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HOW BLENDED FINANCE CAN SUPPORT THE AVIATION ENERGY TRANSITION IN EMERGING AND DEVELOPING ECONOMIES

WAYPOINT 2050

Innovative instruments and equity finance are needed to enhance risk-sharing through public-private partnerships and maximise the impact of scarce public funds.

The data in this report is drawn from the Waypoint 2050 report and its accompanying analysis in Fueling Net Zero.

Waypoint 2050 can be found:
www.aviationbenefits.org/W2050

Analysis has shown that aviation's sector-wide long-term goal of net-zero carbon emissions by 2050 will require an energy transition away from fossil fuels and towards sustainable aviation fuels. The transition will need to be rapid – scaling-up supply of SAF from the 200,000 tonnes delivered in 2022 to potentially 445 million tonnes per year by 2050. This rapid deployment is estimated to require up to $1.45 trillion in capital expenditure on new plants and processing and will be needed in countries all over the world.

This will present a significant opportunity for States to build green energy sectors, supporting economic development and potentially some 14 million jobs worldwide by 2050. But the capital expenditure needed will be extensive. Public sources of investment from developing or emerging economies will not be able to cover the scale required, and private sources are sometimes reluctant to undertake more risky investments in early-stage technologies or in some markets with higher risk profiles.

The use of blended finance can overcome some of these obstacles and pave the way for early-stage investment to underpin long-term private and institutional investment. In general terms, blended finance is the use of catalytic capital from public or philanthropic sources to increase private sector investment in sustainable development.

This paper explores the concept of blended finance in an aviation context and how it will be crucial to the energy transition in emerging markets as the global air transport sector works towards net-zero carbon by 2050. It also has two examples of blended finance in action for aviation:

1. de-risking investment in the first SAF facilities; and
2. bundling multi-country SAF sectors.

Blended finance

Blended finance is a financing approach that combines public and private sector funding to mobilise additional investment in development projects and initiatives in emerging markets. The goal of blended finance is to attract private sector investment to projects and sectors that have a clear development impact, but may not be considered commercially viable by investors.

The most common form of blended finance is the use of public or philanthropic funds, such as development finance or grant funding, to de-risk or catalyse private sector investment. This can take the form of guarantees, credit enhancements, or other forms of risk mitigation. By reducing the perceived risk of the investment, blended finance aims to make it more attractive to private investors and encourage them to invest in projects that they may not have otherwise considered.

Blended finance can also leverage the expertise and technical assistance from development organisations to help make projects more attractive to private investors. This can include support for project preparation, structuring, and implementation. Many development organisations and multilateral financial institutions also have a long track record of working with local experts to ensure best opportunities for each market.

Blended finance is often used in sectors such as infrastructure, energy, and sustainable development, where private sector participation can be critical to achieving development impact but where commercial returns may be uncertain or low.

Some blended finance projects will tap in to two or more of these institutions, and some may have fewer players. There will also be a number of SAF projects and incentive schemes which bring in financing from MDBs or IFIs directly. The below provides a high-level illustration of the ways in which different institutions may play a role in SAF deployment globally.

(Illustrative scale of relative involvement)

Public support (in-country)

- Tax and regulatory assistance for construction and operation (use of SAF).
- Project leadership.
- Limited initial financing.

Public finance (donor country)

- Assistance with capacity building and knowledge / technology transfer.
- Financing of initial de-risking of plants.

Philanthropic funding

- Assistance with capacity building.
- Financing feasibility studies and collaboration initiatives.

Public finance (MDBs/IFIs)

- Financing of first series of plants.
- Assisting with the de-risking of projects across countries and for institutional and private finance.

Institutional investors

- Providing scale investment, working alongside the MDBs and IFIs to fund plants 2, 3, 4 etc.

Private capital

- Providing scale investment, working alongside the institutional investors to fund plants 5+.

Examples of blended finance at work in SAF facility development

Blended finance has the potential to catalyse the large amounts of investment required to help scale-up SAF production to levels needed for the decarbonisation of air transport. Here are two examples of how blended finance can be used in different ways to finance SAF projects in emerging economies:

Example 1

De-risking investment in the first SAF facilities

An in-country initiative set up by government, aviation and energy industry and other stakeholder groups has identified several feedstocks and pathways that could be potential sources of SAF in the country. A feasibility study was commissioned, with funding for the study provided by a donor country through the ICAO ACT-SAF initiative. Several sites have been identified that would be perfect for the first couple of SAF production facilities – close to the sources of agricultural waste and municipal waste, as well as being close to airports that could use the finished SAF.

The first plant, in a semi-rural area close to both forestry and sugar cane production has the potential to produce 65,000 tonnes of SAF per year with supply to a local airport. It would also create 900 jobs – 100 running the plant itself and the rest in the collection of the raw waste feedstock from local farms. Hundreds more jobs would be created during construction. The capital expenditure for the plant would be $700 million with a payback period of 15 years.

The second facility would partially re-use a soon-to-be-closed fossil fuel refinery close to the capital city, retrofitting it to be able to process waste oils and fats from the city to produce 400,000 tonnes of SAF for use at the country's main hub airport. Some 2,000 jobs would be created, with two thirds being transferred from the existing fossil fuel plant. The capital costs are estimated at $400 million. The feasibility study also concluded that there was potential for at least seven other SAF facilities to be established over the coming decade.

Now, the country is looking to help finance the construction of these plants. Limited funds are available from a local infrastructure investor, but the country's regional development bank is able to provide seed financing to help de-risk the investment in the two SAF facilities with additional financing secured from a consortium of international pension funds. Part of the investment package included several policy measures from the country, including de-risking of the construction costs, tax reduction on both construction and the use of the SAF product by airlines and support in accelerating regulatory approval for construction of the facility.

Example 2

Bundling multi-country SAF sectors

One of the challenges with financing nascent industries in many developing and emerging economies is the risk profile of those markets. One option to help overcome this is to 'bundle' projects across several countries.

A group of four small Central American states all benefited from the ICAO ACT-SAF initiative and, working together, identified an initial 12 potential feedstocks and sites for SAF production across the countries. They worked with the Inter-American Development Bank to fund a four-country feasibility study to determine the best options for the first tranche of investment. Six facilities were chosen, at least one in each country, with financing of a total of $1.8 billion required for the facilities which range from 50,000 to 130,000 tonnes of SAF per year. Up to 7,000 jobs in the four countries are expected to be generated.

Some local investment and a supportive policy environment from the four countries ensured that a consortium of multilateral development banks, institutional and private investors invested in the process. A multinational energy company, which already had retail facilities in one of the countries, also invested. The fact that four countries were involved helped to lower the risk for the international investors, by creating a more stable regional policy environment and ensuring that short-term political or economic changes in one country was able to be balanced across this portfolio.

Finance sources and institutions

Although exact definitions vary, in this paper, we have used the following definitions of finance institutions and sources

Institution type	Definition	Examples
Public finance	Finance provided by a government from either tax revenues or by issuing debt on the bond market, for use in its own country, or as a group of countries working together. Additionally, policy support can be given in the form of de-risking investment in SAF-type projects, providing tax breaks and assisting with reducing regulatory hurdles to development of climate initiatives.	
Public finance (donor)	Finance provided by donor governments from national treasuries, provided directly through official development assistance (ODA) or other mechanisms; or via other international arrangements (including the international financial institutions or funds). Data from the OECD suggested that around $150 billion in ODA was delivered from its members to low-income countries in 2019.	» USAID » GIZ » UK DFID
Philanthropic funding	Several large global foundations exist to help catalyse the investment in climate smart technology and energy production. Whilst these institutions would likely not invest in the capital expenditure on a large scale, they are often able to work together to look at in-country opportunities, feasibility studies and to fund collaborative partnerships that will help access the capital needed for development in the long term.	» Breakthrough Energy
Global international financial institutions (IFIs)	Organisations that provide financial assistance and support to countries for economic development and poverty reduction. These institutions provide loans, technical assistance, and policy advice to their member countries, often with a focus on specific sectors or regions. They also play a key role in promoting global economic stability and cooperation, and in providing a forum for international economic policy coordination.	» International Monetary Fund » World Bank
Other Multilateral development banks (MDBs)	A type of international financial institution that provides funding and support for economic development and poverty reduction in developing countries. MDBs often have a specific mandate to promote economic development and reduce poverty and a specific focus on infrastructure development and investment in a particular region, sector or theme.	» African Development Bank » Asian Development Bank » Inter-American Development Bank
Institutional investors	Institutional investors are organisations that invest funds on behalf of a group of individuals or other organisations. They include pension funds, mutual funds, endowments, insurance companies, and sovereign wealth funds. These organisations typically have large pools of capital and invest in a wide range of financial assets, including stocks, bonds, real estate, and private equity. They may also engage in other financial activities such as lending, derivatives trading, and risk management. They have fiduciary responsibilities and need to have certain returns with limitations on the risks they can undertake, They also tend to have a long-term investment horizon and are less likely to engage in short-term trading activities. Additionally, they often have a professional staff of analysts and portfolio managers who can conduct in-depth research on investment opportunities and make informed investment decisions. It is estimated that institutional investors look after over $200 trillion in funds worldwide.	» Pension and retirement funds » Sovereign wealth funds » Mutual funds » Insurance companies
Private investors / private capital	The large commercial retail and investment banks have access to billions of dollars of capital. According to the McKinsey Global Banking Annual Review, in 2021 the volume of clean-energy project finance rose to $164 billion and private-equity firms invested $76 billion in renewable energy, sustainable mobility, and carbon technologies in 2021.	» HSBC » Standard Chartered » JP Morgan Chase » Bank of America » Deutsche Bank » UBS » Société Générale

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