

HM Treasury  
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By email

13/06/2024

Dear HMT Infrastructure, Enterprise and Growth Unit team – Net Zero Blended Finance

### **BVCA Feedback on HMT Blended Finance Review**

The British Private Equity and Venture Capital Association (BVCA) is the industry body and public policy advocate for the private equity (PE) and venture capital (VC) (private capital) industry in the UK. We represent the vast majority of all UK-based private capital firms, as well as their professional advisers and a large base of UK and global investors. In 2023, a total of £59.6bn was raised by UK-managed funds to be invested globally, with £20.1bn having been invested by private capital into UK businesses in sectors across the UK economy. There are over 12,000 UK companies backed by private capital which currently employ over 2.2 million people in the UK. Approximately 58% of the businesses backed are outside of London and 90% of the businesses receiving investment are small and medium-sized enterprises (SMEs).

The BVCA welcomes HMT's engagement on the topic of blended finance and how it can assist in mobilising capital towards net zero infrastructure via innovative blended finance approaches. The BVCA further supports the Government's efforts to achieve net zero by 2050 and we are committed to ensuring that the UK's PE and VC industry plays a leading role in decarbonisation.

To provide some context to our evidence, we have provided below some detail on private capital's role in the net zero transition as well as how it is structured.

### **Role of Private Capital in the Net Zero Challenge**

The UK's private capital industry has a leading role to play in the global challenge of eliminating the causes and effects of climate change. Private capital is a global industry, with our members actively investing and diversifying their portfolios worldwide. The industry stands at the unique intersection of deploying capital, investing for the long term and helping to shape the strategy of investee companies. This allows private capital to play a leading role in ensuring firms adapt to the global climate crisis, embedding environmental and social considerations into businesses across the UK economy.

The British Business Bank (BBB) estimates that 76% of UK SMEs have yet to implement a decarbonisation strategy<sup>1</sup>; however, as either majority or significant minority owners, principally of unlisted, fast-growing SMEs (which account for 9 in every 10 UK companies receiving private investment), private capital is well-placed to drive their transition, reaching areas of the UK and global economies that public markets cannot. This is predominantly done in two ways:

- The industry's "active ownership" model allows it to help its portfolio companies, across sectors, to embed environmental considerations and reduce the emissions intensity of their operations; and
- The industry's backing of technological innovations needed to combat climate change and support businesses to transition to a low carbon economy.

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<sup>1</sup> [British Business Bank](#)

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Whilst the transition to a net zero economy and increase in regulation is driving the increase in green investment, there is also increasing evidence that encompassing ESG (Environmental, Social and Governance) factors makes for a smart business strategy and drives value creation.

The private capital model considers how the businesses perform today under one firm's ownership, but also must be informed by the needs of future owners in the years ahead. Those years will be drastically impacted by climate change, so investing in a green solution now is beneficial for the bottom line.

### **Structure of private capital**

Private capital is a long-term investment strategy, with firms typically investing in companies for 3-7 years in fund structures that subsist for around 15 years. This requires a commitment to building lasting and sustainable value in the businesses they invest in. In private capital investing, deriving value often hinges on the ability to influence investee companies, driving them toward higher growth and maximising returns at exit. Integrating sustainability themes into this approach proves advantageous, as sustainable companies inherently prioritize long-term impacts in their decision-making processes. This alignment not only fosters responsible business practices but also enhances growth prospects and investment returns.

Private capital firms raise capital to invest from sources such as pension funds, endowments, insurance companies, banks, family offices/high net worth individuals and sovereign wealth funds (together, limited partners). They typically use a limited partnership to structure funds; an example of a structure is set out below.

- The general partner of the limited partnership fund will delegate its power and authority to the private equity manager (often limited liability partnerships with the partners being the executives).
- Private capital firms will manage one or more funds. The funds are closed-ended meaning that they have a limited life span, the industry standard being between 10 to 15 years. The life span of a fund can be extended (if permitted in the fund's constitutional agreement) and this is typically contractually up to two additional years with an option to further extend the life of the fund where assets have not been realised.
- Private capital firms raise capital to invest from multiple sources. These institutional and well-informed investors will be limited partners in the fund and their liability is limited to the capital provided to the fund.
- The fund will typically invest in 10-15 portfolio companies in the earlier part of a fund's life until an agreed date (e.g., 5 to 10 years) and exit investments in the run up to the fund's fifteenth anniversary. Earlier stage investors may invest in up to 30-40 smaller portfolio companies. Typically, firms will sell their stake in a company by listing on the public markets or, more frequently, selling to a strategic buyer.
- The fund's ownership percentage in the portfolio companies will vary depending on the private capital strategy (e.g., buyout, minority stake).
- Private equity acquisitions will often be partly financed by debt, often provided by a number of banks.
- The portfolio companies will operate entirely independently of each other.
- The fund manager will typically have the right to appoint a representative(s) to the board of directors of its portfolio companies.

### **Key points of response**

Despite the private capital industry providing finance in its own regard, there is a need to accelerate the pace at which capital is being mobilised into decarbonising the industry and de-risk nascent green technologies. This need is especially prevalent during the period in the development of green products or services when a significant increase in investment is required, making the risk of failure much more

likely to outweigh any potential future return. We therefore present below our key considerations regarding the need and practicalities for blended finance for private capital:

- To drive investor confidence into net zero investments it is critical that the market is primed and that the Government gives clear signals about its direction of travel. This can be achieved through a net zero blueprint setting out clear commitments and actions on public investment and policy including for sectors with clear planning and fiscal arrangement in key areas. This is vital to ensure that investors have the confidence in the long-term financial viability of investments that will also help to coalesce funding around the technology best able to drive the green transition.
- Blended finance options present a promising avenue for mitigating risks associated with investments in emerging technologies, thereby enhancing their appeal to both UK and international investors, particularly within the venture capital ecosystem.
- Established green technologies like wind, solar and hydro power are already attracting substantial investor attention and capital, suggesting they may not benefit significantly from blended finance in the UK which is aimed at helping to de-risk investments. There may be more value in focusing on other policy levers which could be applied to support this sector such as changing planning rules so that it is significantly quicker and easier to build both the facilities and the supporting infrastructure that enable investment.
- To effectively harness the potential of blended finance, it is essential for the government to establish stable policies and enhance the understanding of how these mechanisms can be integrated into the private capital model. This requires increased engagement and targeted knowledge-building efforts. Given the limited historical context and experience with blended finance, it is crucial to develop and align assessment timelines with the investment lifecycles typical of private capital to ensure successful implementation. To this end, we propose the creation of detailed use cases and an implementation support handbook for blended finance. This resource will help companies comprehend how these approaches can be utilized, outlining the advantages and drawbacks tailored to their specific needs. This initiative will provide the necessary guidance and clarity for businesses to effectively leverage blended finance mechanisms, ultimately fostering a more robust and collaborative investment environment.
- Blended finance is a powerful tool for mobilizing private capital to achieve government objectives and net zero goals. We have successful examples in the renewable energy, sustainable infrastructure and disaster management spaces which leveraged private investment for renewable energy infrastructure. These cases show how blended finance can reduce risks, lower costs and drive impactful outcomes. To further enhance its viability in private equity, we need simpler frameworks or guidance supplemented by replicable examples. Leveraging specialist knowledge to tailor solutions for different contexts will also improve effectiveness. By showcasing further successful case studies and reducing adoption barriers, these sectors can significantly contribute to achieving net zero and other sustainable development goals through blended finance.

Below we have provided a more detailed response to your questions:

- 1. Please share examples of good practice in blended finance (primarily in net zero/environmental projects, but if there are other particularly good examples of blended finance in other economic/social infrastructure projects, do also share). Consider the following sub-questions:**

**Company 1:**

**Sector:** Infrastructure investment - Renewable Energy

**Recipient:** Industrial plants applying renewable-based technology to decarbonise thermal energy.

**Blended Finance Mechanism and Structure:**

- Mechanism: Subsidies from European Union (EU) funds in the public space alongside PE investment.
- Structure: The subsidies finance around 50% of the capital expenditure (CAPEX) for the renewable-based technology.
- Suitability: This mechanism is well-suited to the investment barriers in the renewable energy sector, which include high upfront costs and perceived financial risks. By covering a significant portion of CAPEX, the subsidy lowers the initial financial burden and reduces risk for private investors.

**Funding Providers:**

- Public Institution: Spanish institution.
- Firms: Industrial plants investing in renewable-based technology.

**Market Failure and Need for Public Finance:**

- Market Failure: High initial investment costs and financial risks associated with deploying new renewable technologies.
- Need for Public Finance: Public finance is needed to make the projects financially viable and attractive to private investors by reducing the initial cost burden and perceived risks.

**Success and Measurement:**

- Young investment (less than 1 year) and, therefore, difficult to understand and measure success at this point. Nonetheless, the financing option was successful in supplementing the investment, effectively helping to de-risk it.

**Factors Contributing to Success:**

- Availability of substantial EU funds to supplement investment decisions.
- High potential for decarbonisation in industrial energy consumption.
- Alignment with EU's environmental and energy policies.

**Company 2:**

**Sector:** Infrastructure investment - Sustainable Building Technology / Energy Efficiency

**Recipient:** A company installing proprietary technology to use heat from wastewater for heating and cooling buildings.

**Blended Finance Mechanism and Structure:**

- Mechanism: Grant funding for development costs, followed by a loan from a public bank alongside PE investment.
- Structure: Grants reduce upfront development costs and the public bank provides a portfolio-based loan to reduce individual site costs.

- Suitability: This mechanism addresses high development costs and site-specific financial risks, making the overall investment more attractive and financially feasible.

**Funding Providers:**

- Public Institution: Canadian Infrastructure Bank
- Firms: The company developing and installing the wastewater heat recovery technology.

**Market Failure and Need for Public Finance:**

- Market Failure: High development costs and financial risks at individual sites.
- Need for Public Finance: Public finance helps mitigate the high costs and risks, encouraging private sector investment in innovative and sustainable building technologies.

**Success and Measurement:**

- Young investment (less than 1 year) and, therefore, difficult to understand and measure success at this point. Nonetheless, the financing option was successful in supplementing the investment, effectively helping to de-risk it.

**Factors Contributing to Success:**

- Innovative technology with significant potential for energy efficiency.
- Financial support that reduces risk and cost at both development and implementation stages.
- Alignment with public policy goals for sustainable urban development.

**Company 3:**

**Sector:** Infrastructure investment - Firefighting and Disaster Management

**Recipient:** A company engaged in R&D for drone technology to manage and mitigate wildfire firefighting.

**Blended Finance Mechanism and Structure:**

- Mechanism: EU grants for Research and Development (R&D) alongside PE investment.
- Structure: Grants cover the research and development costs of drone technology aimed at wildfire management.
- Suitability: This mechanism addresses the high R&D costs and risks associated with developing advanced drone technology, which is essential for innovative solutions in disaster management.

**Funding Providers:**

- Public Institution: European Union.
- Firms: The company developing the drone technology.

**Market Failure and Need for Public Finance:**

- Market Failure: High R&D costs and financial risks for pioneering technology with uncertain returns.

**Need for Public Finance:**

- Public finance is crucial to enable R&D in areas with significant public benefit but high private risk, such as disaster management.

Other supplementary examples collected by [Systemiq's Blended Finance Taskforce](#):

#### Supplementary case 1:

- Mechanism: First-loss capital (when grant and repayable capital is combined at a fund level and the grant provides cover for capital lost due to defaults) / blended fund.
- Example: Emerging Africa Infrastructure Fund - launched in 2002.
- Details: The Emerging Africa Infrastructure Fund is a pioneering blended finance fund that began with anchor equity from governments, supplemented by additional capital from private investors and Development Finance Institutions (DFIs). The fund provides a range of debt types, including subordinated and mezzanine debt, as well as senior debt in certain cases, typically for long-term infrastructure projects. Its primary objective is to mobilize additional private funds for infrastructure development in Africa.
- Suitability and success: The fund has been structured to balance risk and expected returns in alignment with the fiduciary responsibilities of private investors. It has a long-standing track record of successfully funding projects in markets that are generally considered high-risk.

#### Supplementary case 2:

- Mechanism: Blended fund / first-loss capital.
- Example: Macquarie & GCF E-mobility Platform India.
- Details: This initiative involves a blended and pooled offshore fund that invests locally in specific segments of the electric vehicle ecosystem in India. The fund receives junior or first-loss equity from the Green Climate Fund (GCF).
- Suitability and success: The fund effectively pools global capital and can invest in a variety of asset types, thereby supporting the development of the electric vehicle ecosystem in India.

#### Supplementary case 3:

- Mechanism: Blended fund / first-mover (first of a kind) projects utilising first-loss capital
- Example: Honduras Renewable Energy Finance Facility.
- Details: The Honduras Renewable Energy Finance Facility is the first renewable investment fund in Honduras. It utilizes first-loss capital from the Climate Investment Funds (CIF) and the Inter-American Development Bank (IDB) to attract private investors, with a particular focus on engaging local investors.
- Suitability and success: This fund has demonstrated the investability of renewable energy projects in Honduras and was specifically designed to facilitate the creation of follow-on funds that build on its initial success.

#### Supplementary case 4:

- Mechanism: Blended fund / grant financing for upstream de-risking
- Example: Climate Investor One (CI1) - launched 2014
- Details: Climate Investor One is a fund that focuses on providing tailored financing throughout the lifecycle of renewable infrastructure projects in Emerging Markets and Developing Countries (EMDCs). Philanthropic donors and DFI investors offer grant support for project development and provide subordinated debt and guarantees for later project stages.
- Suitability and success: This fund successfully mitigates risks across the entire project lifecycle by offering tailored financing, recognizing the need for different financial mechanisms at each stage.

#### Supplementary case 5:

- Mechanism: Blended fund.
- Example: BlackRock Climate Finance Partnership -launched 2021.

- Details: This fund targets energy infrastructure investments in EMDCs and includes both commercial investors and a range of philanthropic, corporate, and DFI investors providing concessional capital. As of now, it has not yet deployed finance.
- Suitability and success: While the fund has achieved a notable 1:4 ratio of concessional to private finance, it has faced challenges in negotiating bespoke agreements with DFIs.

#### Supplementary case 6:

- Mechanism: Local currency guarantee.
- Example: GuarantCo.
- Details: GuarantCo, owned by a group of national DFIs, provides guarantees for local currency loans and bonds, enabling longer tenors for EMDCs by transferring part of the credit risk from investors.
- Suitability and success: GuarantCo effectively reduces both the risk and cost of capital, even without maintaining the top credit rating typical of most Multilateral Development Banks (MDBs).

#### Supplementary case 7:

- Mechanism: Risk insurance.
- Example: MIGA political risk insurance.
- Details: The Multilateral Investment Guarantee Agency (MIGA) provides insurance against a wide range of risks for investments in EMDCs. These risks fall within the broad category of political risk, including expropriation, currency inconvertibility, and civil disturbance.
- Suitability and success: MIGA's insurance products are highly capital efficient, allowing a relatively small capital base to support a large volume of financing.

#### Supplementary case 8:

- Mechanism: Credit enhancement.
- Example: MIGA credit enhancement for sovereigns.
- Details: MIGA's credit enhancement helps attract investors by mitigating the risk of sovereign default.

#### Supplementary case 9:

- Mechanism: Securitization and risk transfer.
- Example: IFC Managed Co-Lending Portfolio Program (MPCC) -launched 2013
- Details: The International Finance Corporation (IFC) operates a securitization and syndication platform that creates diversified loan portfolios for third-party co-investors. IFC and the Swedish International Development Cooperation Agency (SIDA) take first-loss positions in these portfolios.
- Suitability and success: This program is designed to mobilize capital by creating investable assets, though it requires a significant structuring period to develop bespoke portfolios for each investor.

#### Supplementary case 10:

- Mechanism: Securitization and Risk Transfer.
- Example: AfDB Room2Run - launched 2018.
- Details: The African Development Bank (AfDB) employed synthetic structures to transfer credit risk off-balance sheet to private investors, thereby freeing up additional lending capacity.

- Suitability and success: The Room2Run initiative demonstrated the viability of synthetic risk transfer for MDB portfolios, enabling the bank to leverage its balance sheet more effectively.

Supplementary case 11:

- Mechanism: Risk insurance
- Example: MIGA political risk insurance
- Details: MIGA offers insurance against various risks associated with investments in EMDCs, specifically targeting individual risk types within the broad umbrella of political risk, such as expropriation, currency inconvertibility, and civil disturbance.
- Suitability and success: MIGA's insurance products are known for their capital efficiency, which allows them to support a substantial amount of financing with a relatively small capital base.

**2. Please share examples of decarbonisation investment which almost happened but didn't. (Particularly where targeted blended finance could have supported the transaction).**

We have received no examples from BVCA's members. It is worth noting that in most instances (within a private capital context), once a potential investment is considered as being not financially feasible or with limited growth prospects by the respective investment team, no further resources are spent understanding whether greater sums of capital input would improve said growth prospects.

**3. Responses to other questions:**

**Which decarbonisation sectors are private capital currently active in?**

BVCA members are currently active in several decarbonisation sectors. There has been a clear focus on renewables, energy efficiency and climate technology in venture capital, particularly in early-stage Series A and B investments. Within renewables, the primary focus is on wind and solar energy for both private equity and venture capital, with a lower emphasis on hydrogen.

There is a successful track record in wind and solar energy investments, bolstered by supportive regulatory frameworks. Additionally, investments are made in wastewater management, utilising sustainable linked loans to scale these initiatives. Investments in real estate are centred on sustainability and there is also exploration into technology platforms aimed at understanding and reducing emissions.

**Which decarbonisation sectors is private capital currently not investing in, but think targeted blended finance approaches could encourage increased investment, and why?**

Currently, there is limited involvement in the hydrogen sector and other emerging green technologies. Members present at the Blended Finance Roundtable held by HMT and DESNZ with BVCA and Investment Association (IA) members, felt strongly that targeted blended finance approaches could play a crucial role in mitigating risks and attracting institutional investors to these areas. The hydrogen sector, despite its promise as a clean energy source, sees limited investment due to high costs and technological uncertainties. Investors are cautious about the long-term viability and returns of hydrogen projects. Similarly, technologies beyond traditional renewables, such as advanced batteries, bioenergy and geothermal energy, are in early development stages, making them high-risk investments. The lack of funding hampers these technologies' scalability and market penetration, slowing their adoption.

The industrial heat sector, which represents a significant decarbonisation opportunity, remains underfunded due to high initial costs and technological risks. Inadequate regulatory support and incentives further deter investments in this sector. Advanced emission reduction technologies in real estate and other sectors, such as carbon capture and storage and energy-efficient building materials,



require substantial capital and face uncertain returns. The absence of robust, readily available and easily implementable blended finance mechanisms may limit investor confidence in riskier technologies.

To address these challenges, targeted blended finance can combine public and private funds to lower the risk profile of hydrogen projects. This approach can include concessional financing from development banks or grants to offset initial costs, thereby attracting institutional investors seeking long-term sustainable returns. Supporting emerging green technologies with early-stage investments through grants, equity investments and guarantees can encourage innovation and development and other financing mechanisms such as green bonds or climate funds can support the broader adoption of these technologies, enhancing their commercial viability.

For the industrial heat sector, combining blended finance with increased government incentives, such as tax breaks or subsidies, can make projects more attractive. De-risking investments through mechanisms like partial risk guarantees or public-private partnerships can reduce the financial risks associated with industrial heat projects. Additionally, blended finance can support the scaling of advanced emission reduction technologies by providing affordable financing options. Incentivising R&D through blended finance can foster innovation, making these technologies more scalable and cost-effective.

There is further opportunity in the e-fuels sector to provide a leading pathway to lower emissions for the aviation sector. These are, however, currently viewed as a distant solution due to the absence of fuel facilities being built or in operation. Like other first-of-a-kind technology, e-fuel companies are struggling to receive the necessary funding to bridge the financing gap and reach Final Investment Decision (FID) due to technological and pricing risks. Whilst the Government is developing revenue certainty mechanisms to address the latter, targeted funding and mechanisms, such as loan guarantees, are required to support the scale up of nascent technology such as e-fuels and provide the risk-level and confidence our sector needs to invest.

In conclusion, blended finance has the potential to de-risk investments and attract institutional capital across various decarbonisation sectors. By combining public and private funds, it can enhance investment in the hydrogen sector and other emerging green technologies. Robust policy frameworks and government support are crucial to maximising the impact of blended finance in sectors like industrial heat and advanced emission reduction technologies. These approaches could be leveraged by companies to expand their green investment portfolio, unlocking significant opportunities in sustainable investments.

### **What blended finance models do you think government should consider to help mitigate key investment barriers, and why?**

We have split our considerations between the PE and VC sectors as these would likely require different approaches. From a **Venture Capital** lens, there needs to be specific deliberation over green technologies which are most likely to have the largest impact when scaled. This includes, but is not limited to, the following technologies:

- Industrial heating technologies
- Hydrogen fuel cells
- Energy storage technologies
- Carbon removal technologies
- Green building and sustainable technologies

Possible blended finance models for **venture capital** companies/companies requiring rapid scaling:

- Creative Grants: For nascent green technologies and early-stage companies, creative grants and lower costs of capital are necessary to de-risk investments and make financing more affordable.

- **Specific sector funds:** The creation of specific sector funds using public capital to crowd in funding and de-risk investments to attract private sector financiers, enabling businesses to access necessary capital for growth. For early-stage organisations, these funds help bridge the critical funding gap, while for later-stage companies, they de-risk debt funding to unlock larger capital pools needed for scaling. Additionally, these strategies can be applied to adjacent sectors to drive innovation and sector growth.
- **Tax breaks:** Government can design tax breaks to target specific sectors which are likely to attract more investments once scaled and which are likely to have large impacts on the push for net zero, such as: hydrogen fuel cells, carbon capture and storage and advanced battery technologies. This will help keep the UK at the forefront in the face of other international policies such as the US Inflation Reduction Act (IRA) and EU Green Deal which are using various techniques to incentivise investment. The establishment of this will help to unlock more institutional investments more broadly and supplement initiatives such as LIFTS and BBB Growth Fund, which will further help scale that growth.
- **Bundling different sources of capital:** Blended finance can be used to address the diverse financing needs of a project by bundling various sources of capital into a single financial instrument. For instance, a project might require a combination of equity investment, debt financing and grant funding to become viable. By packaging these financing needs into one instrument, it becomes easier to attract investors who may be willing to participate if the risk is spread across different types of capital. For example, commercial investors may be more willing to provide debt financing if it is paired with concessional loans or grants that mitigate some of the risk. Additionally, blending different types of capital can help improve the overall financial sustainability of a project by reducing its reliance on any single source of funding.
- **First of a kind and concessional funding:** This option can tackle first of a kind technology or infrastructure “valley of death” risk, effectively lowering the high risk to low return disparities that many companies face at certain periods during their scaling.
- **Pipeline Development Assistance:** There is potential to offer technical assistance for developing project pipelines, which includes covering the costs of legal and advisory fees for scaling companies.
- **Revenue certainty mechanisms:** price support mechanisms to provide assurance and stability in terms of revenue to support emerging technology, such as sustainable aviation fuel.
- **Property-linked debt strategies:** Property-linked debt strategies tie debt repayment to property performance, suitable for long-term projects like green infrastructure. Blended finance combines concessional and commercial debt to structure such instruments. For instance, a project might secure a concessional loan from a development finance institution, repaid based on project cash flows or property appreciation. This blend incentivises investor participation in riskier, longer-term projects, enhancing financial resilience by diversifying funding sources and aligning repayments with project performance.

Looking specifically from a **private equity** lens, the following should be considered:

- Decarbonisation of companies operating in high-emitting industries
- Decarbonisation of supply chains
- Scaling of private equity companies into the public sector

Blended finance models to be considered in the private equity sector include:

- Investment grade guarantees: Investment-grade guarantees provided by the government or public finance entities to incentivise sustainable supply chains.
- Tax breaks: Government can design tax breaks to target specific sectors, such as renewable energy, sustainable agriculture and forestry and land use. This aligns private investments with public policy goals, directing funds into areas that contribute to net zero objectives.
- Risk guarantees: Governments, finance institutions, development banks and others directly provide risk guarantees to investors or financial institutions which are backed by the full faith and credit of the government and are designed to mitigate specific risks, such as political or regulatory uncertainties. Using credit enhancement mechanisms, the government can improve the creditworthiness of private equity-funded projects by ensuring that investors receive partial repayment even if the borrower defaults.
- Revenue certainty mechanisms: price support mechanisms to provide assurance and stability in terms of revenue to support emerging technology, such as sustainable aviation fuel.
- Design funding for new blended finance investment vehicles: Governments and financial institutions can create and fund new blended finance investment vehicles, such as the [Convergence Finance programme](#), to attract private capital into climate-positive projects. These vehicles combine public and private funds to lower the risk for private investors while achieving sustainable development goals.
- First loss / junior equity to attract institutional capital: By offering first-loss or junior equity positions, governments and development banks can attract institutional capital into climate-positive funds. These positions absorb initial losses, providing a safety net for other investors and thereby encouraging investment in high-impact projects.
- Currency hedging for emerging market investment: Governments and financial institutions can offer currency hedging solutions for investments in emerging markets, particularly when decarbonising international supply chains. This helps mitigate currency risk and makes sustainable investments more attractive to international investors.

The models can help mitigate key investment barriers by providing long-term solutions and reducing risks associated with early-stage investments. We emphasise that planning and grid systems support for well-established green sectors such as wind and solar, enhancing planning and grid systems support would be beneficial.

**What are the wider barriers to participating in these blended finance approaches, beyond the core market failure blended finance models are addressing? E.g., capital requirements, tax issues, planning permissions etc.**

Blended finance, while having the ability to address core market failures, faces additional barriers that must be addressed to enhance participation from private capital. A critical factor is the consistency and clarity of policies across different governments. Inconsistent or short-term net zero policies create uncertainties that deter long-term investments. The necessity for clarity on government roles is crucial for building confidence among private investors, underscoring the need to understand how policy affects investor opinions, which is vital for fostering a conducive investment environment.

Reducing perceived risks through de-risking mechanisms is essential for cost efficiency and making projects more attractive to investors. Investments must be based on sound business cases alongside policy directives. Concerns about future liabilities and market changes also raise questions about the long-term feasibility of projects, which can deter investment. Additionally, there is a need for flexibility in project requirements and roles to adapt to evolving green technologies and market demands. Current financing models often fall short for large infrastructure projects, requiring more significant and sustained

investments. The suitability of blended finance for the private capital model is crucial and engagement and practical, implementable investment models are essential for aligning with private capital interests.

Policies must translate into commercially viable actions, bridging the gap between policy intentions and practical projects. This disconnect often hinders effective implementation. While existing support schemes and grants are beneficial, they need to be fit for purpose taking into consideration sector, size and project lifecycles. Additional support is needed to scale up investments effectively and ensure fair investment terms. Blended finance initiatives must be grounded in robust business models, supported by case studies, test cases and proof regarding where, how and why blended finance has worked in order to build investor confidence. We emphasise the need for blended finance options to be driven by sound business cases, with practical investment models evolving with the lifecycle of the product or service.

Broadening participation to include retail investors can diversify and increase the capital available for green investments, filling the gap between private and institutional markets. Ensuring fair investment terms and predictability in policy decisions is crucial for attracting and retaining institutional investments. Companies invest significant resources in understanding regulations and predictable, stable regulations reduce this burden and make investments more attractive. The role of the Office for Investment is highlighted in helping investors navigate financial landscapes, providing necessary guidance and support to reduce complexity and risk.

Addressing these barriers requires a coordinated effort to align policy with commercial viability, provide robust support mechanisms and ensure clarity and predictability to build investor confidence in blended finance approaches.

It is worth noting that many cases and insights within this response have been provided by members and parties who have performed extensive research into blended finance options, such as the [Blended Finance Taskforce](#).

Please do not hesitate to get in touch if you have any questions or if you would like to discuss any of the above in more detail (please contact Harriet Assem ([hassem@bvca.co.uk](mailto:hassem@bvca.co.uk)) or Chris Khoury ([ckhoury@bvca.co.uk](mailto:ckhoury@bvca.co.uk))).

Yours sincerely,

Isobel Clarke, Director of Policy

