

TECHNICAL NOTE FOR THE INTERNATIONAL FINANCIAL ARCHITECTURE
WORKING GROUP OF THE G20

THE ROLE OF BLENDED FINANCE IN AN EVOLVING GLOBAL CONTEXT

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CONTENTS

Abbreviations	4
Executive summary	5
Section A: Unlocking private capital to support growth and sustainable development	6
Constrained public finances require the mobilization of private capital at scale to address development challenges	6
Vital role of blended finance as a tool to mobilize private capital	6
Section B: How blended finance works: Instruments	12
Improving the risk-reward profile of private sector projects	12
DFIs are embracing greater risk	18
Section C: Ensuring effective, efficient, and transparent blended finance	20
Principles, practice, and safeguards	20
Section D: Blended finance and the G20: Boosting effectiveness	23
Annex: Additional blended finance project examples from MDBs/DFIs	24
Endnotes	27
References	28

ABBREVIATIONS

ADB	Asian Development Bank
C2F	Canadian Climate Fund for the Private Sector in the Americas
DFI	Development finance institution
EBRD	European Bank for Reconstruction and Development
EMDEs	Emerging markets and developing economies
EU	European Union
G20	Group of Twenty
GEMs	Global Emerging Markets Risk Database
IDA PSW	International Development Association's Private Sector Window
IDB Group	Inter-American Development Bank Group
IFC	International Finance Corporation
FAST-P	Financing Asia's Transition Partnership
GAFSP	Global Agriculture and Food Security Program
MDB	Multilateral development bank
MIGA	Multilateral Investment Guarantee Agency
MSMEs	Micro, small, and medium enterprises
OECD	Organisation for Economic Co-operation and Development
PV	Photovoltaics
SDGs	Sustainable Development Goals
SMEs	Small and medium enterprises
UKSIP	UK Sustainable Infrastructure Programme

All dollar amounts are US dollars unless otherwise indicated.

This technical note on blended finance was prepared by the World Bank Group, in collaboration with the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD), and the Inter-American Development Bank Group (IDB Group), with contributions from other development finance institutions, at the request of the International Financial Architecture Working Group of the G20 Presidency under South Africa. The intention is to deepen knowledge and inform G20 discussions. This technical note complements the work being carried out in the G20 Infrastructure Working Group's Priority 2: Scaling Up Sustainable Infrastructure Investment through Blended Finance, and its G20/Organisation for Economic Co-operation and Development (OECD) Report on Blended Finance De-risking Measures. Read in conjunction, this note and the Infrastructure Working Group report provide a fuller picture of blended finance.

EXECUTIVE SUMMARY

The global development landscape faces significant challenges, exacerbated by recent global shocks that have widened the financing gap for achieving the Sustainable Development Goals (SDGs). With scarce public resources to achieve these goals, private finance is essential. But countries wishing to attract such finance need a robust regulatory framework that provides a fair, transparent, and predictable operating environment, and increased access to data to help sustain this environment. This transformational work can take time.

Blended finance emerges as a pivotal tool—as part of a broader toolbox, but importantly not a cure-all—to invite private capital to invest in emerging markets and developing economies (EMDEs). Blended finance combines concessional funding from donors with development finance institutions' (DFIs)¹ own resources or commercial capital to develop private markets, support the SDGs, and attract private investment. DFIs can deploy blended finance using financial instruments like first-loss guarantees, subordinated loans, junior equity, or currency swaps. These instruments can absorb some risk, making the project more attractive to private investors.

Blended finance catalyzes investments that would not otherwise occur, creating new markets and driving development impact—from energy and food security to job creation and the growth of micro, small, and medium enterprises

(MSMEs). It is especially effective in frontier markets where private capital struggles to flow on a commercial basis and works best as part of an integrated, holistic approach that includes strengthening enabling environments and coordinating across donors, DFIs, the private sector, and platforms to boost scale and impact.

DFIs use blended finance as a targeted response to market inadequacies. Blended finance should be viewed as a temporary measure to demonstrate the viability of new business models or technologies, avoiding long-term dependency on subsidies. To ensure concessional resources are used effectively and efficiently in private sector operations, and to avoid market distortion or crowding out private capital, DFIs approved the Enhanced Blended Concessional Finance Principles for DFI Private Sector Operations (DFI Enhanced Principles) in 2017. These principles promote the responsible use of scarce concessional resources to help create and boost investor confidence.

The G20 plays an important role in supporting, promoting, and scaling the use of blended finance, as acknowledged in the G20 Roadmap towards Better, Bigger and More Effective MDBs. The G20 can continue to foster a global conversation and contribute to concessional tools to mobilize private investment, helping countries build dynamic private sectors that can drive development, create jobs, and reduce poverty.

SECTION A

UNLOCKING PRIVATE CAPITAL TO SUPPORT GROWTH AND SUSTAINABLE DEVELOPMENT

CONSTRAINED PUBLIC FINANCES REQUIRE THE MOBILIZATION OF PRIVATE CAPITAL AT SCALE TO ADDRESS DEVELOPMENT CHALLENGES

Addressing the widening development finance gap will require capital at an unprecedented scale, beyond what traditional official development assistance can provide. New sources of concessional finance, including DFIs' own-account funds and philanthropies, are emerging to catalyze high-impact investments.² Blended finance is critical for pioneering frontier investments where private capital struggles to flow on its own. Greater use of concessional funding in more junior positions in the capital structure through instruments such as junior equity and first-loss guarantees can help attract more private capital investment.

Addressing market failures with blended finance requires context-specific assessments to optimize concessionality, ensuring it supports the identified market barrier without distorting markets or crowding out private financing. Support should be time-bound, with a clear plan to reduce and eventually phase out concessional finance. These investments can play a key role in supporting high-risk, high-impact investments that help spur new markets, support innovation, and create jobs. But blended finance alone is not enough to attract private capital to riskier projects and challenging markets. Private investment flows only where the right conditions exist: a predictable regulatory environ-

ment is essential to drawing private capital off the sidelines.³ A regulatory framework that establishes a fair, transparent, and predictable operating environment gives firms a level playing field that facilitates trade, attracts private investment, and improves the competitiveness needed for robust growth, job creation, and poverty reduction. In addition, active public-private partnerships, advisory services, and increased access to data are all part of the solution. In combination with these approaches, blended finance instruments can help expand the perimeter of investments in a certain geography together with other tools, encouraging private capital investment into projects it would not have otherwise supported. These interventions continue until the market becomes more mature, less risky, and more attractive to private capital—reaching a “tipping point” where market forces alone can sustain investment without concessional support.

VITAL ROLE OF BLENDED FINANCE AS A TOOL TO MOBILIZE PRIVATE CAPITAL

The private sector accounts for nine out of 10 jobs in developing countries. Jobs are the most effective way to build self-sufficient economies, reduce humanitarian needs, and create demand for goods. Investing and mobilizing capital is key to building vibrant private sectors.

Nevertheless, attracting private finance to the lowest-income and fragile markets is challenging. Macroeconomic instability, weak regulations, poor governance, and political volatility result in frequent disruptions that discourage private investors and increase their perception of risk, rais-

ing the cost of project development. Developing projects in these markets takes more time and resources—often double the cost of similar projects in more established emerging markets.⁴

For the poorest countries, it is not enough to implement reforms that provide a level playing field for businesses, create competitive markets, and open economies to investment. Such reforms are necessary, but not sufficient, to enable private investment both at the scale and in the timeframe needed. In countries facing instability and conflict, reforms alone will not sufficiently reduce the risk premium to an acceptable level for investors. In these markets, if there is a credible path to commercial sustainability, blended finance plays an essential role in mitigating the risk to an acceptable level for the project sponsor and private investors.

Even in well-developed markets, innovative projects with new, untested technologies or business models may face similar constraints. In these circumstances, innovative financing strategies like blended finance that can reduce, mitigate, or rebalance risk can help high-impact, first-of-their-kind investments become commercially sustainable.

WHAT IS BLENDED FINANCE?

Combining concessional finance from donors or third parties alongside DFIs' normal own-account finance and/or commercial finance from other investors to develop private sector markets, address the SDGs, and mobilize private resources.

This definition⁵ of blended finance has been adopted by the International Finance Corporation (IFC) and 22 DFIs⁶ as part of the DFI Working Group on Blended Concessional Finance for Private Sector Projects.

Blended finance, which combines concessional funding from donors with commercial capital, is a powerful tool for private investment.

By de-risking investments that are on the verge of commercial viability, blended finance can help unlock private sector participation and galvanize high-impact projects in markets that would otherwise remain underserved. The driving ambition of these investments is development impact: blended finance is used to catalyze projects that address critical development needs such as expanded access to energy and digital services, resilient agribusiness, higher-quality health-

care, and MSME development. By adjusting the risk-return profile, blended finance helps crowd in private capital. It is important to recognize that blended finance does more than just improve the risk-return profile of a single high-impact transaction. Concessional support not only helps make individual deals bankable, but also enables the broader market to learn, gain confidence, and eventually finance similar models, technologies, or risks with less (or without) concessional support.

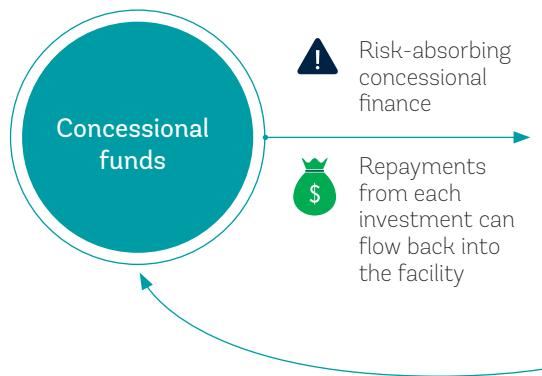
It can also realign investor incentives to promote specific development objectives, such as lending to underserved populations. For example, platforms such as IFC's Small Loans Guarantee Program, which combines first-loss guarantees to a pooled portfolio of IFC's risk-sharing facilities with partner financial institutions, encourage these institutions to expand their small and medium enterprises (SMEs) lending portfolio. In addition, facilities such as the International Development Association's Private Sector Window (IDA PSW), designed to support private sector projects in the most challenging jurisdictions, help address country-specific investment barriers stemming from country risk, the regulatory and institutional capacity, and the policy environment that may otherwise deter private investors. In addition to de-risking investments and driving high-impact outcomes, blended finance can support the deployment of new technologies that enhance resilience and adaptation, particularly in the least developed and most fragile markets.

Blended finance supports private capital mobilization

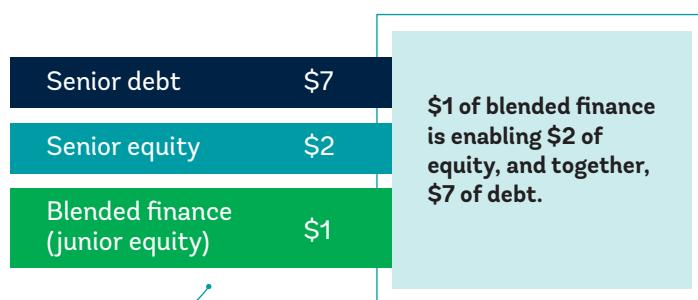
Blended finance uses the minimum amount of concessionality required to absorb sufficient project risk to enable larger amounts of commercial finance to be deployed. Concessional funds for risk absorption can be especially effective in enabling projects and attracting much-needed larger volumes of commercial investment by closing the gap between returns needed to attract investor risk appetite and the cost of financing that project sponsors can afford to pay. For example, the typical cost of capital for a utility-scale solar project can be two or three times higher in emerging economies than in advanced economies, reflecting real and perceived risks at the country, sector, and project levels.⁷ It is worth noting that a poorly conceived or unviable project cannot be transformed into a good investment simply because concessional capital is involved; rather, it can be used to rebalance risk and return, helping attract private finance into the least developed and frontier markets.

FIGURE 1: HOW BLENDED FINANCE SUPPORTS MOBILIZATION

BLENDED FINANCE FACILITY



EXAMPLE PROJECT STRUCTURE



Many of these financial instruments are designed to be recyclable, for example, through facilities where a repaid loan can be redeployed across other projects over time. Instruments may also be returnable, with the potential to generate returns for donors over their expectations. This enhances both the sustainability and catalytic nature of concessional resources, ensuring donor funds have a multiplier effect well beyond a single transaction. The ability to mobilize private capital is a vital component to measure the success of a blended finance transaction. Market development and impact must also be considered in evaluating the success of these transactions.

The role of DFIs in maximizing the impact of blended finance

DFIs play a crucial role in this ecosystem by leveraging concessional capital and using risk mitigation tools to attract private investment into projects that would otherwise be deemed too risky. In addition, the involvement of DFIs often sends a strong signal to the investment community—their backing of an investment, through advisory services, patient capital, or focus on building an investable pool of projects, is often viewed as a vote of confidence in the project or country.

The latest aggregate data available highlights the continued growth of blended finance among a selection of MDBs. In 2023, these MDBs⁸ committed over \$1.8 billion in long-term concessional finance, mobilizing approximately \$7.8 billion from MDB and DFI own-account financing, \$18.1 billion of private sector financing, \$4.8 billion from public sources (for example, sovereign contributions, export credit agencies, or other public institutions) at commercial rates, and \$0.1 billion from other concessional contributions. Concessional finance was invested through a variety of financial instruments, including risk sharing facilities or guarantees (46% of committed concessional finance); senior debt (24%); sub-ordinated debt (12%); grants, including performance-based grants (10%); and equity (8%). Overall, the volume of committed concessional finance among these MDBs increased by approximately 39% compared to 2022.

Blended finance landscape: The importance of a well-functioning ecosystem

DFIs cannot do this alone. As a financial public-private partnership, blended finance relies on effective collaboration between all relevant parties in line with their respective strengths. Donors, including G20 members, play a fundamental role by providing the concessional finance needed

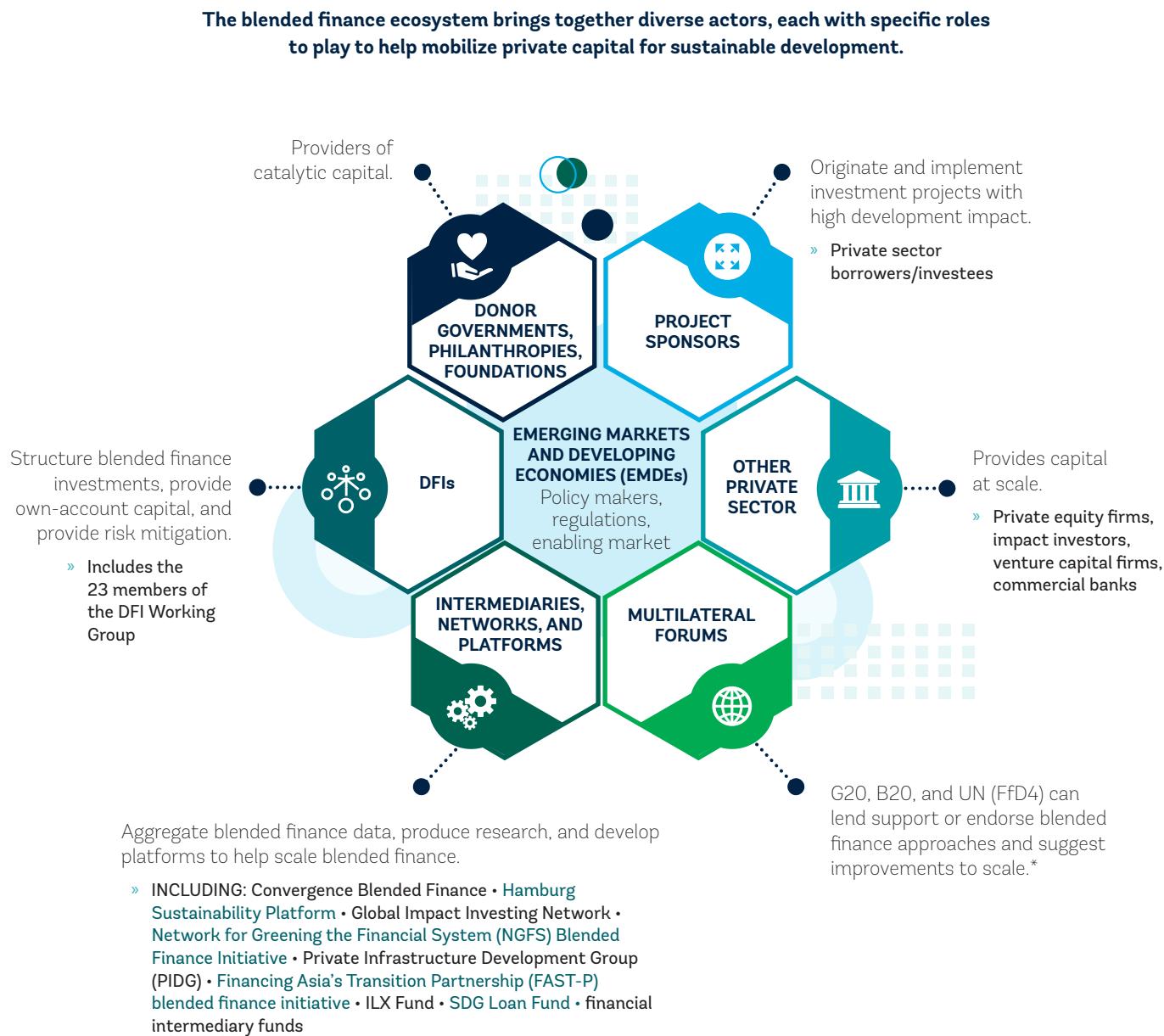
to fill financing gaps. They also provide important advisory support for capacity building, project preparation, and the development of enabling environments for private investment. The private sector sponsor leads project development and negotiates blended project finance with DFIs, private equity, and debt investors. Multilateral forums like the G20 enable joint principles, policy improvements, and approaches to scale. Financing platforms and networks provide market-places for learning, connecting projects with investors, and pooling capital for scale—some examples are highlighted below. The relationship between public and private partners and capital in blended finance can change over time, as risk-return profiles require a higher share of concessional finance in the early, higher-risk project development phase, while the private sector is more comfortable investing in operating assets. Similarly, blending programs, such as SME finance, require less concessionality in repeat programs than in first-time, market-building solutions.

UPPER TRISHULI-1 HYDROPOWER PROJECT IN NEPAL

Blended finance ecosystem collaboration to enable large-scale infrastructure (2020)

Upper Trishuli-1 is a 216 MW run-of-river public-private partnership project, with DFIs contributing a mix of equity, concessional and commercial debt, and risk mitigation instruments. Before this project, the energy sector in Nepal had been unable to attract the significant (foreign) investment needed to fund transformational projects that could help meet the country's electricity needs. In 2019, IFC arranged a \$453 million debt package and invested equity alongside Korean and Nepali partners, signaling confidence to other investors. Additional finance came from ADB, the Asian Infrastructure Investment Bank, the OPEC Fund, the Export-Import Bank of Korea, British International Investment, FMO (the Dutch Entrepreneurial Development Bank), and Proparco. To further de-risk the project, MIGA provided \$135 million in political risk guarantees, while the IDA PSW offered over \$100 million in concessional finance. IFC was also involved in project development efforts from an early stage and provided advisory services, as well as helping to mobilize one of the largest foreign direct investments in Nepal to date. The project is expected to generate over 1,400 GW hours of clean electricity annually to millions of Nepalese, create thousands of jobs during construction and operation, and deliver long-term economic and social benefits.

FIGURE 2: THE GLOBAL BLENDED FINANCE ECOSYSTEM



* This could build on earlier work under the G20 Indonesian Presidency, which established the THK Blended Finance Platform.

EXAMPLES OF PLATFORMS THAT SEEK TO STANDARDIZE AND SCALE BLENDED FINANCE

- » The **Financing Asia's Transition Partnership (FAST-P)** blended finance initiative was launched by the Monetary Authority of Singapore to support Asia's decarbonization and transition to a low-carbon future. This initiative aims to mobilize up to \$5 billion to finance and de-risk green and transition projects in Asia, working with various public, private, and philanthropic partners. FAST-P encompasses three strategic pillars: the Green Investments Partnership, the Industrial Transformation Infrastructure Debt Programme, and the Energy Transition Acceleration Finance. Each pillar targets different areas to ensure a comprehensive approach to sustainable development in the region.
- » **Pentagreen Capital** manages the Green Investments Partnership debt program under FAST-P. The program focuses on accelerating the development of sustainable infrastructure projects across Asia, particularly in Southeast Asia, by addressing the financing gap for projects not easily financed through traditional commercial channels. The platform aims to deploy blended finance solutions to unlock and crowd in commercial capital for these projects.
- » **ILX**, an Amsterdam-based SDG credit fund, is using the Global Emerging Markets Risk Database (GEMs) with notable success (see discussion on GEMs below). ILX was able to mobilize more than \$1.7 billion in Dutch and Danish pension capital for B-loan participations in multilateral development bank (MDB) projects—effectively enhancing these institutions' lending capacity with a 1:1 ratio. The initiative initially required modest financial support (from the Dutch, United Kingdom, and German governments), but it is now financially self-sufficient. ILX demonstrates that private investors do not necessarily need to sacrifice returns to deliver impact.
- » The **Climate Syndication Platform** is a pilot blended finance initiative between Germany's Federal Ministry for Economic Affairs and Climate Action (BMWK), via its International Climate Initiative (IKI), and EBRD to scale private sector climate finance in eastern Europe, the Caucasus, Türkiye, the southern and eastern Mediterranean, and Central Asia. It provides €30 million in first-loss guarantees and technical assistance to support B lenders in EBRD A/B loan structures. With a targeted 7.5x leverage, the initiative aims to mobilize up to €225 million from institutional investors for climate mitigation and adaptation projects in its initial phase.
- » **SCALED (Scaling Capital for Sustainable Development, formerly HSP)** is a joint initiative aimed at scaling sustainable investments in EMDEs using blended finance. The platform aims to make it easier for private investors to invest in these projects by standardizing financial vehicles and pooling funds from public donors.
- » A **Blended Finance Platform for Sustainable Infrastructure** is being developed by the World Bank Group in collaboration with South Africa to fill the infrastructure finance gap in South Africa. The platform will serve as a crucial tool for mobilizing private investments by mitigating risks associated with essential infrastructure projects in areas such as electricity, energy, transportation, and water. The first application of the platform will be through a credit guarantee vehicle.

SECTION B

HOW BLENDED FINANCE WORKS: INSTRUMENTS

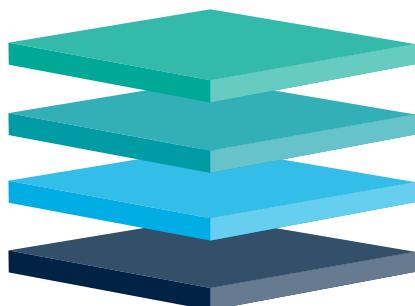
IMPROVING THE RISK-REWARD PROFILE OF PRIVATE SECTOR PROJECTS

Depending on the country context, sector maturity, and stage of market development, the nature of risks—such as early-stage uncertainty around technology or business models—and capital requirements will vary, requiring tailored blended finance solutions. In some cases, more than one instrument is used in a transaction to reduce risk. Figure 3 illustrates how blended finance can be used strategically to address four different elements: pricing, risk, local currency, and structure. These barriers often prevent private capital from flowing into sectors like renewable energy, agriculture, or healthcare in emerging markets. By layering concessionary capital, blended finance instruments can improve the risk-return profile, reduce foreign exchange risks, and unlock scalable structures that are commercially viable.

Blended finance instruments vary by the level of concessionality they offer, ranging from grant or grant-like (capital outlay with low/no expected returns) to unfunded guarantees (no upfront contribution, but irrevocable and unconditional payment once the guarantees are called on). Figure 4 illustrates this spectrum, noting expectations of varying returns from contributors. Each instrument serves a purpose in addressing key market and sectoral barriers to investment, which is why enhanced flexibility in how they are provided by the contributors is important. For example, a funded donor contribution allows for any blended finance instrument, providing more flexibility and thus faster usage, while an unfunded contribution limits usage to unfunded guarantees, which may result in slower usage of the donor contribution.

This note maps the most commonly used blended finance instruments and how they can be used, and does not provide an exhaustive list of blended finance instruments. Each instrument is explained in the rest of this section, with some examples from a range of DFIs. Further examples are included in the annex.

FIGURE 3: WAYS IN WHICH BLENDED FINANCE CAN UNLOCK PRIVATE CAPITAL



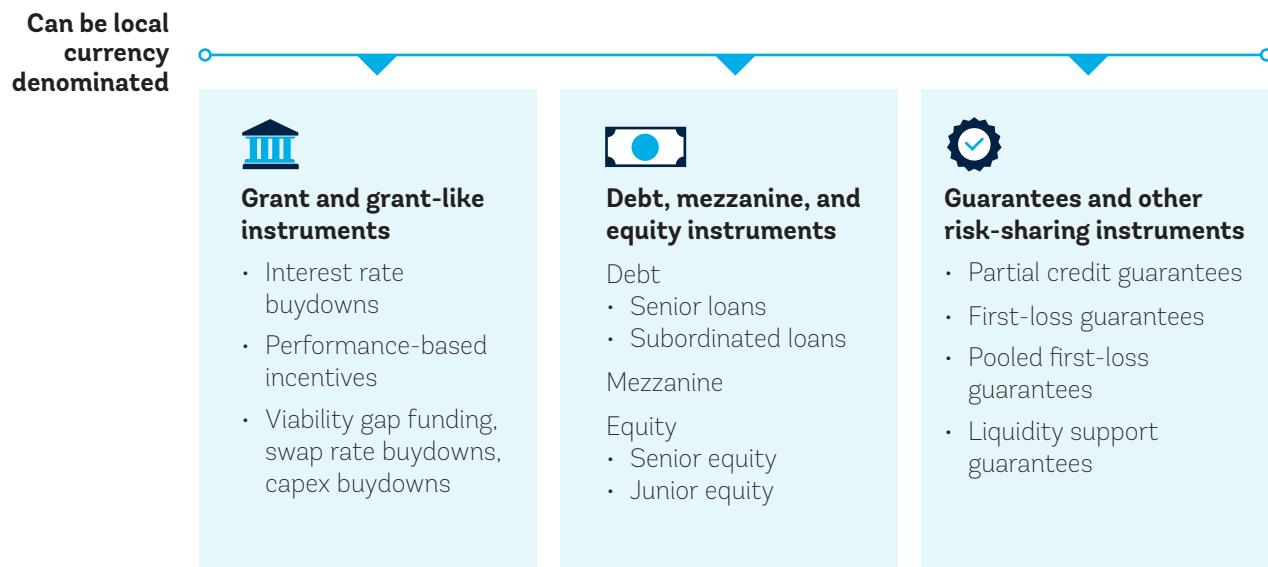
PRICING: Lower rates, ex-post, ex-ante

STRUCTURE: Longer grace, longer tenor, sculpted repayments, back-ended repayment

RISK: Subordination, structural vs. contractual, waterfall, rank/security

LOCAL CURRENCY: Foreign exchange swaps

FIGURE 4: COMMON BLENDED FINANCE INSTRUMENTS⁹



GRANT AND GRANT-LIKE INSTRUMENTS

Grant and grant-like instruments can reduce financial risk and improve the bankability of high-impact projects, typically without requiring a return of capital. These instruments have higher intensity in concessionality, requiring less capital outlay, and can be used to provide higher leverage compared to non-grant-like tools because they can absorb early losses, reduce perceived risk, and lower the cost of capital for private investors. Additionally, some instruments

can be structured to incentivize specific behaviors—such as investing in greening solutions or lending to underserved populations—thereby aligning investor interests with broader development goals and aiming to reward innovation and successful implementation. They can also be used to defray the costs of high-impact technologies and solutions that are not economically viable due to a long gestation period.

INSTRUMENT	DEFINITION	USE CASE
Interest rate buydown	<p>Reduces the rate on a loan, lowering borrowing costs.</p> <p>These upfront payments are subject to a business reaching performance targets set at the outset.</p>	<p>Enables affordable financing costs for business and end beneficiaries.</p> <p>Useful in sectors like agriculture or energy, or for SMEs that require capital but face high rates due to perceived risks.</p>
Performance-based incentive	Financial incentives paid out during a pre-agreed, time-bound period on a business achieving predefined targets.	Provides a financial incentive for a business to pursue a new business line or extend its reach to underserved segments, such as lending to women-owned SMEs.
Viability gap funding, swap rate buydown, capex buydown	Can help (partially) cover a gap in cost, or between expected financial returns to investors and actual rate of return, defined at the early stage of a project.	Reduces the elevated upfront cost of high-risk, high-cost technologies and other projects in nascent sectors.

Examples of grant-like instruments

» **Growing solar—and opportunities for women—in Brazil (2020)**

In 2020, IDB Invest, the private sector institution of the IDB Group, arranged up to \$68.7 million in financing for the 157 MW alternating current **NEW JUAZEIRO BIFACIAL SOLAR POWER PROJECT** in Bahia, led by Atlas Renewable Energy, of which \$15 million was provided jointly by the Clean Technology Fund and the Canadian Climate Fund for the Private Sector in the Americas (C2F) on concessional terms. The project was novel in several ways: it was only the second solar project in Brazil to use bifacial solar photovoltaics (PV), which generate power on both sides of the panels and are thus more efficient; it was also one of the first utility-scale solar PV projects in Brazil with a corporate power purchase agreement, with Dow Brazil as the off-taker; and it explicitly incentivized the inclusion of Afro-descendant women and men in the workforce.

Also in 2020, IDB Invest arranged \$152.8 million in financing for the 297 MW alternating current **CASABLANCA BIFACIAL SOLAR PV PROJECT** in Minas Gerais. It followed the same model as New Juazeiro, this time with the mining company Anglo Ferro as the power purchase agreement off-taker. The Clean Technology Fund and the C2F together provided up to \$10 million in concessional financing.

For both projects, Atlas Renewable Energy committed to ambitious outreach, training, and hiring goals, almost all of which have been met. Over 10 percent of the workers who built the New Juazeiro plant were women, and almost two-thirds of women workers are Afro-descendant. In Casablanca, 16 percent of the construction workers were women, and over 200 women were trained in construction and electrical-related programs. Atlas has also provided childcare assistance for almost 150 women employees.

» **Financing the construction and operation of the 55 MW greenfield Masrik-1 Solar Power Plant, Armenia (2020)**

Faced with the challenge of meeting growing demand for electricity in a sustainable, reliable, and affordable manner, Armenia initiated the first utility-scale solar power plant project in the Caucasus in 2020. However, as the country's solar auction mechanism was untested at the time, the level of uncertainty for investors was high and the market was not yet liquid. In addition, Armenia's regulatory framework

for renewables was early in its development, and environmental externalities were not yet reflected in energy prices in the country. Given these points, private sector interest in financing the Masrik-1 Solar Power Plant was expected to be limited.

As the project's lead debt financiers, EBRD and IFC provided concessional finance in the form of a €3 million viability gap grant (European Union (EU) investment grant) and a nearly \$9 million concessional loan from the Finland-IFC Blended Finance for Climate Program, alongside their own-account financing (EBRD: \$17.7 million; IFC: \$8.9 million). The total project cost was \$55 million. The concessional finance was used to address first-mover externalities and support the construction of the plant, since, without it, the project would not have materialized.

As the first competitively tendered solar power plant in the region, the project serves as a catalyst and path opener—offering a benchmark for future solar projects in the Caucasus. As more solar plants are developed and become operational, and the regulatory framework is further developed, investor confidence will grow such that future projects can be developed without the need for concessional financing.

DEBT, MEZZANINE, AND EQUITY INSTRUMENTS

Funded instruments refer to financial instruments where the provider of concessional capital commits to disbursement of financing, as opposed to unfunded instruments, which are typically guarantees or risk-sharing commitments whose disbursements are contingent on a loss event and do not require upfront capital. Notably, instruments like debt and equity can be delivered in combination with the grant-like instruments and in local currency.

Debt and equity examples

» **Prolade: Sustainable Palm Oil, Mexico (2024)**

Palm oil is the most widely consumed vegetable oil globally due to its high productivity and low production costs. However, it is marginally sustainably grown, and financing is scarce given risks from harvest seasonality and the international commodity market for output price. In Mexico, demand for palm oil is three times more than domestic supply.

INSTRUMENT	DEFINITION	USE CASE
Debt instruments		
Senior loan	Loans provided at below-market interest rates (concessional) to reduce the cost of the financing package for the client/business and end beneficiary (senior loans can also have structural enhancements such as deferral mechanisms or longer tenors/grace periods).	Reduces overall financing costs or improves a debt profile, rebalances the risk profile, and makes a project more affordable and attractive to investors and, ultimately, to end beneficiaries.
Subordinated loan	Loans that rank lower in repayment and/or in liquidation than senior debt.	Helps rebalance risk in an investment by offering protection from downside risk and improving debt-service coverage for senior lenders.
Mezzanine instruments		
Mezzanine loan	Hybrid of debt and equity.	Provides flexibility in investment structuring and appeals to investors seeking higher returns than debt, but with lower risk than pure equity.
Equity instruments		
Senior equity	Equity investments with preferential rights to returns over junior equity.	Used to attract co-investors by showing commitment and helps signal credibility to markets.
Junior equity	Subordinated equity provides a first-loss cushion by being repaid after senior equity.	Absorbs risks and improves the risk-return profile for senior investors and crowd-in capital.

IDB Invest provided \$15 million in corporate mezzanine financing—including two \$5 million senior loans from IDB Invest's Finland-LAC Blended Finance Climate Fund and the C2F—to Prolade, an RSPO-IP certified Mexican company with a sustainable, vertical integration of crude palm oil production. The loans support the purchase of seeds and previously degraded land, and the extraction mill extension. The blended finance loans' terms feature a cash flow deferral mechanism to accommodate the plantation's growth cycle and underlying revenue volatility. The financing also includes spread adjustments contingent on Prolade implementing innovative low-carbon agricultural practices, such as generating carbon removal credits from biochar produced from waste biomass and cogenerating energy from process waste.

The project is expected to create a market for the sustainable production of palm oil in Latin America. Prolade would become the first company to issue sequestration carbon credits from biochar activities in the region. With the achievement

of the climate milestones incentivized by blended finance, the transaction is expected to sequester and abate 1,228,777 tCO₂e over the 25-year maturity of the plantation.

» **Containerized solar PV and battery storage—various African countries (2023)**

In 2023, IFC began supporting the deployment of modular solar PV power containers and battery storage solutions for Release Utilities Africa Holding B.V. This innovative business model focuses on leasing these redeployable assets to public utilities in fragile and conflict-affected settings in Sub-Saharan Africa, helping them transition from imported heavy fuels to renewable energy. The initial rollout is planned for West and Central Africa. Africa Release intends to replicate this rapid deployment model to address shortfalls in grid power supplies throughout the region.

The loan comprises \$50 million in senior debt from IFC's own account and \$50 million in blended finance. The blend-

ed finance package includes \$25 million from the Canada-IFC Renewable Energy Program for Africa, \$15 million from the Finland-IFC Blended Finance for Climate Program, \$5 million from the Canada-IFC Blended Climate Finance Program, and \$5 million from the IDA PSW Blended Finance Facility. In addition, the IDA PSW Risk Mitigation Facility is providing a liquidity support guarantee of up to \$65 million, a portion of which will be used for the first subproject to be rolled out in Chad.

The financing package is part of a wider partnership and will help meet growing electricity demand with a cost-competitive, reliable, renewable solution for African utilities. It will start by adding 35 MW and 36 MW of power to the national grids in Chad and Cameroon, respectively. The projects will reduce overall carbon emissions by 62,200 tons per year—the equivalent of the energy consumption of about 40,000 European households every year.

» **Repowering Koudia Al Baida Wind Farm, Morocco (2022)**

The project involved expanding and repowering Koudia Al Baida, the oldest wind farm in Africa, located in Morocco. It doubled the wind farm's capacity from 50 MW to 100 MW by replacing aging turbines—marking the first wind repowering initiative on the African continent.

To support this pioneering €130 million investment, EBRD provided an innovative financing package to a special purpose vehicle 50 percent owned by Masen (the Moroccan Agency for Sustainable Energy) and 50 percent owned by EDF Renewables. The financing combined €102 million in senior debt (EBRD: €44 million), €16 million in subordinated debt (EBRD: €6 million equivalent in local currency), and €4.5 million in subordinated concessional debt from the Climate Investment Fund, cofinanced alongside international and local commercial lenders. As Masen's first financing without a sovereign guarantee, the project faced untested creditworthiness and higher financing costs. The subordinated concessional tranche was critical in de-risking the transaction, addressing market imperfections and first-mover risks, and enabling access to affordable debt.

This structure not only reduced the overall cost of funding but also successfully mobilized private investors, creating a replicable model for future repowering projects. In parallel, technical assistance supported project preparation and strengthened the regulatory framework. This investment supported Morocco's low-carbon transition and reinforced public-private partnerships for renewable energy.

GUARANTEES AND OTHER RISK-SHARING INSTRUMENTS

Instruments like guarantees¹⁰ do not require an immediate cash or capital contribution from the provider, yet they play a key role in encouraging private investment. Unfunded guarantees can be effective at addressing residual risks requiring blending, helping reduce investment risks, enhancing the risk-return balance, or providing other strategic benefits without a need for upfront funding.

These instruments are structured as unfunded to ensure efficiency in capital provisioning. Guarantees are particularly catalytic in middle-income countries or in projects that are closer to being financially viable. In lower-income countries or more fragile markets, guarantees alone may need to be accompanied by instruments like junior debt or junior equity.

Guarantee example

» **Strengthening telecommunications infrastructure, Ukraine (2024)**

In 2024, the World Bank Group and EBRD, with support from the European Commission and the government of France, enabled an investment program to modernize, expand, and improve telecommunications service quality in Ukraine. IFC and EBRD jointly provided \$435 million in long-term debt to support a landmark project involving two leading Ukrainian telecommunications companies, lifecell LLC and Datagroup-Volta, which recently merged to form a new firm, Datagroup-Volta-lifecell. The investment will support the merged group in enhancing network resilience and delivering improved mobile connectivity to 10 million subscribers and providing faster and more reliable fixed broadband access to 4 million homes. To mitigate investment risks, a portion of EBRD's and IFC's loans will be covered by guarantees provided by the government of France and the EU under the Ukraine Investment Framework.

INSTRUMENT	DEFINITION	USE CASE
Partial credit guarantee	Covers a portion of debt service in case of default.	Used to enhance the creditworthiness of a borrower and improve terms, like interest rates.
First-loss guarantee	A first-loss guarantee provider assumes the loss first and is subordinated in the recovery proceed distribution. For example, recovery proceeds are allocated in priority first to senior lenders, then to the guarantor.	Mitigates various risks and improves the risk-reward balance. Guarantees make investments more attractive to private investors who might otherwise be unwilling to invest. A risk-sharing facility could facilitate direct or indirect exposure to a portfolio of underlying assets in a particular sector originated by an intermediary (originator and servicer). Part of the first loss would be shared with third parties (for example, donors).
Pooled guarantee	A guarantee structure pooled across a group of investments.	For example, a pooled first-loss guarantee covers losses from defaulted assets fully, on a first-come, first-served basis, until the entire amount of the guarantee is depleted.
Liquidity support guarantee	Provides short-term liquidity to a project or company in case of temporary cash flow issues.	Ensures continuity of operations and payment obligations. Often used in infrastructure projects where the financial sustainability and liquidity position of a sovereign-backed off-taker is weak.

LOCAL CURRENCY DENOMINATED: CROSS-CUTTING ACROSS INSTRUMENTS

For projects that have predominantly local currency revenues, borrowing in foreign currencies exposes the project to exchange rate risk, making it more difficult to repay a loan. Blended finance structures can include local currency loans with guarantees or concessional support to reduce foreign exchange risk for the private sector.¹¹ Countries where a project is carried out can also support de-risking through the provision of local currency concessional finance, including as donors to blended finance structures denominated in local currency.

Local currency loans shield a borrower from currency depreciation or volatility risks in countries where market-based hedging options are limited. This allows a project to be financed with a local currency-denominated debt package, while ensuring that if the local currency depreciates, the project will not face significant repayment difficulties. Foreign exchange swaps are used to hedge against the risk of

currency fluctuations by swapping one currency for another and locking in exchange rates. A swap rate buydown through concessional support helps make the costs of foreign exchange swaps more affordable, mitigating foreign exchange risks in projects with predominantly local currency revenues.

Local currency example

» **Supporting digital infrastructure and broader capital market development, West Africa (2024)**

To help expand reliable 4G coverage in Senegal, especially to rural and underserved regions, IFC supported anchor investments in two bonds issued by a securitization vehicle of Sonatel, a leading mobile network operator in West Africa. As the first telecommunications sector securitization in West Africa, the deal was structured entirely in West African CFA francs, enabling Sonatel to raise long-term funding without incurring foreign exchange risk—an often-prohibitive barrier for companies in the region. In 2024, IFC's anchor investment of 25 billion West African CFA francs (about \$44 million), alongside the Emerging Africa

Infrastructure Fund and a broad base of regional investors, helped build market confidence and mobilize significant local capital. IFC's investment will also be supported by the IDA PSW Local Currency Facility, which helps provide longer-term local currency funding not readily available in the market.

This transaction expands digital infrastructure in underserved areas of Senegal and also demonstrates how IFC uses local currency financing to deepen financial markets, crowd in domestic institutional investors, and create scalable, replicable models for future private sector-led development across West Africa. This project falls under the World Bank's Joint Capital Markets Program to develop and deepen the West African Economic and Monetary Union's capital market. The program's work in this region is supported by the governments of Germany and Norway.

DFIs ARE EMBRACING GREATER RISK

The full menu of blended finance instruments is relevant to unlock and scale private investment in EMDEs. At the same time, not all concessional finance instruments are available to the same extent. In addition, in a fiscally constrained macroeconomic environment, donors of concessional finance are looking to provide support where it maximizes development impact and financial benefits using funds as effectively as possible. The below spotlight focuses on a subset of blended finance instruments.

EFFICIENT WAYS TO ENABLE PRIVATE SECTOR INVESTMENTS TO ADVANCE DEVELOPMENT PROGRESS: SPOTLIGHT ON EQUITY AND GUARANTEES

With shrinking public resources, fresh approaches are needed to tackle development challenges. DFIs are taking on not only more financial risk through instruments, but also strategic and operational risk by going earlier in the project cycle and deeper into fragile markets, and innovating with balance sheet tools to mobilize private capital.

Aligning private capital with public priorities can achieve results that neither private nor public finance could accomplish alone. Equity and guarantees are two key resources to help de-risk investments and attract private capital. DFIs have been developing and promoting innovative new blended finance instruments to maximize the development impact of scarce concessional resources.

DRIVING INNOVATION AT SCALE: JUNIOR EQUITY SOLUTIONS

Equity is the scarcest type of capital in emerging markets. By taking a position at the bottom of the capital stack beyond subordinated debt and senior equity, the junior equity investment can have a transformative impact by crowding in senior equity investors and lenders to projects that do not otherwise offer attractive risk-return profiles. Such financing is often in demand from local sponsors implementing newer business models or technologies but facing capital constraints. Given these are funded investments, if reflows are generated, it can be reinvested in other projects, highlighting the recyclable nature of blended finance.

EQUITY SOLUTIONS

The Private Sector Investment Lab is a collaborative initiative between the World Bank Group and CEOs of leading global private sector institutions. Its goal is to develop solutions that address existing barriers to private sector investment in EMDEs. One of the recommendations from the lab is to deploy more equity and junior capital.¹²

By taking junior or first-loss positions, investors may support projects with the most innovative companies, technologies, and business models that drive sustainable solutions. The Global Agriculture and Food Security Program (GAFSP) is an example of a blended finance facility that uses first-loss equity to support agribusiness funds operating in fragile markets to attract commercial investors that would otherwise not be interested due to high risk.¹³

DE-RISKING WHILE CONSERVING CAPITAL: GUARANTEES

Risk mitigation products like guarantees and risk-sharing facilities are gaining importance. An OECD report¹⁴ argues that guarantees have proven to be an effective instrument for mobilizing private finance because they are uniquely suited to mitigate commercial, credit, and political risks. Convergence, the global network for blended finance and data aggregator, highlights that DFIs are increasing the use of guarantees for long-term financing while loan and equity disbursements remain stable.¹⁵

Guarantees can bring financial additionality by changing the risk-return profile of investments while alleviating credit restrictions for underserved borrowers. Sovereign-backed guarantees—whether partial credit, partial risk, or political risk guarantees—remain one of the most effective tools for attracting private finance while conserving capital. First-loss guarantees are a critical tool, providing a layer of risk protection that helps attract private investment into high-impact but traditionally underserved markets. By committing to absorb initial losses, first-loss guarantees—typically offered by governments—can enhance the risk-return profile for commercial investors. This de-risking helps make projects more viable and scalable.

SECTION C

ENSURING EFFECTIVE, EFFICIENT, AND TRANSPARENT BLENDED FINANCE

Sovereigns, and increasingly foundations, provide the vital capital to catalyze high-impact projects. DFIs have a critical role to play in the stewardship of concessional resources and in ensuring the integrity of the blended finance ecosystem, adhering to principles of minimum concessionality and working together to ensure transparency and governance.

PRINCIPLES, PRACTICE, AND SAFEGUARDS

ENHANCED BLENDED CONCESSIONAL FINANCE PRINCIPLES FOR DFI PRIVATE SECTOR OPERATIONS

The 23 members of the DFI Working Group created the DFI Enhanced Principles in 2017 to ensure a common framework for the disciplined use of scarce concessional funds.¹⁶ Rigorous application of the principles is strongly encouraged for all users of concessional capital.

- I. Rationale for using blended concessional finance:** DFI support for the private sector should make a contribution that is beyond what is available, or that is otherwise absent from the market, and should not crowd out the private sector. Blended concessional finance should address market failures.
- II. Crowding in and minimum concessionality:** DFI support for the private sector should, to the extent possible, contribute to catalyzing market development and the mobilization of private sector resources and minimize the use of concessional resources.

- III. Commercial sustainability:** DFI support for the private sector and the impact achieved by each operation should aim to be sustainable. DFI support must contribute toward the commercial viability of clients. The level of concessionality in a sector should be revisited over time.
- IV. Reinforcing markets:** DFI support for the private sector should be structured to effectively and efficiently address market failures and minimize the risk of disrupting or unduly distorting markets or crowding out private finance, including new entrants.
- V. Promoting high standards:** DFI private sector operations should seek to promote adherence to high standards of conduct in their clients, including in the areas of corporate governance, environmental impact, social inclusion, transparency, integrity, and disclosure.

Relying on blended finance indefinitely may lead to a dependency on subsidies or concessional funding that can distort market dynamics and discourage the development of self-sustaining financial ecosystems. To avoid a crowding out effect, blended finance should be used as a targeted and temporary solution to catalyze investment by addressing a market failure such as a local market's inability to recognize the viability of new business models or technologies. The temporary and targeted subsidy embedded in a blended finance structure helps de-risk investments, crowding in commercial capital into sectors with development impact, demonstrating potential viability, and setting the stage for future replications with a lower subsidy or none, reducing concessional support as market confidence grows.

SPOTLIGHT ON PRINCIPLE II: CROWDING IN AND MINIMUM CONCESSIONALITY

The principle of crowding in and minimum concessionality is central to making blended finance both effective and sustainable. When DFIs apply the minimum concessionality principle, they seek to only use as much subsidy as absolutely needed to attract private capital—and no more.

Concessionality figures can be calculated based on the difference between (i) a reference price (which can be a market price, if available; the price calculated using a DFI's pricing model, which comprises the three main elements of risk, cost, and net profit; or a market-established benchmark or price negotiated with the client), and (ii) the concessional price charged by the blended concessional finance co-investment.¹⁷

When used appropriately, concessionality in private markets can help build or expand markets that are underserved or perceived as too risky. However, overreliance on concessional finance can have unintended consequences—it may distort markets, crowd out private competitors, or foster long-term dependency on subsidies. Striking the right balance is essential: with too much concessionality in private markets, investors may withdraw; with just enough, they are incentivized to engage.

or sector is a medium- to long-term de-risking intervention that can prove effective in creating the right business environment for sustainable investment.¹⁸ For example, the International Bank for Reconstruction and Development and IDA can help governments implement targeted regulatory reforms that address policy inefficiencies—such as trade barriers, overly restrictive labor regulations, and tax policies that impact the growth of larger MSMEs disproportionately. These efforts help correct resource misallocation, enhance productivity, and foster a more dynamic private sector—enabling investment and approaches like blended finance to be used most effectively.¹⁹ In line with discussions in the G20 Roadmap towards Better, Bigger and More Effective MDBs, MDBs are enhancing their focus on policy engagements that trigger systemic change, including capital and financial market development and setting the framework for public-private partnerships, to create the enabling environment for private capital to flow at scale.

TRANSPARENCY IN BLENDED FINANCE: STRENGTHENING DONOR AND INVESTOR TRUST

Transparency is critical in the management of concessional funds. It allows donors, DFIs, shareholders, and the public to see how public funds are being used, and whether they are being used for maximum development impact, consistent with the DFI Blended Finance Principles. Transparency also allows for the assessment of the role of blended concessional finance in the context of other development finance and instruments.²⁰ With robust transparency, stakeholders can determine the reasoning for the use of concessional funds, whether the funds are used efficiently, and whether the projects supported are likely to lead to widespread development impact, including through demonstration effects.²¹ Transparency promotes the responsible stewardship of resources, offering insights into governance, decision-making, and financial flows that strengthen trust in the development process. With clearer data, investors gain a fuller picture of the risk-return profile of blended finance projects, ultimately enabling better capital allocation and more resilient development outcomes.

The DFI Working Group reports private sector financing levels in blended finance on an aggregate basis.²² Since 2019, IFC has disclosed the level of concessionality as a percentage of total project costs for all blended finance transactions on its Project Information & Data Portal.²³ Disclosing the

NOT AN ALL-PURPOSE SOLUTION: THE CRITICAL ROLES OF POLICY AND REGULATORY ENVIRONMENT

While blended finance has proved to be an effective approach to leverage scarce donor funds and implement replicable, high-impact projects, it does not substitute for the essential structural reforms required to create an enabling environment for private businesses to thrive. Working with governments to strengthen governance, support business-enabling policies, and ensure regulatory certainty so the private sector can operate and grow is a critical focus of the World Bank Group and most MDBs. Operating upstream to help strengthen the business environment in a country

amount ensures markets are not distorted and supports greater benchmarking in the blended finance market. Overall, quantitative analysis of blended finance is now more robust than ever.

GOVERNANCE

The DFI Enhanced Blended Concessional Finance Principles for Private Sector Projects have been a key outcome of the DFI Working Group and each member DFI undertakes to implement their own governance arrangements to ensure their operations align with the principles. Without strong discipline and governance, DFIs may seek to use concessional financing beyond what is required to make projects viable in an attempt to improve their own financial returns or to improve the financial returns of project sponsors or other investors to allow a project to proceed.

ADB and IFC, for example, have strong governance processes that include a blended finance committee, which assesses blended concessional finance proposals. The committee is convened in parallel, but with separate governance, to a regular investment committee, creating a clear and separate assessment of proposals for the use of donor-funded resources in blended finance operations. Meetings of the blended finance committee are separate to the regular investment committee meetings to ensure sufficient time to review and provide guidance on how a proposal can best align with the DFI Enhanced Principles. The guidance covers technical points including identifying the economic rationale for concessional finance, assessing minimum concessionality, and considering whether it will be feasible to phase out concessional finance over time. The DFI Working Group, at a higher level, provides an important forum for sharing and encouraging best practices in governance while recognizing that some DFIs have different arrangements.

WORKING TOGETHER TO IMPROVE CREDIT RISK INFORMATION: THE GLOBAL EMERGING MARKETS RISK DATABASE

The DFI community also has a role to play by providing data-driven information on credit risks of their lending activities so that private investors can better assess such risks to inform their investment decisions. The Global Emerging Markets Risk Database (GEMs) Consortium, a community of practice comprising DFIs, pools DFI credit risk data and provides more clarity around these risks, separating fact from perception. Currently, GEMs publishes statistics on default and recovery rates of MDB and DFI investments in EMDEs over a 30-to-40-year period. With default rates comparable to many non-investment-grade firms in advanced economies and recovery rates surpassing global benchmarks, GEMs shows the risks of investing in emerging market firms are lower than might have been thought. Among private sector investments, GEMs default rates average 3.6 percent—equivalent to a B rating by S&P. Recovery rates are also better than expected: the data show the recovery rates during crises are higher than in the corporate market. On average, 72 percent of the value of defaulted GEMs Consortium loans were recovered, compared to 70 percent reported for Moody's Global Loans, 59 percent for Moody's Global Bonds, and 38 percent for JPMorgan Emerging Market Bonds. New statistics released in April 2025 for financial and non-financial sector default and recovery performances affirm earlier findings on alignment with global benchmarks. This relatively strong GEMs performance may be a result of DFIs having a deeper understanding of local markets and stronger relationships with borrowers.

The GEMs Consortium has been showcasing the findings of the October 2024 reports and newly released statistics in April 2025 to a wide group of investors, rating agencies, regulators, and other stakeholders to promote the use of these data in their credit risk models. The next set of GEMs reports, to be published in October 2025, will include further disaggregated and granular credit risk statistics that will support improved analyses.

SECTION D

BLENDED FINANCE AND THE G20: BOOSTING EFFECTIVENESS

MDBs like the World Bank Group can play a pivotal role in supporting businesses of all sizes to grow and create meaningful jobs. One of their most vital contributions is in mobilizing private investment at scale. The G20 Roadmap towards Better, Bigger and More Effective MDBs calls on MDBs “to fully utilize blended finance mechanisms.” MDBs are committed to continuing to implement the roadmap.

DFIs are increasingly seeking to expand their collaborations with non-traditional funding sources, such as foundations, philanthropic organizations, and sovereign wealth funds.²⁴ The G20, as the premier platform for global economic cooperation, can play a key role in championing blended finance as a critical tool for mobilizing private capital to address global challenges by fostering:

Continued recognition of blended finance as a key tool for private capital mobilization. Development challenges require innovation, efficiency, and capacity to scale the private sector. Efforts to carve out blended finance funding for private sector investments that support development challenges are critical.

Support for strong enabling environments. Blended finance forms part of a holistic approach to creating markets. Enhancing regulatory frameworks and governance helps attract private investment and foster job creation. A combination of upstream policy and regulatory interventions to strengthen enabling conditions, as well as advisory services that strengthen local capacity and innovative blended finance structuring, have proved to be the most effective in catalyzing high-impact investments. Country platforms can be critical in helping bring relevant public and private sector stakeholders together to address challenges in the enabling environment and accelerate the creation of an investment pipeline.

Emphasis on the need for transparency in blended finance.

Data transparency promotes responsible stewardship of resources in line with the DFI Enhanced Principles and strengthens the integrity of development efforts by supporting benchmarking in the blended finance ecosystem. Support for transparency will help strengthen the blended finance ecosystem and help it scale.

Support to scale up the use of tools like equity and guarantees.

These key blended finance instruments help de-risk investments and provide a way to support high-risk projects that support firms and create jobs. Guarantees can help mobilize private capital for projects that face perceived high risks, especially those associated with new or unproven business models and technologies. Equity investments can address a wide variety of investment barriers, including through direct equity investments and junior tranches in debt and equity funds.

Open dialogue and deeper coordination among key stakeholders in the blended finance ecosystem to support streamlining and standardization in support of mobilization and scaling.

Governments, the private sector, DFIs, investors, philanthropies, platforms, civil society organizations, and multilateral forums like the Business20 must continue to coordinate and innovate to ensure that diverse perspectives are considered and integrated into project design and implementation of blended finance investments. Efforts among DFIs are also under way to streamline blended finance processes through increased delegation, simplified documentation, and operational systems that provide greater internal access to blended finance data.²⁵ The G20 could champion these collective efforts that support mobilization and scale.

ANNEX

ADDITIONAL BLENDED FINANCE PROJECT EXAMPLES FROM MDBS/DFIS

ASIAN DEVELOPMENT BANK (ADB)

MONSOON WIND POWER PROJECT, THE LAO PEOPLE'S DEMOCRATIC REPUBLIC (2023)

In 2023, ADB and the Monsoon Wind Power Company Limited signed a \$692.55 million project financing package to build the \$950 million Monsoon Wind Power Project in the Lao PDR. Comprising 133 wind turbines, the project will be the largest wind power plant in Southeast Asia and the first in the Lao PDR. As sole mandated lead arranger and book runner, ADB arranged, structured, and syndicated the entire financing package—the largest syndicated renewable project financing transaction among countries of the Association of Southeast Asian Nations to date.

The financing package included:

- » \$100 million A loan, ADB's ordinary capital resources.
- » \$150 million syndicated B loan (\$100 million: Siam Commercial Bank, \$50 million: Sumitomo Mitsui Banking Corporation).
- » \$50 million in ADB-managed blended concessional financing (\$30 million: Canadian Climate Fund for the Private Sector in Asia, \$20 million: Leading Asia's Private Infrastructure Fund), which was critical in overcoming project bankability hurdles to crowd in capital.

- » \$10 million grant from ADB's Asian Development Fund—Private Sector Window, which helped mitigate key project risks, including potential curtailment risk, a key bankability issue for lenders.
- » Parallel loans including \$120 million from the Japan International Cooperation Agency, \$100 million from Kasikombank, \$72.55 million from the Asian Infrastructure Investment Bank, \$60 million from the Export-Import Bank of Thailand, and \$30 million from the Hong Kong Mortgage Corporation Limited.

See more here: <https://www.adb.org/multimedia/partnership-report2023/our-stories/southeast-asias-biggest-wind-power-plant/>

EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (EBRD)

EBRD AND XACBANK SUPPORTING YOUTH-LED MSMES, MONGOLIA (2025)

EBRD extended an A/B loan of up to \$147 million to XacBank JSC under its Youth in Business program in Central Asia to support youth-led MSMEs in Mongolia.

This represents EBRD's largest transaction with a Mongolian bank to date. It includes an A loan of up to \$40 million for EBRD's own account and a B loan of up to \$107 million syndicated to private sector participants, including Allianz Global Investors, FMO, ILX Fund, AKA Bank, and Invest in Visions.

The financing is blended with concessional instruments to help XacBank reduce credit risk and improve access to finance for underserved youth-led enterprises. Specifically:

- » First-loss risk cover: Up to 5 percent for the benefit of XacBank to cover a portion of potential losses, enhancing XacBank's confidence in financing youth-led businesses.
- » Results-based compensation: Up to 3 percent incentives for XacBank to build dedicated infrastructure and internal capabilities to serve the youth segment.

The initiative aims to strengthen youth-led MSMEs, diversify XacBank's funding base, and expand services for young entrepreneurs.

See more [here](#) and [here](#).

EUROPEAN INVESTMENT BANK

ENERGY DOME'S CO₂ BATTERY—PIONEERING LONG-DURATION ENERGY STORAGE IN EUROPE

Energy Dome, a Milan-based climate-tech pioneer, secured a €60 million blended finance package to deliver the first full-scale CO₂ battery in Ottana, Sardinia. This first-of-a-kind project represents a breakthrough in long-duration energy storage, a sector critical for enabling the renewable energy transition. Leveraging a proprietary closed-loop process, the system stores electricity by liquefying CO₂ during off-peak hours and expands it to power a turbine, delivering dispatchable energy with an expected efficiency of 75 percent.

The 200 MWh facility, offering 20 MW over 10 hours, aims to outperform lithium-ion batteries on cost, lifetime, and environmental footprint, without relying on critical raw materials. The project responds to a growing need for flexible, scalable storage solutions that stabilize grids and mitigate renewable intermittency.

The financing provided under this partnership comprises €25 million in venture debt from the European Investment Bank, under InvestEU, and a €35 million grant from Breakthrough Energy Catalyst. The EU-Catalyst partnership creates a blueprint for public-private support for next generation cleantech, demonstrating the EU's commitment to scaling innovation in partnership with the private sector.

The Ottana plant has effectively acted as an enabler for the company's project pipeline, supporting new leads abroad, including the United States and India.

IDB INVEST

UK SUSTAINABLE INFRASTRUCTURE PROGRAMME (UKSIP)

Launched in 2017, UKSIP is a blended finance fund that supports sustainable infrastructure projects in both the public and private sectors. It combines IDB technical assistance projects with strong catalyzation potential with a blended finance facility for IDB Invest to develop a portfolio of sustainable infrastructure projects. Based on the success of Phase 1 (seven transactions including \$80 million in UKSIP Phase 1 resources, supporting over \$7.2 billion in financing for climate action, with 18.8 million tons of greenhouse gas emissions (MtCO₂e) expected over the life of the assets), the Foreign, Commonwealth and Development Office and the IDB Group signed an agreement for Phase 2 in May 2024. This new phase builds on past successes, expanding the program's focus from sustainable infrastructure to include climate adaptation, resilience, and nature-based solutions. The geographical scope now includes small and island countries in the Caribbean basin and Central America, in addition to Brazil, Colombia, Mexico, and Peru. UKSIP Phase 2 will be funded by investment reflows from Phase 1 and new contributions from the UK government, totaling up to \$220 million since inception. UKSIP resources are provided as non-reimbursable grants, with IDB Invest receiving loan principal and income reflows since 2023. Projections estimate \$121 million over 15 years, creating a quasi-evergreen fund.

IFC

HOLISTIC APPROACH TO TRANSFORM SOUTH AFRICA'S GREEN HOUSING SECTOR (2021 TO PRESENT)

In partnership with the United Kingdom, IFC has supported seven projects in South Africa since 2021, leveraging about \$29 million of the Market Accelerator for Green Construction Program blended finance funds to catalyze over \$1.1 billion earmarked for green certified buildings—which

have become a strategic component of South Africa's climate finance program. IFC recently partnered with two banks, Standard Bank and Nedbank, to support the construction and purchase of green buildings and homes in South Africa. The two financing packages, worth \$450 million, will provide financing to real estate developers and homebuyers of properties that align with global best practices for green construction, with a focus on the affordable housing sector and women homeowners. To offset greening and certification costs for building developments and homes financed under these projects, IFC's investments are further supported by performance-based incentives of \$8.6 million provided by the Market Accelerator for Green Construction Program. IFC will also help strengthen the banks' green building capacity through specialized EDGE (Excellence in Design for Greater Efficiencies) training and enable the design of resource-efficient buildings essential for supporting the transition of South Africa's property sector toward a low-carbon future.

IMPROVING FARMER LIVELIHOODS (2024)

Cocoa is a critical source of income for smallholder farmers in Côte d'Ivoire and Nigeria, but the industry faces numerous challenges, from fluctuating market prices to the urgent need for sustainable and traceable farming practices. Blended finance is supporting agtech solutions to increase sustainable and traceable cocoa production, helping improve livelihoods for thousands of smallholder farmers. A 2024 investment in Johnvents Industries in Nigeria, which contributes to more than 35 percent of the country's processed cocoa products, is helping the company expand its cocoa processing facilities and enhance the livelihoods of smallholder farmers through increased cocoa sourcing and technical and financial assistance. Johnvents will engage about 15,000 farmers over the next five years in training on best agronomic practices, planting new cocoa seedlings that will start production in three to four years, and applying for Rainforest Alliance certification. The financing package includes an \$8.5 million loan from IFC's own account, a \$6.3 million loan equivalent in Nigerian naira with support from the local currency facility of the IDA PSW, and a \$8.5 million loan from the Private Sector Window of GAFSP. In addition, an investment in Sucden in Côte d'Ivoire aims to enhance the export of sustainable and traceable cocoa, support more than 35,000 farmers, and boost the competitiveness of the cocoa sector through sustainable farming practices.

ENDNOTES

- 1 In this report, MDBs and DFIs will be referred to collectively as “DFIs,” except for cases where the reference is to MDBs alone—notably when discussing the G20 Roadmap towards Better, Bigger and More Effective MDBs.
- 2 DFI Working Group on Blended Concessional Finance for Private Sector Projects 2023.
- 3 Banga 2025.
- 4 IFC 2024a.
- 5 Adopted in 2022, the G20 Principles to Scale Up Blended Finance define blended finance as the strategic use of development finance for the mobilization of additional finance toward sustainable development in developing countries, building on the OECD definition (<https://g20.utoronto.ca/2022/G20-Principles-to-Scale-Up-Blended-Finance-in-Developing-Countries-including-LDCs-and-SIDS.pdf>). The DFI Working Group, the OECD, and Convergence Blended Finance have slightly different definitions of blended finance. This technical note uses the DFI Blended Finance Working Group definition of blended finance.
- 6 The 23 DFIs of the DFI Blended Finance Working Group are as follows: the African Development Bank (AfDB), the Asian Development Bank (ADB), the Asian Infrastructure Investment Bank (AIIB), the European Bank for Reconstruction and Development (EBRD), the Association of European Development Finance Institutions (EDFI), the European Investment Bank (EIB), FinDev Canada, the International Fund for Agricultural Development (IFAD), the Inter-American Development Bank Group (IDB Group), the Islamic Corporation for the Development of the Private Sector (ICD), and the International Finance Corporation (IFC). The Association of European Development Finance Institutions’ members are BIO (Belgium), British International Investment (United Kingdom), Cofides (Spain), DEG (Germany), FinnFund (Finland), FMO (the Netherlands), Impact Fund Denmark (Denmark), Norfund (Norway), OeEB (Austria), Proparco (France), SIFEM (Switzerland), Simest/CDP (Italy), SOFID (Portugal), and Swedfund (Sweden).
- 7 IEA and IFC 2023.
- 8 This data is from MDBs only and includes African Development Bank, Asian Development Bank, Asian Infrastructure Investment Bank, European Bank for Reconstruction and Development, IDB Invest, European Investment Bank, Islamic Development Bank, and the International Finance Corporation. Data provided by MDBs as part of the DFI Working Group on Blended Concessional Finance for Private Sector Projects.
- 9 This is not an exhaustive list of instruments. Also note that other classifications of blended finance instruments exist. For example, see Kwon and others (2022).
- 10 This section primarily covers unfunded guarantees. More comprehensive coverage of guarantees can be found in the G20/OECD report on de-risking instruments for blended finance.
- 11 Note that for some DFIs, local currency can be a cross-cutting tool used only for certain instruments.
- 12 World Bank Group 2025b.
- 13 See also GAFSP (2025).
- 14 OECD 2021b.
- 15 Convergence 2025.
- 16 In 2018, MDBs also developed a harmonized framework for assessing additionality in their respective private sector operations. See MDBs’ additionality framework: <https://www.ifc.org/en/insights-reports/2018/201809-mdbs-additionality-framework>.
- 17 IFC n.d.
- 18 IFC 2021b.
- 19 World Bank Group 2025a.
- 20 IFC 2021a.
- 21 IFC 2021a.
- 22 See <https://www.ifc.org/en/insights-reports/2020/bf-dfi-ifc-annual-reports>.
- 23 See summary of investment information at <https://disclosures.ifc.org/>.
- 24 According to Convergence, the Global Energy Alliance for People and Planet has been the leading provider of concessional capital among philanthropic investors, with five commitments totaling \$9 million, followed by the Gates Foundation and the Shell Foundation, each with four commitments over the past three years. “In the context of declining ODA [official development assistance], they [foundations] can and should play a larger role in catalyzing private capital into blended transactions.”
- 25 DFI Working Group on Blended Concessional Finance for Private Sector Projects 2023.

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