million	Program leverage to IFC	8x
Commitment Date	2020	Program Funds	$15 million		
Description	BBVA Leasing will increase access to finance for SMEs in Mexico by helping BBVA Leasing grow its outstanding lease portfolio as well as its outstanding portfolio of green leases. The project supports the sustainable growth and competitiveness of companies in Mexico, with a focus on the efficient use of resources, renewable energy, and clean transportation. At least $40 million of the proceeds are expected to go to financing BBVA Leasing's climate-smart/green leasing products.				

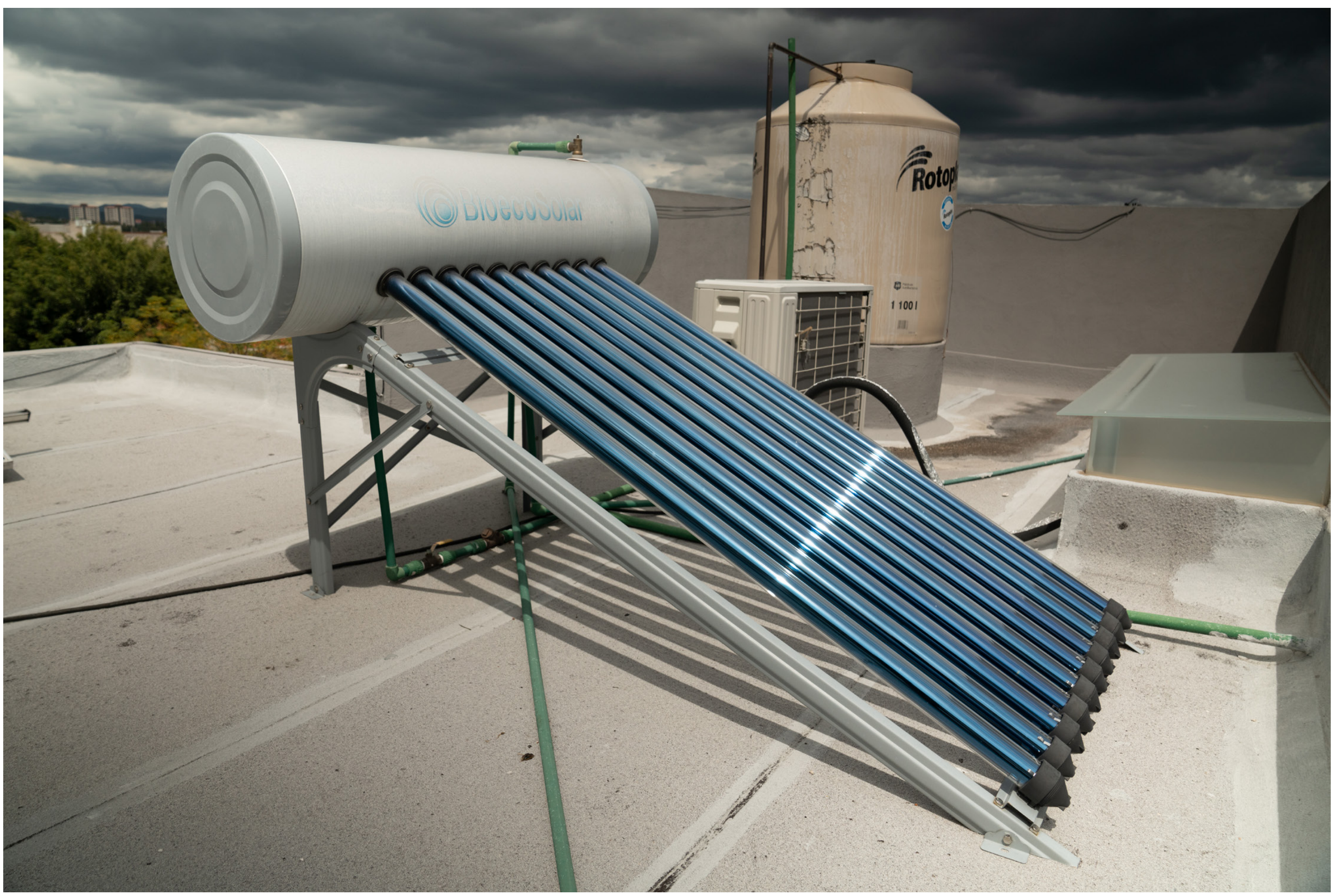
BELGRADE WASTE-TO-ENERGY					
Country	Serbia	Total Project Cost	€339 million	Program leverage to all parties	15.9x
Product	Senior Debt	IFC Funds	€70 million	Program leverage to IFC	3.5x
Commitment Date	October 2019	Program Funds	€20 million		
Description	This modern waste management project consists of the following components: i) remediation of an over-saturated landfill outside of Belgrade; ii) construction of a modern, EU-compliant sanitary landfill iii) an estimated 340,000 tons p.a. (tpa) waste-to-energy facility and iv) facility for processing construction and demolition waste. The total financing package includes financing from EBRD and a 20-year guarantee for project equity from MIGA.				

Sri Lanka Agri Finance (Alliance and Central Finance)					
Country	Sri Lanka	Total Project Cost	$25.1 million	Program leverage to all parties	4x
Product	Senior Debt	IFC Funds	$20.1 million	Program leverage to IFC	4x
Commitment Date	June 2018	Program Funds	$5.0 million		
Description	Building on an investment through the IFC-Canada Climate Change Program, the BCFP and the Women Entrepreneurs Opportunity Facility (WEOF) are enabling three FIs in Sri Lanka to allocate a certain portion of agri finance for Climate Smart Agriculture, specifically to women-owned agri enterprises and women farmers. FIs receive additional price reductions if certain pre-agreed gender targets are reached.				

Neolpharma					
Country	Mexico	Total Project Cost	$100 million	Program leverage to all parties	5.7x
Product	Senior Debt	IFC Funds	$15 million	Program leverage to IFC	1x
Commitment Date	March 2021	Program Funds	$15 million		
Description	IFC is financing Neolpharma's growth plan which includes a climate-friendly expansion of its production facilities of high-specialty products and APIs, the most important raw material in the production of medicines.				

Scaling Solar Uzbekistan					
Country	Uzbekistan	Total Project Cost	$100 million	Program leverage to all parties	4.7x
Product	Senior Debt	IFC Funds	$20.0 million	Program leverage to IFC	1.1x
Commitment Date	December 2020	Program Funds	$17.5 million		
Description	Long term debt financing for construction and operation of 100MW solar PV plant located in Navoi, Uzbekistan. The Project is the first solar project in the country and is being undertaken by Nur Navoi Solar Foreign Enterprise LLC. Electricity generated will be sold to the National Electric Grid of Uzbekistan under a 25-year power purchase agreement. The financing package includes debt financing from ADB and a partial risk guarantee from the World Bank.				

Kampong Solar					
Country	Cambodia	Total Project Cost	$40.0 million	Program leverage to all parties	9x
Product	Senior Debt	IFC Funds	$4.0 million	Program leverage to IFC	1x
Commitment Date	August 2021	Program Funds	$4.0 million		
Description	The Project consists of a 60 MW solar power plant located in Cambodia's Kampong Chhnang province and is the first phase of the 100 MW solar park planned by the Government of Cambodia. Developed by Prime Road Alternative (Cambodia) Co (a subsidiary of Thai listed company Prime Road Power PCL, the Company), the Project is expected to become operational by November 2022. The Project will sell electricity to Electricite du Cambodge (Cambodia's state-owned power utility), pursuant to a 20-year PPA. The Project is partially disbursed. First disbursement for US$ 1.82 million took place in May 2022.				



ANNEX B: MONITORING AND REPORTING

IFC Impact Assessment and Reporting: AIMM Scores

The Anticipated Impact Measurement and Monitoring (AIMM) system, launched in July 2017, is IFC's development impact rating system. The system helps IFC maintain a connection between immediate project goals to the World Bank Groups' twin goals of ending extreme poverty and boosting shared prosperity and the SDGs. Potential projects are rated and reviewed based on their expected development outcomes.

This approach enables IFC to set ambitious yet achievable targets, select projects with the greatest potential for development impact, and optimize project design.

The AIMM system enables IFC to assess project's outcomes as well as its effect on market creation. It looks at how project beneficiaries — including employees, customers, and suppliers — are affected. It also examines broader effects on the economy and society. With the AIMM system, IFC can examine how a project promotes objectives that contribute to the creation of markets by enhancing competitiveness, resilience, integration, inclusiveness, and sustainability.

The AIMM system incorporates country context in all of its assessments and captures greater development impact potential in projects that seek to address the widest gaps in the most difficult environments. AIMM also provides a critical economic and social impact rationale for projects in which blended concessional finance can catalyze investment where it would otherwise not happen. Average AIMM scores tend to be higher for projects supported by blended finance.

Transparency: subsidy levels

Starting with projects mandated on or after Oct. 1 2019, IFC has publicly disclosed the estimated subsidy ("concessionality") for each proposed project along with the justification for why it is necessary (see Summary of Investment Information via https://disclosures.ifc.org/). IFC is using this approach for all of its blended finance facilities and is the only DFI to date taking this step on disclosure.

ENDNOTE

1 See https://www.ifc.org/wps/wcm/connect/corp_ext_content/ifc_ external_corporate_site/solutions/products+and+services/blended-finance/blended-finance-principles

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March 2023