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CENTRE FOR
SUSTAINABILITY
AND BUSINESS

INSIGHTS & ACTIONS REPORT

ACCELERATING BLENDED FINANCE

Opportunities for Climate in Australia

– a cross sector high level Roundtable

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1. Executive Summary

Australia requires \$7-\$ 9 trillion of capital to fund the climate transition (Net Zero Australia). We must continue to reduce greenhouse gas emissions across all sectors of the economy and to build resilience to climate impact in local communities. Australia has the financial resources to manage its transition but the latest Intergovernmental Panel on Climate Change 2023, AR6 Synthesis Report (IPCC Report, 2023) highlights the urgent need to keep global warming to at or below 1.5°C to avoid the most serious consequences. Australia's temperature has already warmed more than 1.4°C. Accelerating the transition to a net zero economy is now urgent.

The IPCC 2023 report highlights that *improved **availability and access to finance** will enable accelerated climate action. Addressing needs and gaps and broadening equitable access to domestic and international finance...can act as a **catalyst for accelerating mitigation** and shifting development pathways. Climate resilient development is enabled by increased international cooperation including **improved access to financial resources**, particularly for vulnerable regions, sectors and groups, and inclusive governance and coordinated policies.* IPCC Report, 'Near Term Responses in a Changing Climate', p.111

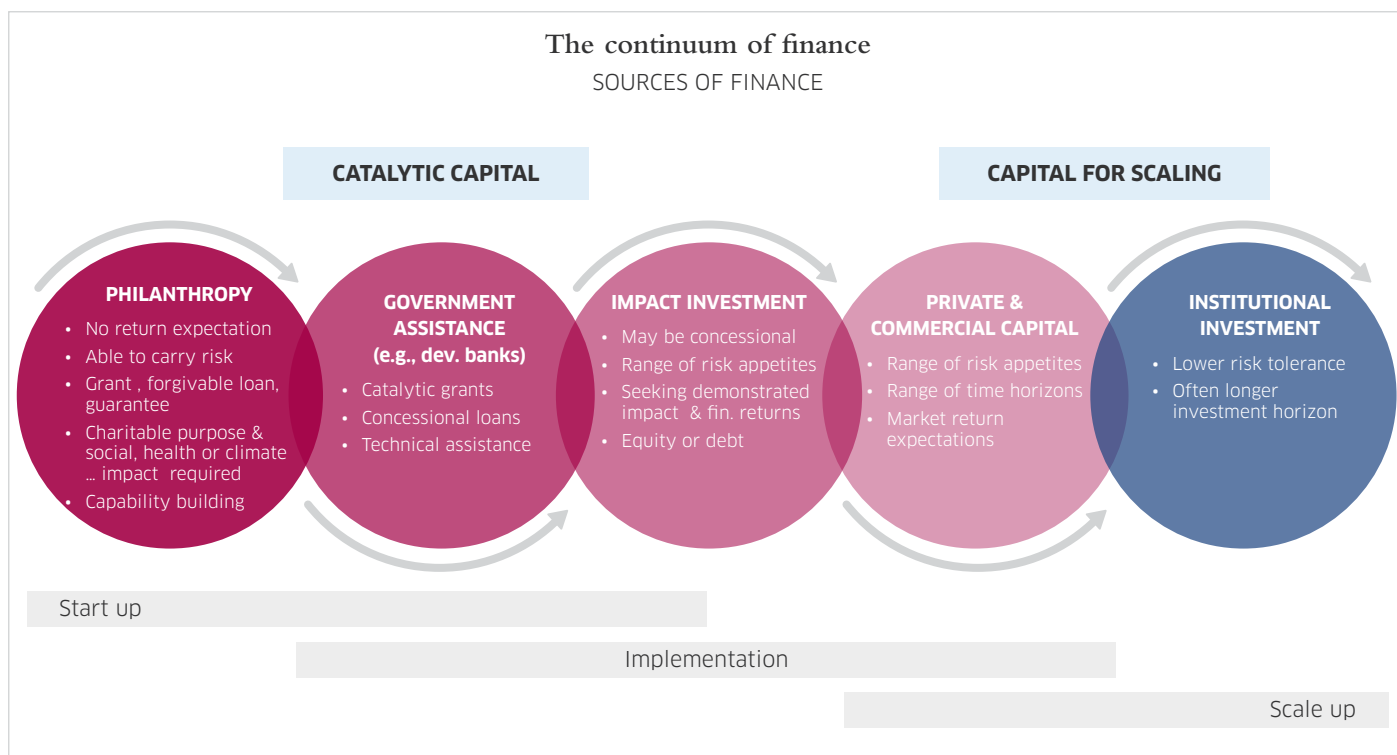
Expert participants took part in a Roundtable meeting hosted by the Centre for Sustainability & Business at the Melbourne Business School on 23 July 2024. Participants came from across the continuum of finance (see Figure 1 below). It was the first time that such a group had met in Australia.

Blended finance is an approach which can help marshal local and international finance and funding to support Australia and our region's climate transition. It responds to the acceleration opportunity reported in the IPCC Report. Blended finance involves using catalytic capital from philanthropy, development banks and/or impact investors to fund start-ups in order to leverage in private capital and, once a track record and adequate scale has been achieved, institutional investment. The varied sources of finance have different risk appetites, return expectations, flexibility, time horizons and purposes. Ensuring that each source of finance plays its part at appropriate times within a transaction or over the life of an enterprise, can give us another tool to accelerate our climate transition.

The Roundtable Challenge questions was: How can we better match the available funding & finance – which have various risk appetites, return expectations, time horizons, flexibility, and impact objectives –with the various stages of investment to accelerate the testing, de-risking, capability building, and building of track records to create and scale up more investible climate transition projects and enterprises in Australia and our region?

All participants presented a case study from their own experience and then brainstormed enablers, barriers, opportunities and actions in small groups and in plenary.

The following diagram was prepared for the Roundtable and explains blended finance as a continuum of funding and finance. While the blended finance approach is used extensively in development finance, it can also apply to a developed country such as Australia and we were keen to highlight and accelerate this.



The Roundtable agreed that Australia has many components of a blended finance ecosystem, including some successful examples, however these components are hard for potential investors to find, greater capability in developing and supporting deals is required, and the ecosystem components need to be connected. This applied the investment journey and across the sources of finance. Enablers, Barriers and Actions are included in this report.

The Opportunities identified during the Roundtable include:

- Through an active application of a blended finance approach, build a pipeline of large-scale projects which are attractive to private capital, superannuation funds and other institutional investors.
- Create incentives to engage across the finance continuum through blended finance approaches. Match the right finance with the right time i.e. at start up, developing a track record, or using concessional finance to help leverage institutional finance into large scale projects.
- Explore how the Future Made in Australia policy could support this work. Promote the opportunities already available via specialist investment vehicles such as the National Reconstruction Fund and the Clean Energy Finance Corporation.
- Educate investors across the continuum of finance how to align commercial and philanthropic goals and opportunities. Motivation may be impact, leverage and/or profit as well as GHG reductions and increasing climate resilience.

The Actions recommended are to:

1. Urgently strengthen the Australian Blended Finance Climate Transition Ecosystem

- 1.1 Increase access to finance and funding through connecting the parts of the system we have, and sharing best practice at all stages of the investment journey;
- 1.2 Upskilling investors (at all stages of the investment journey from start up, building and scaling up) and entrepreneurs (project proponents) about blended finance approaches.

2. Champion our use of blended finance in the climate transition

- Share blended finance projects that have worked via the media and build the aspiration and understanding of Australians.

3. Power up SME participation in our climate transition

- Support the SME sector to play its critical roles (employment, supply chains) in the transition.



2. Insights

The Roundtable identified key enablers and barriers to growing blended finance for the climate transition in Australia, together with opportunities and recommended actions.

2.1 Enablers

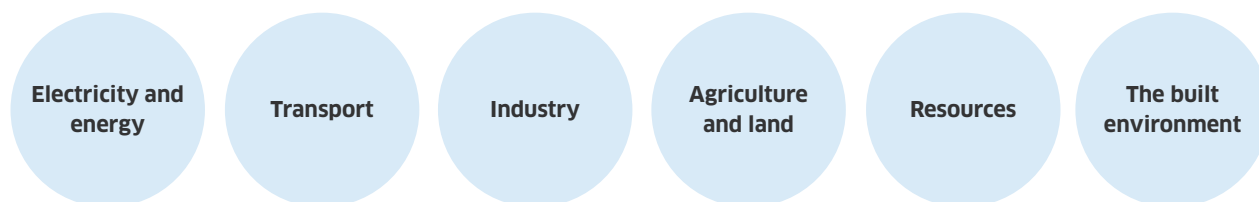
2.1.1 A clear Australian transition plan

It is critical that Australia has a clear strategic direction and well understood policy targets for its climate transition including clear pathways in at least five or six key industries. Energy and transport were highlighted as key sectors to fast track. It was noted that countries such as Sweden and Singapore, amongst others, are forging ahead because of a clear plan and supporting policies and funds.

Opportunity:

We can ensure that Australia's Net Zero Plan and related initiatives are clear and well understood by business and philanthropy. Decarbonisation of the aviation and transport generally was a sector that was recommended for attention. It was noted that the sector plans in the Net Zero Plans, due to be available by 1 August 2024, could assist big, medium and small business, government and philanthropy to work together to accelerate the reduction of GHG emissions. There are useful existing policies and initiatives in place but there is a lack of a coherent ecosystem and potential to work with Federal Government and across sectors to create to a one stop shop for blended finance.

These six sectors form the plans within the *Net Zero Plan*, which is due by 1 August 2024:



The Australian states and territories should be encouraged to work together on the national sector plans, following an approach used by, for example, Sweden and Singapore.

The implementation plans will require catalytic funding and an investment in expertise and training in blended finance approaches. Disaster and community resilience is another stream of climate resilience work with policies now in place (*National Climate and Health Strategy*, Department of Health, Dec 2023, and *National Strategy for Disaster Resilience*, Department of Home Affairs, 2011).

2.1.2 We have the finance! Encourage greater collaboration between finance and funding sources

Capital providers must be more collaborative and strategic about working across the continuum of capital. They need to be more closely connected.

This includes more promotion about accessing the right government specialist investment vehicle, such as National Reconstruction Fund and Clean Energy Finance Corporation, at the right time, and making sure these important organisations are well staffed to meet demand.

The Investor Front Door announced in the Federal Budget has potential to assist in connecting sources of finance.

Opportunity

Through an active application of a blended finance approach, wherever this could leverage additional capital into funding our climate transition, we can build a pipeline of large-scale projects which are attractive to superannuation funds and other institutional investors.

We could create incentives to engage across the finance continuum through blended finance approaches. Matching the right finance with the right time i.e. at start up, developing a track record, or using concessional finance to help leverage institutional finance into large scale projects.

We should explore how the Future Made in Australia policy could support this work.

2.1.3. Upskilling and Education

Good leaders need to be trained to hold a climate enterprise mindset. Provide support for pilot projects and proof of concepts for projects and enterprises. Learn how to use catalytic capital well and be brave.

Fund smart teams to bring projects together across the continuum of finance. Project initiation and growth takes time and expertise and needs more funding. Philanthropy and impact investment have a role to play in start-up and building phases.

Opportunity

Educate investors across the continuum of finance about how to strategically align commercial and philanthropic goals and opportunities. Motivations for doing this will vary and include the desire for profit, impact and leverage as well as reducing GHG emissions and increasing climate resilience.

2.2 Barriers

2.2.1 SME Specific Support

Small & Medium Businesses need more support to participate in the climate transition. They are being left behind, especially in comparison with other countries such as Singapore. 33% of GDP and 42% of private sector workforce is generated by SMEs in Australia. ([Key statistics | ASBFEO](#)) However, they are responsible for 40% GHG emissions.

2.2.2 The Missing Middle

In Australia, we have a missing middle in the continuum of finance. Progressing a transaction or enterprise from start up through building a track record and attracting major scaling up funding from institutional investment is challenging.

More deal origination is needed. More talent is required. We must match demand for capital with available capital through aligning sources of finance more strategically. We must encourage innovation so that all sources of capital play to their strengths (and even develop new approaches) within a blended finance ecosystem. This work requires funding.

There is not enough experience in Australia handing over projects to the next stage of development and investment. There is not enough understanding of where other investors, especially catalytic and impact investors can play their part. We need to think more creatively about sources of funding with varying timelines, risk, return, time horizons, flexibility and impact goals. We need to work across finance source silos.

2.2.3 A fragmented Blended Finance Ecosystem

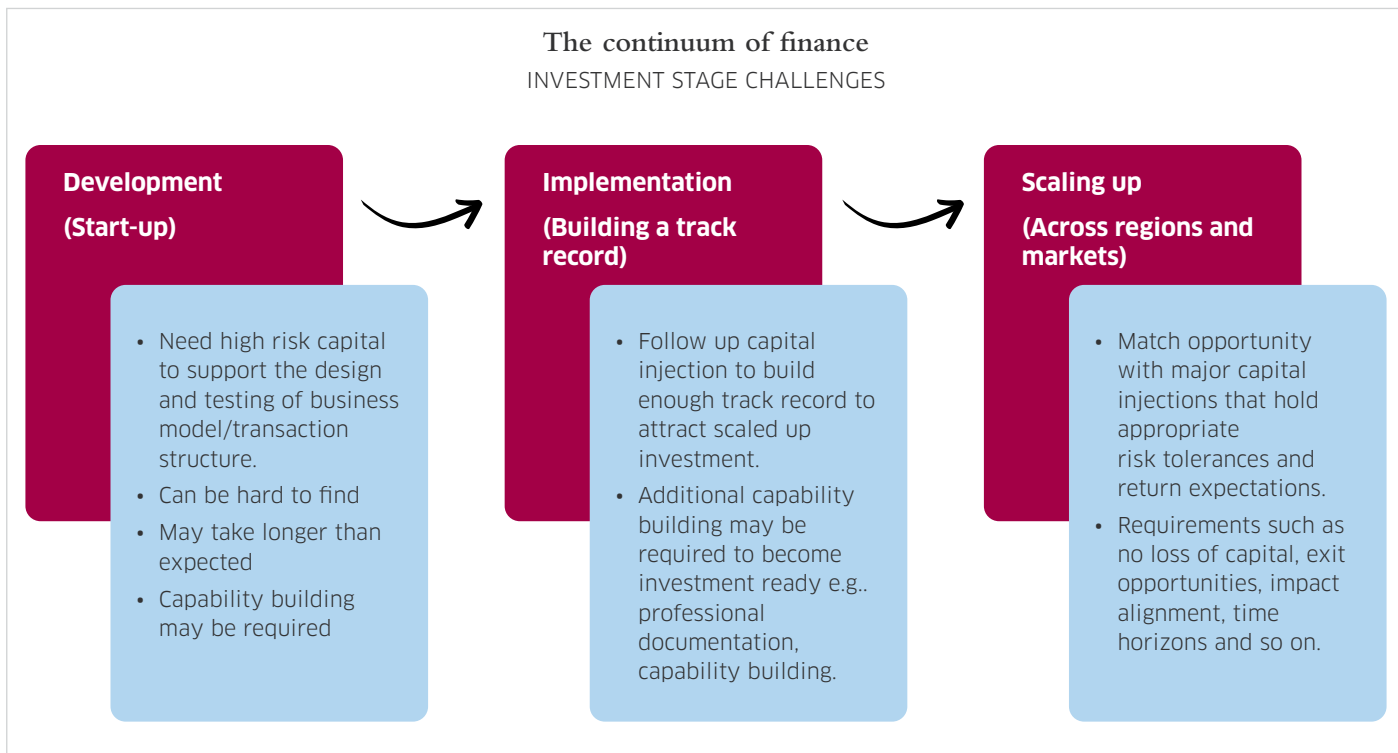
The blended finance ecosystem needs to be explained to all investors and supported. We need to grow a culture of blending returns and impact. There are important roles for concessional capital at start up, building and scaling up. We must build understanding about these opportunities. Blended finance aims to reduce risk or increase returns. It also enables leverage, which is very appealing to philanthropy and development banks.

More than \$51 billion is held in the endowments of Australian Foundations (including philanthropy, hospitals and universities (ACNC Charities Report, Ninth Edition, 2023). This is a source of catalytic and development capital to explore.

2.2.4 Supporting the right ventures

We need to grow investors' and the Australian public's understanding of the negative impact on climate change from unsuitable projects. We must focus on projects that accelerate our climate transition without causing additional damage to nature or inadvertently increasing GHG emissions.

Some of the challenges are described in this slide from the Roundtable.





3. Recommended Actions

The Roundtable agreed on some high priority actions. These Actions require a collaborative effort from investors, government, philanthropy and MBS. Australia has many components of a blended finance ecosystem, including some successful examples, however these components are hard for potential investors to find, greater capability in developing and supporting deals is required, and the ecosystem components need to be connected.

ACTION 1 Urgently strengthen the Australian Blended Finance Climate Transition Ecosystem

1.1 Increase access to finance and funding to support blended finance approaches

Impact Goal:

- An accessible and easy to navigate Australian blended finance climate transition ecosystem, which promotes, enhances and builds on existing funds and opportunities.

Next steps:

- Map existing sources of concessional finance which could support the climate transition. Research and recommend where an online one stop shop or shops would be best located, perhaps through the Investment Front Door (still in development by the Federal Government), an extension of the Australian Climate Partnerships (with an Australian focus), National Reconstruction Fund, and/or another tailored solution. Mapping exercise to include identify all the specialist investment funds, philanthropic and impact investment funds available to catalyse, build and scale climate transition projects. (Anticipated timeframe 6 months, Additional research assistance needed in some of these steps.)
- Build a set of best practice case studies that address barriers including:
 - ways to make due diligence faster and cheaper (for example, sharing due diligence, standardizing deal sheets if possible and so on);
 - ensuring investment readiness throughout the investment journey;
 - matching those seeking capital (at all stages of project or enterprise development especially the 'missing middle') with available capital that has the appropriate risk, return, impact, time horizons and flexibility; and
 - building bridges between sources of finance. (Anticipated timeframe 12 -18 months)
- Research initiatives from countries such as Singapore, United States and Sweden that are leading in climate related blended finance to find learnings for the Australian situation. (Timeframe 3-6 months)

1.2 Upskill investors and entrepreneurs to support the Blended Finance Ecosystem

Impact Goal:

- Well informed and creative climate transition blended finance professionals and entrepreneurs operate effectively across the investment journey in Australia, knowing how and when to pass the investment baton as a project or enterprise scales up over time, accelerating our transition to a net zero carbon economy.

Next steps:

- Develop a map of the blended finance opportunities during the life of a transaction, through a review of case studies presented at the Roundtable and additional international examples. Make this available via MBS, National Reconstruction Fund and/or Investor Open Door to reach a wide audience of potential investors. (3-4 months)
- Develop training and knowledge exchange opportunities for entrepreneurs (project proponents) and investors (from catalytic to scaling up sources of finance) to enhance their skills in initiating and shepherding climate transition related projects and enterprises. Understand that blended finance is a relay race with different investment challenges (see Figure 2) along the journey and with different sources of finance having different roles to play. Build capability amongst investors and intermediaries that play a conduit and coach role during this process. (6 months to design, implement in 2025)

ACTION 2 Champion our Climate Transition

Impact Goals:

- Raise the knowledge and aspiration of investors and the Australian public about climate transition investment opportunities and our progress to date to build momentum.
- Demonstrate a successful transition plan in a sector where Australia has a competitive advantage. Draw from at least one of the sectors prioritised in Australia's Net Zero Plan.

Next Steps:

- Engage blended finance in areas where Australia can be a world leader. Explore power cable production and other opportunities within the solar energy supply chain. Promote the investment case of one or two major climate transition projects e.g. Sun Cable or others, which require blended finance to take flight through mainstream and social media. Show the Australian community where we are going and what is possible! (3-4 months)
- Use the financial and mainstream media (all platforms) to educate Australians about our plans and what is possible. Engage with strategic communications advisors to develop a campaign that will shift mindsets and increase momentum. (12-month+ campaign, requires strategic communications and/or media partner)

ACTION 3 Power up SME participation in our climate transition

Impact Goal:

- Small and medium enterprises in Australia and the Pacific are actively engaged in the climate transition, gaining knowledge and new business opportunities.

Next Steps:

- Design the ecosystem to ensure SME participation, including for profit and for purpose social enterprises, in the development of a stronger blended finance ecosystem. Investigate the potential for a Business Transition Fund in Australia, perhaps modeled on the Business Growth Fund in the UK, which includes climate as one of its focus areas and provides long term, minority capital to SMEs. Consider this as a partnership between philanthropy, government and private capital. (Design 3-6 months, Implementation 12-18 months).
- Blended Finance Ecosystem development (Action 1), including training, to include targeted information and tools for SME participants.

Host: Melbourne Business School's Centre for Sustainability and Business

The Centre for Sustainability and Business at the Melbourne Business School is a trusted place for thought leadership conversations. Founded in 2020, the Centre combines deep industry connections with expertise from across the business school and the broader University of Melbourne. By approaching sustainability as a strategic issue, the Centre generates evidence-based best practices to help companies achieve superior outcomes while contributing to more positive outcomes for society and the planet.

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Addendum

ACTION 1 Additional information arising from Roundtable discussion.

Singapore Example

The profound uncertainty we face is likely to continue to weigh on returns. Amidst this volatility, we must play to our strengths and seize new opportunities. One example is climate transition. We saw an opportunity to **leverage our long-term, flexible capital – one of GIC's key strengths – to bridge a funding gap for climate technologies such as green steel and battery storage, where companies often find themselves caught between traditional buckets of capital.** These companies require long-term capital to grow, but they are too mature for venture and growth equity yet lack the track record to attract infrastructure funding. This year GIC established an investment programme for green assets, following the early success of the Sustainability Solutions Group in the Private Equity department investing in climate technologies. *GIC, Investment report, July 2024.*

Swedish Example

Sweden is an active member of the Climate Club, launched at COP28 to accelerate industry decarbonisation.

The Climate Club has launched its work on a **Global Matchmaking Platform** that aims to facilitate the alignment, coordination and matchmaking of existing international technical and financial assistance for emerging and developing economies in the area of industry decarbonisation. It will also support the engagement of private sector actors with the objective of mobilising their capital through raising awareness, improving capacity and knowledge, supporting peer learning, and the identification of gaps, needs and challenges for accessing finance for industry decarbonisation.