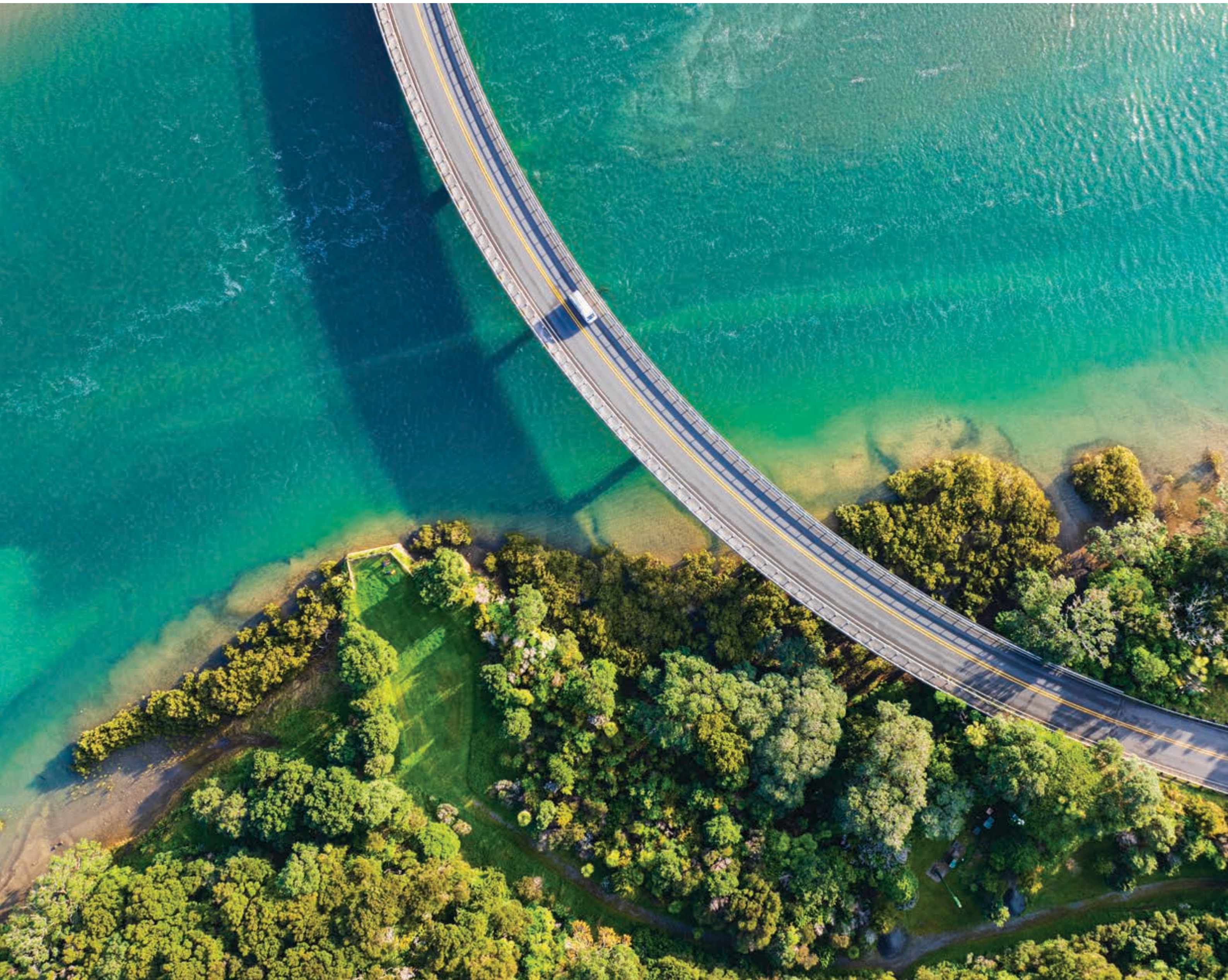
Best Practices in Development Co-operation

OECD DAC Blended Finance Guidance 2025



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OECD DAC Blended Finance Guidance 2025

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Preface

Pressures on development progress are growing, and public development co-operation budgets face increasing constraints. Recognising these challenges, at the Fourth International Conference on Financing for Development (FFD4) in Sevilla, countries emphasised the need for more, high-quality private capital flows aligned with sustainable development goals. One key tool to advance this objective is blended finance.

Since their adoption in 2017, the OECD Development Assistance Committee Blended Finance Principles have provided an internationally recognised framework for policymakers and practitioners. They helped establish a common understanding of the key elements of high-quality blended finance – emphasising additionality, transparency and alignment with partner country priorities. The Principles, and the related 2020 Guidance for their implementation, have supported a broad range of actors in launching and structuring more effective and impactful blended finance operations.

Blended finance is now a core element of international development co-operation, yet there are barriers that prevent it from reaching its full potential. Many transactions remain too complex, narrowly defined or small in scale to drive systemic change. Challenges with impact measurement, transparency and local ownership continue to limit the wider and more effective use of blended finance.

The updated OECD Development Assistance Committee Blended Finance Guidance aims to respond to those challenges. It builds on practical experience and good practice to offer a more focused, action-oriented tool for policymakers, development finance providers and other actors in blended finance. It responds to the call of the Sevilla Commitment for blended finance structures to be more effective, scalable and impact driven.

The update bridges the gap between private investor interest, the financing needs of low- and middle-income countries and the capabilities required by development finance providers to design and implement high-quality blended finance solutions at scale. Private investors can make important contributions to effectively implementing the updated Guidance, for example by contributing to increased transparency on financial risk and project viability in emerging economies and by engaging with policymakers to tackle regulatory frameworks that disproportionately increase the cost of capital in these countries.

This updated OECD Development Assistance Committee Blended Finance Guidance will support development finance providers, policymakers and private investors in enhancing the quality, scale and impact of blended finance, ultimately helping deliver effective, sustainable development outcomes for emerging markets and developing economies.

Mathias Cormann
Secretary General, OECD

Carsten Staur
Chair, OECD DAC

Foreword

In the wake of the Addis Ababa Action Agenda, the OECD Development Assistance Committee (DAC) developed five Blended Finance Principles (hereinafter the Principles) as a standard addressed to donors and other providers of development finance to ensure high quality in blended finance. The Principles were adopted at the DAC High-Level Meeting in October 2017.

The Principles have shaped the policy context and international discussions on how to advance best practices on blended finance and have been referenced under a number of G20 and G7 presidencies. Under the Canadian Presidency in 2018, the G7 committed to "work to implement the OECD DAC Blended Finance Principles including promoting greater transparency and accountability of blended finance operations". Under the French Presidency in 2019, the G7 supported "the implementation of the OECD DAC Blended Finance Principles for Unlocking Commercial Finance for the SDGs". Under the Indonesian G20 Presidency in 2022, the Principles informed the "G20 Principles to Scale up Blended Finance".

Guidance for the Principles was developed and approved by the DAC in 2020 (hereinafter the Guidance) as a tool to support the implementation of the Principles. To ensure the Guidance remains relevant to policymakers and blended finance practitioners, the DAC decided it should be updated on a regular basis incorporating new knowledge, methodologies and approaches in blended finance.

This second edition of the Guidance is the first update. Since the first edition, the blended finance industry has experienced significant growth and evolution. Volumes have increased, new tools have been developed, and blended finance has gained momentum and visibility across the development finance ecosystem. Blended finance – the strategic use of development finance for the mobilisation of additional finance towards sustainable development in emerging markets and developing economies (EMDEs) – is no longer an innovative approach; it is a well-known and widely used method for providers of development finance and the private sector to work together and leverage each other's resources and knowledge.

Blended finance is no panacea for meeting the financing needs for the Sustainable Development Goals (SDGs) and the goals of the Paris Agreement, but it can help mobilise private investors across the entire development finance value chain, thereby contributing to increase investment in sustainable development in EMDEs. Especially in the current environment of fiscally constrained governments, blended finance can play a critical role in mobilising private finance at scale.

Despite this, evidence, backed by extensive consultation with key stakeholders in the field, highlights several challenges in the use of blended finance:

- Blended finance has not scaled as rapidly as hoped and has mobilised relatively limited private finance. It has remained a cottage industry with largely bespoke and fragmented interventions. This is partly because collaboration among stakeholders – including donors, development finance institutions (DFIs) and multilateral development banks (MDBs) – around innovative and scalable approaches in blended finance has been limited. In addition, donors have allocated limited amounts of funding to blended finance.
- Assessments of additionality – especially financial additionality – of development finance in blended finance are not always disclosed by providers, nor are their underlying methodologies. This makes it difficult to ascertain if blended finance interventions are additional and have mobilised additional finance beyond traditional development interventions. Lack of transparency particularly around additionality, concessionality and financial performance has challenged accountability and the integrity of blended finance and has hampered the entry of private investors into EMDEs.

- The potential of optimising the use of DFI and MDB balance sheets for mobilisation through blended finance remains untapped. The African Development Bank pioneered the Room2Run synthetic risk transfer in 2018; however, since then DFIs and MDBs have not replicated this structure until the Inter-American Development Bank Invest's Scaling4Impact transaction in 2024. The G20 Independent Review of the MDB's Capital Adequacy Framework encouraged MDBs to use innovative structures, and several MDBs are now considering or working on securitisation structures.
- Blended finance has mobilised a relatively low share of private finance in more challenging areas like education and social sectors, as well as in more risky contexts like those facing high and extreme fragility, conflict-affected contexts, least developed countries (LDCs) and low-income countries (LICs) (although there are examples of co-investments with private investors in LDCs and LICs with significant mobilisation). In addition, local currency financing facilitated by blended finance has been limited to date.
- Despite the widespread agreement of common principles for blended finance at the policy level, including the OECD DAC Principles, project- and country-level idiosyncrasies, as well as diverse approaches and capabilities of development actors means that approaches widely vary. This has presented challenges for effective scaling interventions.
- The focus of blended finance has mainly been at the transaction level. Systemic changes have not been equally prioritised, and efforts to improve the enabling environment in EMDEs for blended finance to be successful have not been sufficient. Transactions have not been at the scale necessary to mobilise institutional capital, and the speed with which transactions have moved from concept to market has often been far too slow to attract private investors.

This second edition of the Guidance aims to help address these challenges, as well as the significant developments in the field since the first edition. This update is intended to ensure that the Guidance remains useful for donors, policymakers, commercial actors and other stakeholders in blended finance. It includes an updated narrative that acknowledges both the potential and the limitations of blended finance while addressing the main challenges. The Guidance pays particular attention to responding to the international call for mobilising private finance at scale. Ensuring that blended finance lives up to its mobilisation potential requires a stronger focus on the need expressed by private investors for standardised products that emphasise simplicity, efficiency, speed, cost and volume. It also requires more collaboration among donors, DFIs, MDBs and other stakeholders to pool resources, portfolios and ideas on new and more effective approaches, and requires the implementation of higher standards on transparency in blended finance particularly around financial performance, additionality and impact. In addition, the long-term success of blended finance to mobilise more investment in EMDEs also hinges on an integrated approach where technical assistance and other support help build and strengthen enabling environments (including sustainable regulation, investment climate), as blended finance at the transaction level cannot sustainably compensate for the absence of structural and regulatory reforms.

The five OECD DAC Blended Finance Principles remain a solid foundation to ensure high standards in blended finance. The ambition with this second edition of the Guidance is to promote new tools and good practices that will scale blended finance interventions over the coming years and make blended finance part of standard operations for both public and private finance actors: An operationally efficient approach of choice to mobilise private finance at scale for the SDGs and the goals of the Paris Agreement.

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Readers guide

Background

The OECD DAC Blended Finance Guidance was developed as an implementation tool to ensure high standards in blended finance while increasing the overall amount of financing available for sustainable development. It outlines policy guidance as well as practical steps and elements that should be considered to facilitate the design and implementation of blended finance programmes. The Guidance also provides good practice examples and key references for practitioners. Its ultimate objective is to increase the scale of private capital mobilisation for sustainable development while improving the standards and development impact of the private capital invested.

What has changed in this second edition of the Guidance?

While the five Principles have stood the test of time, the Guidance has been amended and adjusted to reflect key learnings and good practices that have emerged over the last five years. Besides updating the existing Guidance, this second edition includes several new topics as well as areas of renewed and stronger focus:

- instruments and mechanisms to scale the mobilisation of private finance (see Subprinciple 2.B);
- approaches to promote local currency financing and local capital market development (see Subprinciple 3.B);
- using technical assistance to strengthen enabling environments for private finance mobilisation (see Subprinciple 3.C);
- achieving more transparency in blended finance (see Subprinciple 5.D);
- forming partnerships with new stakeholders in blended finance (see Subprinciple 4.A);
- increasing collaboration among donor agencies, and between donors, multilateral development banks and development finance institutions in blended finance initiatives (see Subprinciple 4.C);
- guidance for private investors and other providers of commercial finance (see Guidance summary).

The Guidance is underpinned by thematic case studies, tailored to the Principles.

How is the Guidance structured?

The Guidance is structured as follows:

Overview

The overview presents a section on “Blended finance fundamentals” that reiterates the definition of blended finance and its implications for providers of development finance. The section also presents the rationale for using blended finance and the main financial structures and instruments applied. It then provides an overview of the main actors in the blended finance ecosystem and presents the five Principles. This is followed by a “Guidance summary” that provides an overview of guidance for development finance providers (mainly donors but also other providers) and for providers of commercial finance (private investors, asset managers, etc.).

Guidance

The Guidance is composed of five chapters, one for each of the Principles. Each chapter opens with the aim of the Principle. A box presents the subprinciples reproduced from the first edition of the Guidance and summarises the updated Guidance messages. A subsequent section on context and trends presents the main developments that have taken place in blended finance since the first edition was launched in 2020. This is followed by a section with the updated Guidance.

Thematic case studies

Chapter 6 contains an introduction to a range of case studies within selected thematic areas that represent core enablers, tools and concepts in blended finance. The case studies underpin the Guidance and are meant to provide a resource for policymakers seeking to set strategic direction for their blended finance interventions and for practitioners seeking to design, evaluate or scale blended finance solutions for sustainable impact. A link to an online repository of the case studies is inserted in Chapter 6. The repository contains a more elaborate version of each of the case studies and includes links to further information. The repository is meant to be a living documentation of cases in blended finance and will be maintained on a continuous basis.

Target audience

The Guidance is targeted at several stakeholders in the blended finance ecosystem:

- Bilateral donors are the main target group. The Guidance focuses on the role of donors in setting policy standards for blended finance. Donors are partly owners or shareholders of bilateral DFIs and MDBs, and the role of donors in blended finance thus includes engaging with DFIs and MDBs, as well as with other organisations receiving donor funding or implementing donor funded projects.
- Private investors. The Guidance to private investors typically focuses on the importance of their engagement in blended finance to increase the flow of sustainable investment in emerging markets and developing countries, as well as on the role of private investors around sharing risk, impact reporting and maintaining transparency.

Other groups of stakeholders outside of the above groups play important roles in facilitating blended finance, including credit rating agencies and regulatory authorities. However, as these actors are not directly accountable to bilateral donors, implementation of policy recommendations in the Guidance specific to these actors should take place through donors' engagement and dialogue in relevant bodies and institutions. The overview of the blended finance ecosystem and Principle 4 include more information on stakeholders.

How to use the Guidance

The Guidance can be used as an introduction to blended finance for stakeholders new to the approach, but it can also be used to support actors that have well-established programmes and wish to further explore and develop specific elements, such as mobilisation at scale, increased transparency and the development of local capital markets, among others. While certain Principles will be more relevant to certain stakeholders, readers can benefit from the entire Guidance. Blended finance operates in a complex ecosystem and better understanding that ecosystem in its entirety will enable better outcomes and solutions. The thematic case studies can be used as inspiration for designing blended finance interventions across the entire development finance value chain.

Abbreviations and acronyms

BRD	Development Bank of Rwanda
CAF	Capital Adequacy Framework
CDFS	Centre for Development Finance Studies
CIV	Collective investment vehicle
COP	Conference of Parties
CRA	Credit rating agency
CSO	Civil society organisation
DAC	Development Assistance Committee
DEval	German Institute for Development Evaluation
DFI	Development finance institution
EBRD	European Bank for Reconstruction and Development
ECA	Export credit agency
EMDEs	Emerging markets and developing economies
ESG	Environmental, social and governance
EU	European Union
FX	Foreign exchange
G7/ G20	Group of 7, Group of 20
GEMs	Global Emerging Markets Database
GIIN	Global Impact Investor Network
GSS	Green, social, sustainability
GSSS	Green, social, sustainability, sustainability-linked
HIPSO	Harmonised Indicators for Private Sector Operations
IABS	Infrastructure Asset Backed Securitisation
IBRD	International Bank of Reconstruction and Development
IFC	International Finance Corporation
IMM	Impact management and measurement
INFF	Integrated national financing framework
IS-FSD	Impact Standards for Financing Sustainable Development
JII	Joint Impact Indicators
KPI	Key performance indicator
LDC	Least developed country
LIC	Low-income country
M&E	Monitoring and evaluation
MDB	Multilateral development banks
MIC	Middle-income country
NAP	National adaptation plan
NDC	Nationally determined contribution
NGO	Non-governmental organisation
ODA	Official development assistance
PPP	Public-private partnership
PSI	Private sector instrument
RBC	Responsible business conduct
SDG	Sustainable development goal
SLB	Sustainability-linked bond

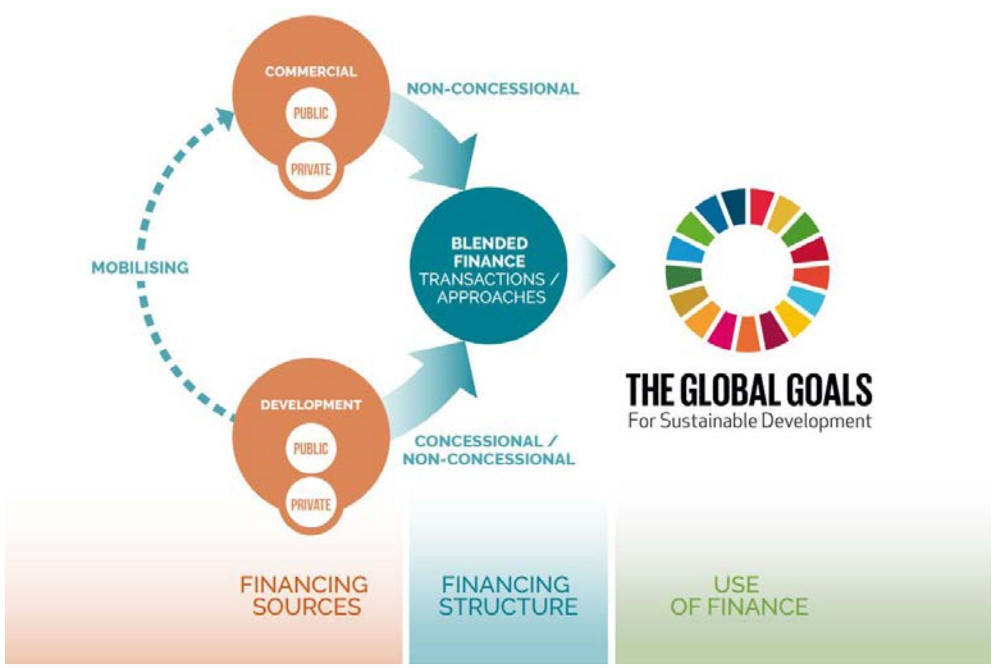
SME	Small and medium-sized enterprise
SRT	Synthetic risk transfer
SWF	Sovereign wealth fund
TA	Technical assistance
ToC	Theory of change
UMIC	Upper middle-income country
USD	United States dollar

Overview

What is blended finance?

The OECD Development Assistance Committee (DAC) defines blended finance as “the strategic use of development finance for the mobilisation of additional finance towards sustainable development in developing countries” (OECD, 2018[1]). The definition emphasises the mobilisation of commercial finance with the aim of growing the total pool of finance available for sustainable development in developing countries (Figure 1). Development finance refers to public and private finance deployed with a development mandate. Additional finance refers to commercial finance that does not have an explicit development purpose and that has not primarily targeted development outcomes in developing countries (OECD, 2018[1]). The development finance used in blended finance transactions can be both concessional and non-concessional.

Figure 1. Key elements of blended finance



Note: Blended finance occurs when development finance, either concessional or non-concessional mobilises non-concessional commercial finance that does not have a development mandate to finance sustainable development in ODA-eligible countries. Commercial finance and development finance can come from public and or private sector actors.
Source: OECD (2018[1]), Making Blended Finance Work for the SDGs, https://doi.org/10.1787/9789264288768-en.

The OECD DAC definition of blended finance distinguishes finance by purpose rather than by source and moves away from the emphasis on public/private actors to highlight development/commercial financial flows. It is broader than the definition used by multilateral development banks/development finance institutions (MDBs/DFIs)[1] in that it does not depend on concessionality as a pre-requisite for blending. An important implication is that it does not consider the mobilisation of development finance as blended finance. Using concessional funding – e.g. official development assistance (ODA) – to mobilise finance for example from the balance sheet of MDBs and DFIs does not increase the total pool of finance available for sustainable development as MDBs' and DFIs' balance sheets already have a development mandate. It is worth noting that MDBs and DFIs typically have a dual mandate, both development and commercial, which has implications for their risk taking. This is not covered in this Guidance.

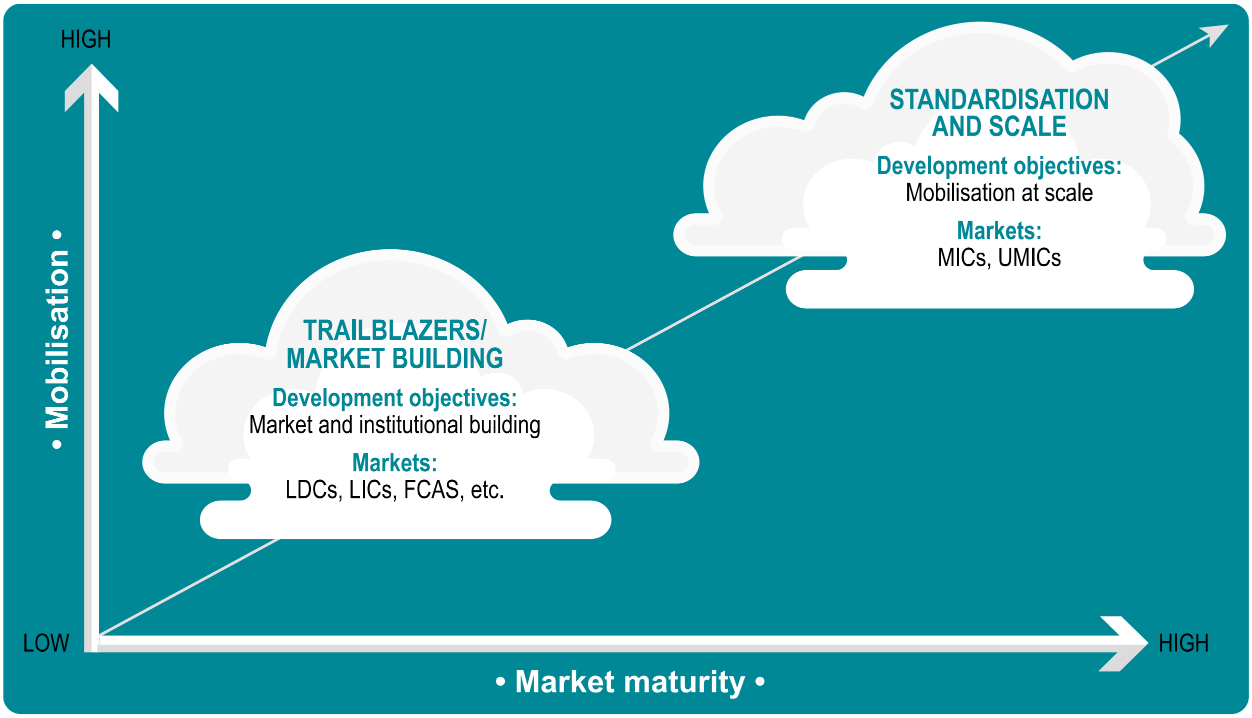
Rationale for using blended finance

The main rationale for using blended finance is to mobilise private finance for investment in sustainable development. In the OECD definition, the term "mobilisation" (or leveraging) refers to the ways in which specific mechanisms stimulate the allocation of additional financial resources to particular objectives; it requires a demonstrable causal link between finance made available for a specific project and the leveraging instrument used (Benn, Sangaré and Hos, 2017[2]). Development finance in blended finance is used to mitigate risks, whether perceived or real, to mobilise private finance. Perceived risks can arise from, for example, investors' lack of information about market conditions or low availability of transaction-level data; improved access to market and transaction data can change perceived risks over time and reduce the gap between actual and perceived risk.[2] Real risks that the private sector cannot manage may be mitigated with development finance including various levels of concessional finance over continuous transactions to mobilise private investors. The potential to mobilise private finance is context-specific and will depend on market maturity (Figure 2). Less mature markets are viewed as riskier whereas markets with higher maturity are typically viewed as less risky.

Trailblazing. Blended finance can be a trailblazer and support new market creation. This can be in geographical terms, such as in low-income countries and/or contexts facing high or extreme fragility or conflict where the scope for commercial investment is more limited, and higher volumes of concessional finance are needed to support development priorities.[3] These markets are more delicate; often small in size and highly informal; carry higher levels of environmental, social and governance and business integrity risks; have a limited pipeline of private investment opportunities, are prone to bespoke and custom processes, and have high levels of volatility, making transactions with commercial actors more difficult (Basile and Neunuebel, 2019[3]). However, trailblazing can also take place in more mature markets in terms of, for example, supporting new technology or early-stage interventions, proof of concept, new climate solutions and new templates. Trailblazing interventions will often be associated with relatively limited mobilisation of private finance due to the nature of the higher risks and limited bankable investment opportunities, and they will typically also involve higher levels of concessionality to attract private finance (for the same reasons MDBs and DFIs often use concessional finance from donors to de-risk and mobilise their own balance sheets in these contexts). Chapter 6 contains case studies on trailblazing.

Mobilisation at scale. In more mature markets, with more solid market infrastructure, higher levels of stability and lower risk, and larger pipelines of investment opportunities, blended finance can more easily be scaled and in turn enable higher levels of mobilisation of private finance with lower or no concessional finance needed. These markets are typically found in middle-income and upper middle-income countries. It is important to note that market creation can also happen in more mature markets, for example when securitisation brings a new asset class to the market that over time becomes familiar to investors and can be replicated by others without requiring development finance (Principle 2 further explores this issue).

Figure 2. Relationship between mobilisation and market maturity

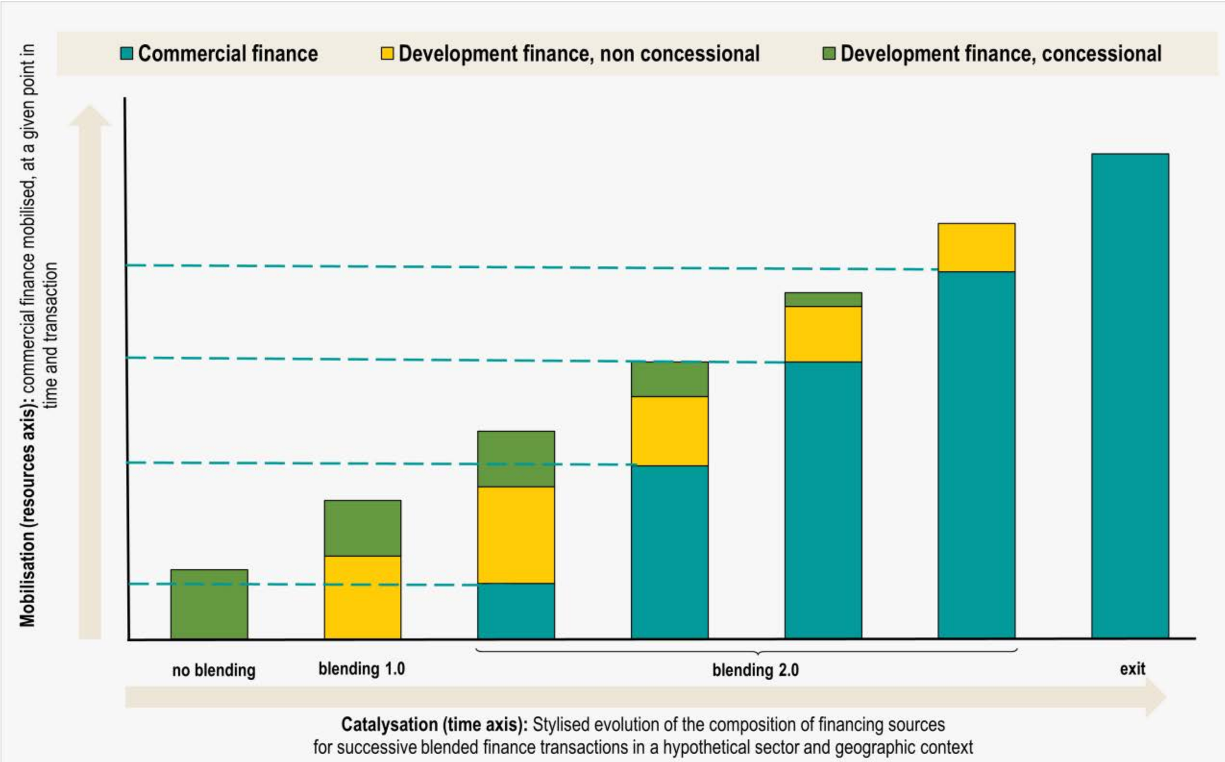


Note: LDCs: least developed countries; LICs: low-income countries; FCAS: fragile and conflict-affected states; MICs: middle-income countries; UMICs: upper middle-income countries. Stylised graphic for illustrative purposes only. It is important to note that also mature markets may regress, and sectors may become risky again, necessitating blended finance and re-entry of development finance providers. It is also important to note that market building can also take place in more mature markets, for example when securitisation brings a new asset class to the market.

The temporary nature of blended finance. A critical feature of blended finance is that it is intended to intervene only temporarily in a market with the purpose of enabling access to commercial finance and hereby making further blended finance redundant. Permanent or long-term concessional/non-concessional development finance discourages private investors from entering markets on commercial terms and may create dependency traps. Establishing commercial sustainability, building markets, reducing the level of concessionality over time and exiting blended finance as soon as feasible are, therefore, critical guiding principles.

The catalytic or market-building purpose of blended finance and the reduced need for concessional and non-concessional development finance over time is illustrated in a stylised manner in Figure 3. Effective catalysation or market building would be consistent with a pattern of increasing mobilisation of commercial finance and a decreasing need first for concessional finance and, later, a decreasing need for non-concessional finance until development finance is no longer needed (OECD, 2018[1]). Subprinciple 2.C further elaborates on this dynamic.

Figure 3. Transaction-level mobilisation and catalysation of blended finance over time



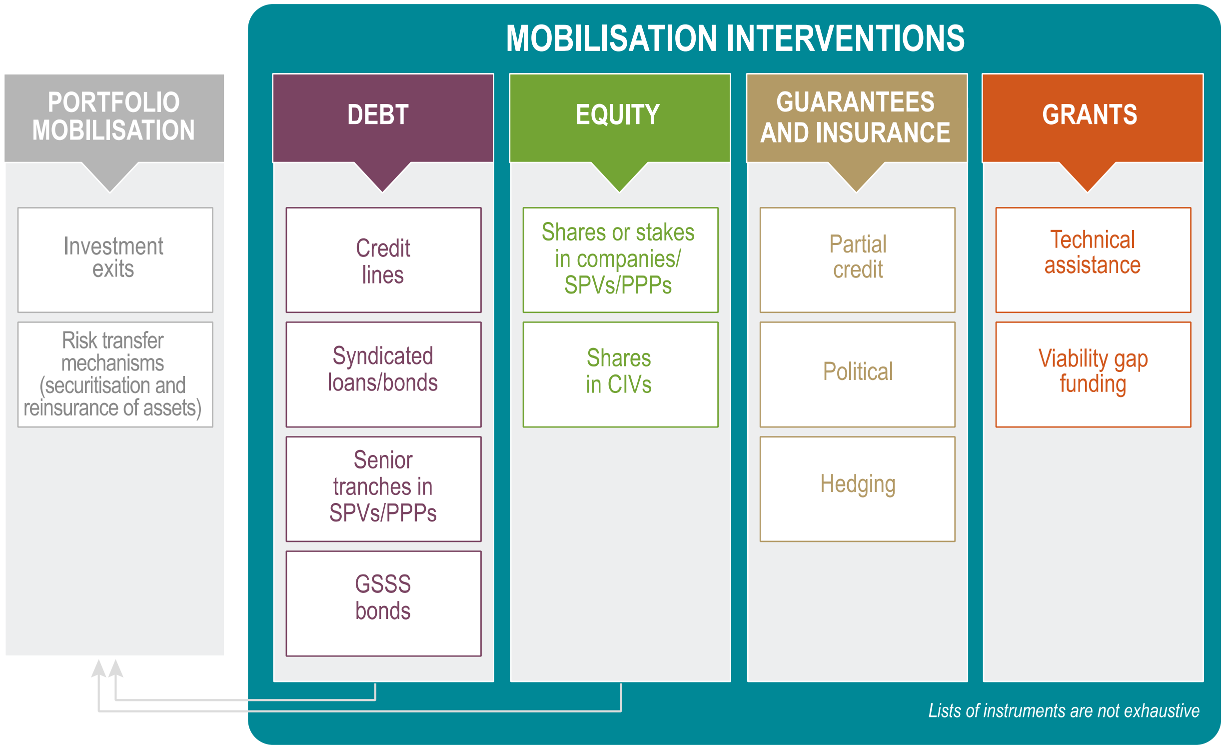
Notes: The figure is a stylised representation of the evolution of the composition of financing sources for successive blended finance transactions in a hypothetical sector and geographic context. Effective catalysation would be consistent with a pattern of increasing mobilisation of commercial finance and a decreasing need for – hence use of - concessional and non-concessional development finance over time.
Source: OECD (2018[1]), *Making Blended Finance Work for the Sustainable Development Goals*, https://doi.org/10.1787/9789264288768-en.

Enabling environment. An enabling environment is an additional critical factor for blended finance. A perfect enabling environment would not require blended finance interventions in the first place, and a sound enabling environment is therefore vital for long-term mobilisation of private investment. Blended finance cannot compensate for an unconducive enabling environment, but it can help create new markets and support and deepen existing ones. The relationship between blended finance and the enabling environment is thus mutually reinforcing and complementary. This dynamic is elaborated in Principle 3.

Financial structures and instruments

Blended finance transactions refer to the use of financial instruments to crowd in private finance. Commercial finance can be mobilised by deploying development finance in the form of debt instruments, equity instruments, risk sharing and management approaches and grants (Figure 4). As such, blended finance is not an instrument in itself but the strategic deployment of a variety of instruments to change the investment profile of a given transaction, including with respect to risk and/or return characteristics, in a way that additional commercial finance is mobilised.

Figure 4. Blended finance instruments and structures



Note: CIVs: collective investment vehicles; SPVs: special purpose vehicles; TA: technical assistance.
Source: Based on OECD (2018[1]), Making Blended Finance Work for the Sustainable Development Goals, https://dx.doi.org/10.1787/9789264288768-en; Publish What You Fund (2024[4]), *What Works: How to Measure and Disclose Private Capital Mobilisation to Increase Private Investment and Close the SDG Financing Gap*, https://www.publishwhatyoufund.org/app/uploads/dlm_uploads/2024/10/What-Works.pdf.

The standard financial instruments that can be used to mobilise private finance are debt and equity investment, guarantees and insurance, as well as grants.

- **Debt instruments** include loans, bonds and credit lines, among others. DFIs, for example, routinely lend to enterprises or projects to finance projects in emerging markets and developing economies, as well as arrange loan syndications. Syndication mobilises private finance by strengthening investors' confidence in projects or companies, often alongside MDBs/DFIs and facilitates sharing of due diligence knowledge and eases the transaction for the B-lenders.[4] Development banks provide credit lines to local financial institutions that mobilise private finance. Private investors can leverage the due diligence capacity of development actors, and the presence of development actors may also increase investors' confidence overall. This benefit is amplified when development finance providers take riskier positions – for example when they provide subordinated loans or serve as anchor bond holders – as this can mobilise commercial finance.
- **Equity instruments**, for example collective investment vehicles that are either structured so that all investors are exposed to the same risk-return profile (*pari passu*) or designed to cater to different risk-return profiles for different investor types. Equity (as well as debt positions) in special purpose vehicles (SPVs) of public-private partnerships (PPPs) can crowd-in private finance.
- **Guarantees** in blended finance usually provide non-payment cover for an underlying debt obligation while **insurance** provides protection against either political or commercial risks (Garbacz, Vilalta and Moller, 2021[5]). Hedging is used to protect investors against foreign exchange risk and thereby attract private investors.

- **Grants and technical assistance in blended finance** are typically deployed when development impact needs to be supported by specific project capacity or feasibility studies, and these instruments work catalytically by creating enabling environments that facilitates mobilisation.

Existing assets or exposures can be securitised, which allows institutional investors to share risks and returns of a portfolio of developmental projects or loans, for example by taking a portfolio of loans that were issued directly by an MDB or a commercial bank and packaging these into tranches of bonds with different repayment priorities and risk profiles. Securitisation can thus transform existing investments into liquid investible products that are recognisable by international capital markets and can attract institutional investors. Doing this successfully may require blended finance, but the effect is not only to redistribute the risk ("re-risking"), but also to transform complex investments in EMDEs into products that are digestible by the international capital markets. The use and characteristics of the financial structures and instruments[5] are further elaborated in Principle 2.

The blended finance ecosystem

The blended finance ecosystem has grown in recent years, both in the number of actors and in complexity. It involves a wide and diverse set of actors with different mandates, risk-return preferences and incentives. As illustrated in Figure 5, there are largely three categories of actors: 1) providers of development finance; 2) providers of commercial capital; and 3) other stakeholders (some of which are implementors and/or managers of blended finance projects and programmes).

Development finance providers include:

- **Bilateral donors**. Bilateral donors play a critical role in the blended finance community as: policymakers in development co-operation; custodians of ODA; direct implementers of blended finance programmes; owners or shareholders of bilateral DFIs; shareholders of MDBs; and key actors in policy dialogues with partner countries and other institutions and organisations relevant to blended finance transactions (e.g. regulatory authorities in developed countries).
- **Other providers.** Other providers of development finance into blended finance include all owners and/or custodians of finance with a development mandate and who deploy development finance into blended finance transactions. Other providers exclude donors but include MDBs, DFIs, philanthropic foundations, etc.
    - **MDBs and DFIs.** MDBs and DFIs are a distinct subset of "Other providers". They play an important role as providers of development finance through the provision of direct loans, mezzanine finance and equity investment (both concessional and market-based) in EMDEs. They are also implementers of blended finance interventions. MDBs and DFIs are particularly adept at mobilising at scale, given the size of their balance sheets. Those with in-country presence also have a comparative advantage of understanding the local context. MDBs and DFIs mobilise private finance and use blended finance in different ways. Some MDBs (e.g. European Investment Bank, World Bank) are providers of concessional development finance. MDBs with private sector operations (e.g. International Finance Corporation) provide commercial finance. Some MDBs (e.g. African Development Bank) do both. These different types of MDBs will have different perspectives on blended finance.

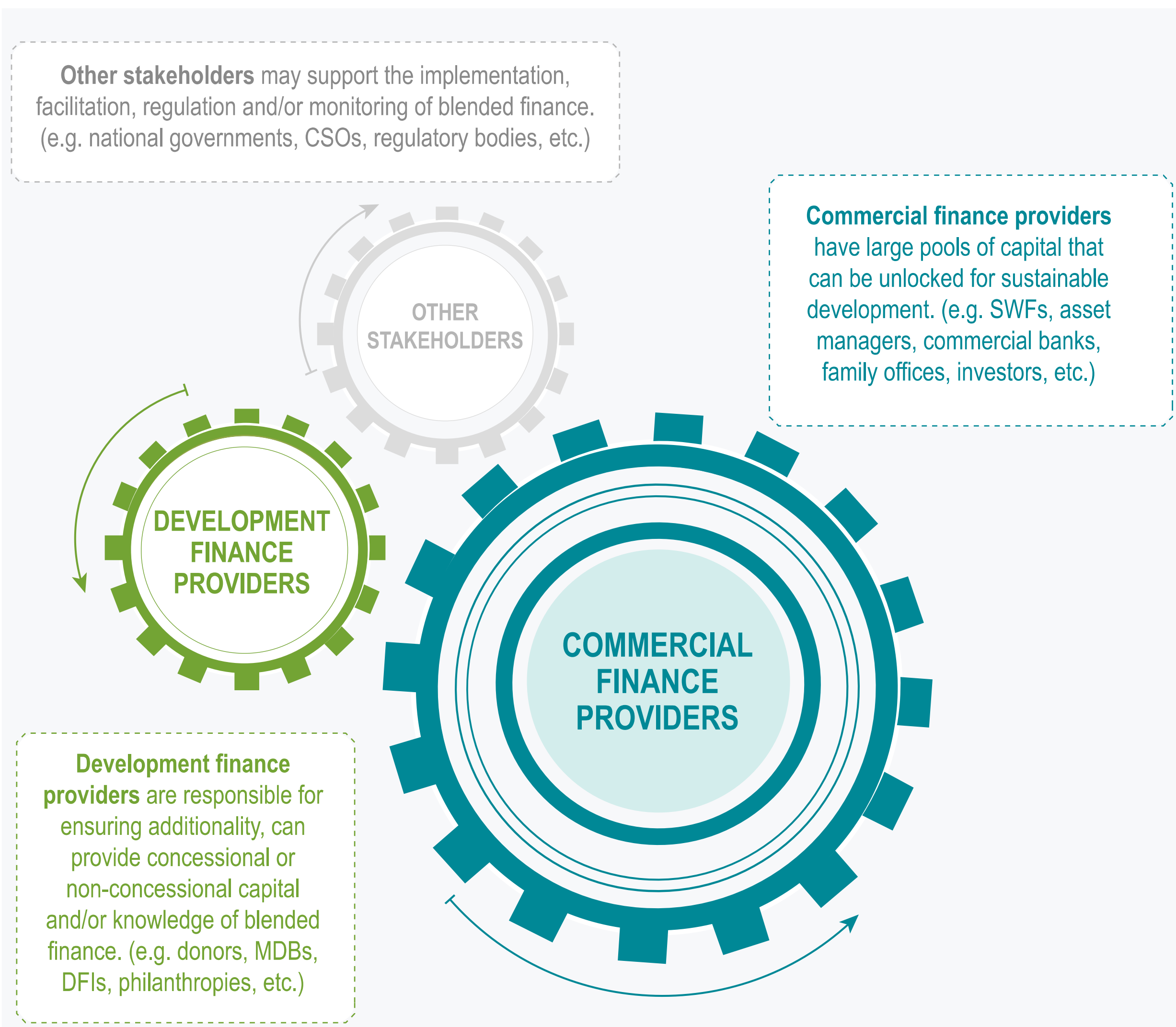
Commercial finance providers include:

- **Private investors.** Private investors play a key role as partners in blended finance transactions, as sources of both finance and expertise. They are mobilised through the deployment of development finance, and it is critical for the success of each transaction that they agree to the division of responsibilities between the partners in blended finance deals. It is also critical for the success of future mobilisation of private finance that private investors agree to maintain a high level of transparency regarding both the financial and impact details. Providers of commercial finance also include public institutions such as pension funds and wealth funds with a commercial mandate.

Other stakeholders include:

- **Other implementing actors.** Blended finance is implemented by a range of different organisations apart from MDBs and DFIs. Donors and other providers of development finance sometimes use civil society organisations (CSOs) and funds as intermediaries to implement blended finance programmes and projects. Other implementing actors also include technical assistance providers and/or facilitators.
- **National governments in partner countries.** National governments play a critical role in blended finance by creating an enabling environment, ensuring co-ordination among stakeholders and aligning investments with national development priorities. National governments also often provide risk mitigation and public contributions (for example counter-guarantees, co-financing or PPPs), and are responsible for key regulations for example in relation to financial market development.

Figure 5. The blended finance ecosystem



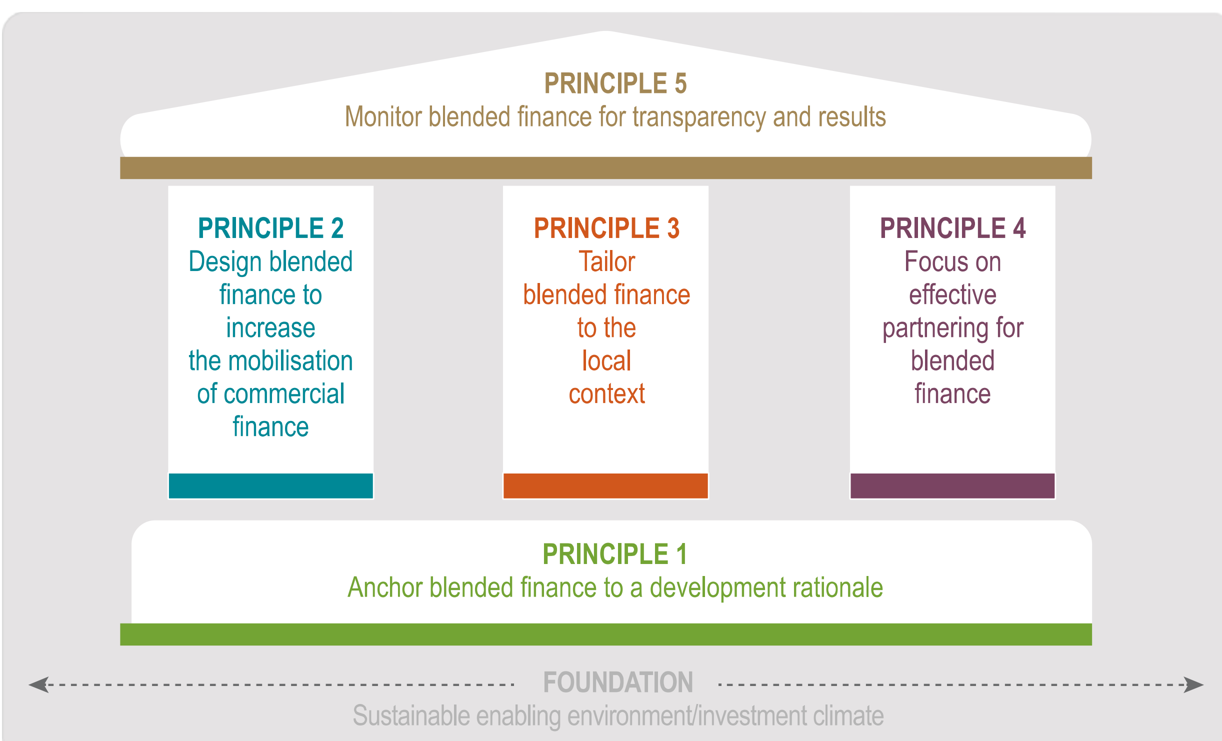
Notes: CSO: civil society organisation; MDB: multilateral development bank; DFI: development finance institution; SWF: sovereign wealth fund. Stylised graphic. It is important to note that providers of development finance are key drivers in the blended finance ecosystem and work to mobilise other stakeholders in addition to providers of commercial capital.

New actors have emerged that play new roles in relation to blended finance interventions. One such actor is export credit agencies which are increasingly focusing on the Sustainable Development Goals and climate goals. Also, CSOs have traditionally been watchdogs of the use of blended finance but are becoming increasingly active partners in blended finance transactions together with private companies and DFIs. The broader ecosystem has provided new opportunities for blended finance to leverage the capabilities, competencies and skills of new players. As blended finance starts to enter mainstream financial systems, more institutions could play a role for blended finance to fulfil its potential. For example, credit rating agencies, which play a critical role in capital markets, are important for the rating of blended finance structures. New and better methodologies for rating such structures could have a significant impact on mobilising more private investors into blended finance transactions. The dynamics around the various objectives of actors in the blended finance ecosystem is further elaborated in Principle 4.

The OECD DAC Blended Finance Principles

The OECD DAC Blended Finance Principles highlight key elements needed to implement blended finance effectively. The foundation (Principle 1) anchors blended finance to a development rationale. The three pillars are intended to guide implementation, focusing on mobilising commercial finance (Principle 2), tailoring blended finance to the local context (Principle 3) and on effective partnering for blended finance (Principle 4). The overarching theme across all these elements is monitoring blended finance for transparency and results (Principle 5). For blended finance to be effective, all five principles must be adhered to. Lastly, the importance of the enabling environment for blended finance is presented as the foundation of the principles.

Figure 6. OECD DAC Blended Finance Principles



Notes: Blended finance cannot compensate for the lack of a sustainable enabling environment (e.g. policies, regulation, investment climate, capital market development). They are mutually reinforcing and complementary, and blended finance should be combined with support to establishing an enabling environment.

The five principles are interlinked and underpin each other. For example, Principles 3 and 4 both share commonalities on the enabling environment and in finding effective partners for local capital market development. Principles 1 and 5 are deeply interconnected and ensure that blended finance delivers real, measurable impact: whereas principle 1 sets the intention by asking why we are using development finance in specific deals (the development rationale), Principle 5 asks if the intended impact was achieved and can be proved (through effective monitoring and evaluation). Principle 1 also shares commonalities with Principle 3 around country ownership and local context. The Guidance observes these interlinkages and cross-references are provided throughout the document.

Guidance summary

Guidance for donors and other development finance providers

Principle 1: Anchor blended finance to a development rationale

According to Principle 1, as in all development finance interventions, all blended finance activities should be based on the mandate of development finance providers to support developing countries in achieving social, economic and environmentally sustainable development. Principle 1 has three subprinciples:

1.A. Use development finance in blended finance as a driver to maximise development outcomes and impact. Donors have agreed to use development finance as a driver to maximise development outcomes and impact. This should be achieved by establishing ambitious development objectives in line with the 2030 Agenda, the goals of the Paris Agreement or other relevant frameworks. Blended finance should be considered within a broader financing and development co-operation strategy and should only be deployed where it is most effective and appropriate to achieve specific development outcomes and results.

1.B. Define development objectives and expected results as the basis for deploying development finance. Donors should agree on ambitious and realistic development objectives and expected results from the start, based on a theory of change and jointly with the stakeholders involved in the blended finance transaction, and work to build institutional capacity and incentives to co-operate with commercial partners effectively.

1.C. Demonstrate a commitment to high quality. Donors, together with all other stakeholders in blended finance operations, should demonstrate a commitment to the highest level of quality, integrity and transparency by integrating environmental, social and governance considerations into investment decisions, and by observing the highest level of responsible business conduct (RBC), building RBC expectations into their relationships with blended finance partners. Sustainability performance should be promoted through transparency and accountability.

Principle 2: Design blended finance to increase the mobilisation of commercial finance

According to Principle 2, development finance in blended finance should facilitate the unlocking of commercial finance to optimise total financing directed towards development impacts. Principle 2 has four subprinciples:

2.A. Ensure additionality for crowding in commercial finance. Donors should promote that blended finance interventions have the highest standard of additionality at both the transaction level and the systemic level; that additionality is core to all blended finance operations, and that it is assessed, documented and publicly disclosed. At the same time, donors should work for a more harmonised approach towards defining/interpreting and assessing additionality in blended finance. Also, additionality assessments and assumptions should be evaluated to enable continuous learning.

2.B. Seek leverage based on context and conditions. Donors should ensure that the design of blended finance transactions is anchored in the specific development objective taking into account context-specific drivers of leverage/mobilisation. For scaling mobilisation, donors should identify the most efficient and effective instruments and structures while considering the risk-adjusted return requirements of investors, including institutional investors, and their preference for replicable products that emphasise simplicity, efficiency, speed, cost and volume. Examples of instruments and structures that have demonstrated the ability to mobilise at scale and build markets include securitisation, guarantees, structured funds and bonds. For smaller scale opportunities with relatively higher transaction costs, lack of collateral and weak financial markets, instruments and structures that have proven effective include funds, risk sharing and liquidity facilities, guarantees, equity, revenue-based financing, and technical assistance to help businesses and projects become investable.

2.C. Deploy blended finance to address market failures while minimising the use of concessionality. Donors should ensure that market failures are identified and processes and measures are in place to analyse the reasons for, and level of, concessionality in each blended finance transaction. Concessionality should be well-targeted, minimised and of a temporary nature, i.e. for demonstration or proof of concept, to avoid unduly distorting markets and to create the conditions for commercial replication and scalability. Good practice includes using competitive selection processes like tender processes, calls for proposals and open access programmes, in combination with financial modelling where appropriate. Concessional finance should be made available to all implementing entities on equal terms, for example by using open tenders or pooling concessional funds across donor agencies to enhance equal treatment. Reporting on concessionality should be co-ordinated and harmonised where possible and in a transparent manner including for implementing partners, based on a set of standardised key parameters. Levels of concessionality of individual investments should be publicly disclosed.

2.D. Focus on commercial sustainability. Donors should ensure that blended finance is time-bound and deployed with a commercial sustainability (replicability) perspective. They should also combine blended finance with support to accompanying policy and regulatory reforms to help establish an enabling environment with sustainable underlying market fundamentals if deemed necessary. Exit strategies should be incorporated both at the transaction level and at the market level, and concessional blended finance should be systematically reduced and completely withdrawn once commercial sustainability has been demonstrated or when it is assessed that commercial sustainability will never be achieved.

Principle 3: Tailor blended finance to the local context

According to Principle 3, development finance should be deployed to ensure that blended finance supports local development priorities in a way that catalyses the development of a robust enabling environment and supports the deepening of local financial markets. Principle 3 has three subprinciples:

3.A. Support local development priorities. Donors should ensure that blended finance interventions are aligned with broader national priorities, policies, plans and local investment blueprints, and that consultations are undertaken with relevant stakeholders, for example through country platforms. Country ownership should be promoted through inclusive stakeholder engagement. Aligning blended finance with local development priorities and ensuring country ownership enhances the likelihood of achieving transformative and sustainable outcomes. Local policies, plans and investment blueprints typically include integrated national financing frameworks, Nationally Determined Contributions, national biodiversity strategies and action plans, national adaptation plans, sector plans, and other relevant long-term strategies

3.B. Ensure consistency of blended finance with the aim of local financial market development. Donors should structure blended finance approaches with the aim of promoting local currency financing and deepening local financial markets, where appropriate. This includes focusing on de-risking hard currency investments through, for example, hedging solutions, first-loss guarantees and foreign exchange liquid facilities, as well as support to multilateral development banks and development finance institutions to facilitate greater local currency lending. Efficient, inclusive and robust financial markets are essential in channelling financial resources towards sustainable outcomes in emerging markets and developing economies.

3.C. Use blended finance alongside efforts to promote a sound enabling environment. Donors should integrate blended finance strategies with efforts to promote robust and sound enabling environments. Technical assistance should be used for building local institutional capacities and for creating the necessary policy, institutional, regulatory, legal and financial foundations that address structural obstacles faced by both domestic and international investors. Support to the development of a pipeline of investable opportunities at local level should be integrated as a critical part of these efforts.

Principle 4: Focus on effective partnering for blended finance

According to Principle 4, blended finance works if both development and financial objectives can be achieved, with appropriate allocation and sharing of risk between parties, whether commercial or developmental. Development finance should leverage the complementary motivation of commercial actors while not compromising on the prevailing standards for development finance deployment. Principle 4 has three subprinciples:

4.A. Engage each party based on their respective mandate. All stakeholders should engage in blended finance transactions based on their respective mandates, regulatory regimes and legal obligations. Donors must understand and respect private investors' key objectives and concerns, which typically include risk-adjusted returns and liquidity. Likewise, private investors must understand and respect the objectives, needs and mandates of development finance providers which typically include impact-adjusted returns, transparency, monitoring and reporting requirements, and development outcomes. Donors should engage with all relevant stakeholders in the blended finance ecosystem, including non-traditional partners such as credit rating agencies and civil society organisations. At the same time, transaction costs should be considered when deciding on the number of partners in blended finance deals. Transaction costs are a key concern for scalability, and while partnering is necessary to de-risk transactions, it is important to ensure that blended finance transactions have the fewest number of actors needed to complete the transaction. Each additional partner in a transaction should bring an additional value that justifies the added complexity of adding an additional partner to the transaction.

4.B. Allocate risks in a targeted, balanced and sustainable manner. Donors should understand and assess the different types of underlying country-, context-, sector- and transaction-specific risks and ensure that risks are allocated between development finance and commercial finance in a targeted, balanced and sustainable manner. Before de-risking private investors, attempts to restructure the risks ("re-risking") should be undertaken, for example through tranching. Development finance should only cover the risks that private investors cannot manage and only provide risk sharing where "re-risking" is impossible and where no or limited market solutions are available (e.g. through insurance or guarantees). A differentiated risk analysis is required for each blended finance transaction, and as risk profiles change during the life cycle of an investment, providers should be open to adopt new financial instruments that allow improved matching of risk profiles and investors' risk preferences over time. Local entities should be brought in wherever possible to improve risk allocation in blended finance and reduce foreign exchange risk.

4.C. Aim for scalability. Donors should aim for scalability in blended finance whenever and wherever possible. This includes: enhancing co-ordination and collaboration in the ecosystem; setting incentives for scaling through appropriate and targeted mobilisation objectives for multilateral development banks, development finance institutions and other providers; promoting transparency, data availability and knowledge sharing; making sufficient funding available for early-stage project preparation and creation of pipelines of bankable projects; creating an enabling environment; encouraging replication of successful blended finance instruments and developing new instruments; enabling standardisation and adhering to high quality standards; promoting whole-of-government approaches and improved collaboration and co-ordination between donors, multilateral development banks and development finance institutions.

Principle 5: Monitor blended finance for transparency and results

According to Principle 5, to ensure accountability on the appropriate use and value for money of development finance, blended finance operations should be monitored on the basis of clear results frameworks, measuring, reporting and communicating on financial flows, commercial returns and development results. Principle 5 has four subprinciples:

5.A. Agree on performance and results metrics from the start. Donors, private investors and other stakeholders in blended finance should agree on performance and results metrics from the start of a blended finance transaction. This should be based on a well-defined theory of change developed by the donor, or other providers, and agreed upon by the partners involved. A set of key performance indicators should be agreed as a first step to track progress along the theory of change, and a shared framework for data collection should be selected together with the private investors in the blended finance transaction. Methodologies might include benchmarking, surveys and interviews, particularly with local end beneficiaries. Sufficient resources for all parties involved should be reserved for monitoring, reporting and evaluations, and technical assistance should be provided if needed. Also, a common monitoring and evaluation framework should be adopted. Existing tools and frameworks, such as the OECD-UNDP Impact Standards for Financing Sustainable Development and other regulatory or market standards, should be leveraged to minimise fragmentation in reporting practices and ensure better alignment across the measurement of blended finance initiatives.

5.B. Track financial flows, commercial performance and development results. Donors should track, monitor and disclose financial flows, commercial performance and development results of blended finance transactions against the predefined and agreed metrics. This should also include reporting on mobilised private finance using agreed-upon methodologies.

5.C. Dedicate appropriate resources for monitoring and evaluation. Donors should allocate sufficient financial, technical and human resources for monitoring and evaluation of blended finance operations and promote collaboration among partners via joint evaluations to ensure better harmonisation of approaches as well as mutual capacity development and learning. This includes monitoring and evaluation of both financial performance, development outcomes and additionality assumptions. Impact measurement should consist of mixed methods where relevant, combining a quantitative approach with a qualitative one, to collect complementary insights from quantitative figures. Donors should ensure that evaluation takes place both ex ante and ex post.

5.D. Ensure public transparency and accountability on blended finance operations. Donors should commit to the highest possible standards of public transparency in blended finance operations based on the principle of full disclosure of all data and information as the point of departure. Transparency is critical for accountability, replication and efficiency and effectiveness in capital mobilisation and donors should therefore ensure that both financial and impact-related data in blended finance transactions are made publicly available. A key part of this responsibility is to provide high-quality data on financing deals, including private capital mobilisation.

Guidance for private investors and other commercial finance providers

This update of the OECD DAC Blended Finance Guidance is meant to ensure it remains fit for purpose in a changing landscape of development finance. Several key issues in relation to private investors and other commercial finance providers have been highlighted during the consultations around the update. The private sector is critical to help meet the financing needs of the emerging markets and developing economies (EMDEs). Achieving the Sustainable Development Goals and the goals of the Paris Agreement in EMDEs cannot be done with public funds alone. It requires massive private investments as well as the skills and disciplines of private sector actors. Blended finance structures address risk-return dynamics and create investible opportunities where private capital might not initially go alone. Private investors are critical partners in blended finance, and the guidance below is meant to invite them to stay engaged, discover new investment opportunities in EMDEs, highlight regulatory and systemic barriers to address them, and continue to partner with providers of development finance to increase the flow of sustainable investment in EMDEs.

Opportunities and risks in emerging markets and developing economies

- EMDEs come with unique risks and opportunities. They offer high growth potential, diversification of investments and undervalued assets as well as rich opportunities for sustainable investments. However, market inefficiencies and risks in EMDEs are unique and may sometimes require risk-sharing in the short to medium term to attract private investments.

Financial instruments and market development

- The private sector should continue to develop financial instruments and markets. Currently, insufficient capital is being allocated to developing countries due to a range of factors. Platforms and indices play an important role in facilitating the flow of private capital to EMDEs. Presently, there are limited market indices with frontier market and sustainable development exposure. While development finance providers and governments can provide platforms, such as green exchanges on stock exchanges, the private sector should continue to provide financial solutions such as green, social, sustainability and sustainability-linked bond indices or frontier market funds which can be replicated and packaged to interested investors on these platforms.

The role of donors in bringing private investors into emerging markets and developing economies

- Donors can increase the use of blended finance to scale the mobilisation of private finance into EMDEs when needed in the short to medium term to overcome investment barriers, build markets and demonstrate that EMDE assets are investible.
- Instruments and mechanisms should be standardised to meet the needs expressed by private investors. Donors, in collaboration with their development finance institutions (DFIs) and multilateral development banks (MDBs), can work to increase the use of instruments and mechanisms that are standardised and tailored to institutional investors' preferences for replicable – scalable - products that emphasise simplicity, efficiency, speed, cost and volume. Securitisation, guarantees, structured funds and bonds are examples of instruments and mechanism that could be used more frequently. Standardisation is key to avoid complex structures in blended finance, and more efforts are needed to standardise blended finance instruments and mechanisms wherever possible to reduce complexity and cost of due diligence (e.g. through joint due diligence) thereby facilitating replicability and scale, for example as proposed by the Hamburg Sustainability Platform.[6]

Transparency and a level playing field

- Donors can work to increase transparency in blended finance. Transparency is critical to attract more private investment to EMDEs and avoid crowding out private investors. Capital market players require clear data on financial risk and project viability before investing and transparency helps private investors assess market opportunities and price the risks. Evidence indicates that the risk in EMDEs perceived by private investors is often higher than the real risk. The opening of the Global Emerging Markets Risk Database (GEMs) is a case in point, as the data showed that the risk in EMDEs had been overrated. Donors, in collaboration with DFIs and MDBs, can work to increase transparency in blended finance to help private investors better assess market opportunities and price the risk with a view to re-direct more private investments into EMDEs. Increased transparency around blended finance would also help avoid private investors from being crowded out of markets in EMDEs by development finance providers.

- The private sector can play an important role in increasing transparency when investing in emerging markets. Transparency and the development of data can help close information gaps. As better investment track records develop, providing adequate information can further support market development and future investment. Moreover, quality data will encourage other market participants to enter the EMDE investor space, in particular low-risk investors such as institutional investors that can provide scale.
- Donors can work to ensure a level playing field in blended finance. Maintaining efficiency, integrity and fairness depend on a level playing field for all actors in blended finance. Donors, in collaboration with DFIs and MDBs, can work to level the playing field by ensuring that offers to private investors particularly of concessional finance are made public and that the allocation of concessional finance is based on transparent mechanisms with equal access for all, for example by using open, competitive bidding processes. Establishing a repository of concessional finance offers by donor agencies, DFIs and MDBs could be considered as part of such efforts.
- Clearly identified time frames for deal flows need to be in place to attract and retain the interest of private investors. A steady flow of deals reduces opportunity costs, limits frictions in transactions, builds confidence and makes deals more attractive. However, development finance actors may have longer lead time in preparing deals and undertaking due diligence. A clear understanding of development actors' time frame should, therefore, be established to attract and retain the interest of private sector deal teams.

Moving development finance assets to private investors

- Development finance assets can be investible with appropriate structures, accessibility measures and occasional risk mitigation. Assets in EMDEs originated by MDBs and DFIs have proven investable for institutional investors – even without concessional finance to share the risk, as evidenced by the ILX (ILX Fund, n.d.[6]). More of these assets should be offered to private investors. MDBs and DFIs are already moving further into the co-investment, securitisation and significant risk transfer space, with several transactions witnessed in recent years. Donors, in collaboration with DFIs and MDBs, can work to increase the use of originate-to-share and originate-to-distribute models of MDBs and DFIs to enable private investors – both international and local – get more exposure to development finance assets.
- Development finance is scarce; it must be used appropriately, cautiously and phased out over time. This is particularly the case for concessional finance, which represents a direct subsidy to private investors in blended finance deals. A key principle of blended finance is to minimise the use of concessional finance when crowding in private investors. Donors and other providers of development finance continuously assess the need for concessional finance in blended finance interventions and adjust (reduce) the level whenever possible until commercial sustainability is achieved through market building.

Financial regulation and the enabling environment

- Private investors can highlight regulatory frictions in the financial system to be addressed by policymakers and regulators. Financial regulations such as Basel III, Solvency II and other major regulations on lending practices and cross-border investments from global private investors can create unintended barriers to investments in EMDEs. Private investors should actively engage with regulators and policymakers in relevant fora to ensure that regulations do not disproportionately increase the cost of capital in EMDEs, limiting much needed investment in sustainable development. The financial regulation that has been tightened in developed markets can have secondary, unintended impacts, for example on infrastructure investments in EMDEs, even if a project itself has a strong investment profile. Private sector investors should highlight these frictions in the financial system so that policymakers and regulators can be informed and explore ways to address the high cost of capital that is imposed on EMDEs.

Notes

[1] The DFI Working Group (2017) defines blended finance as "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 mobilise private resources". For more information, see: https://documents1.worldbank.org/curated/en/856201613568586386/pdf/The-Why-and-How-of-Blended-Finance.pdf.

[2] The opening in 2024 of the Global Emerging Markets Risk Database (GEMs) is a case in point. It revealed that the risk of investing in emerging markets businesses is significantly lower that commonly perceived. The GEMs database revealed that the average default rate for low-income countries was 6.3% for 1994-2023 against an implied country sovereign rating-based default rate of 14.2%, and that the default rate for lower middle-income countries was 4.4% against an implied rate of 14.6%. The findings challenge the conventional wisdom that investments in corporations or private sector projects in low-income countries are excessively risky. According to Galizia and Lund, the GEMs statistics show that the risk is much lower than based on sovereign credit ratings (see https://www.ifc.org/en/insights-reports/2024/reassessing-risk-in-emerging-market-lending for more information). For a discussion about the importance of the GEMs data in relation to showing that the development finance asset class is investible see OMFIF (available here: https://www.omfif.org/btn_03-24_ilx/).

[3] Chapter 6 contains case studies on blended finance in contexts facing high or extreme fragility.

[4] B-lenders are private sector participants in syndicated loans led by MDBs/DFIs (known as A-lenders). B-lenders are typically commercial banks, institutional investors and other private lenders. The B-loan structure helps mobilise private capital in EMDEs by offering preferred creditor status, strong due diligence and risk mitigation provided by the A-lenders, and exposure to high-risk markets.

[5] For more information and examples on all the blended finance structures and mechanisms, see: "Making Blended Finance Work for the SDGs" (available at: https://doi.org/10.1787/9789264288768-en).

[6] The Hamburg Sustainability Platform (later renamed SCALED) is an international, multistakeholder public-private Blended Finance Coalition, led by Germany, that aims to alleviate structural challenges to blended finance through standardisation and centralised capital formation to scale blended finance. See more at: Hamburg Sustainability Platform. See also: SCALED | Scaling Capital for Sustainable Development.

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1 Principle 1: Anchor blended finance use to a development rationale

According to Principle 1, as in all development finance interventions, all blended finance activities should be based on the mandate of development finance providers to support developing countries in achieving social, economic and environmentally sustainable development.

Guidance messages for Principle 1

Subprinciple 1.A. Use development finance in blended finance as a driver to maximise development outcomes and impact.

- Root blended finance to ambitious development objectives, in line with the 2030 Agenda, the goals of the Paris Agreement, or other development frameworks.
- Deploy blended finance when it is more effective and appropriate than other financing approaches within the broader development co-operation strategy.

Subprinciple 1.B. Define development objectives and expected results as the basis for deploying development finance.

- Agree on ambitious and realistic development results, jointly with the stakeholders involved in the blended finance transaction.
- Build institutional capacity and incentives to co-operate with commercial partners effectively.

Subprinciple 1.C. Demonstrate a commitment to high quality.

- Leverage responsible business conduct (RBC) standards to identify partners and projects.
- Apply environmental, social and governance (ESG) safeguards throughout the project lifecycle.
- Promote sustainability performance through transparency and accountability.

Context and trends

Since 2020, the international community's growing commitment to the Sustainable Development Goals (SDGs) and the goals of the Paris Agreement has affirmed the relevance of anchoring blended finance interventions to a development rationale. Recognition of the importance of a development rationale even extends beyond the development community to include the growing role of impact investing, regulation encouraging greater responsible business conduct (RBC) and an increase in non-financial reporting. In addition, the significant advancements in environmental, social and governance (ESG) risk management, RBC practices and corporate reporting, such as the EU Sustainable Finance Disclosure Regulation, witnessed over the past years have positive spillover effects that contribute to higher quality blended finance operations (ISO Update, n.d.[1]; European Union, 2019[2]).

Anchoring blended finance to a development rationale has remained foundational

The practice of anchoring blended finance to a development rationale has established itself as the foundation of blended finance and is core to any blended finance transaction. Several evaluations indicate how blended finance is being leveraged with the purpose of meeting the SDGs and/or the goals of the Paris Agreement (Deloitte, 2020[3]; OECD, 2021[4]; WB-IEG, 2020[5]; EBRD, 2022[6]; Convergence, 2023[7]). The 2024 official development assistance (ODA)-eligibility assessment of Development Assistance Committee (DAC) members' private sector instrument vehicles indicates how these vehicles base their strategies on the SDGs and the Paris Agreement and generally include the promotion of economic development and welfare of partner countries as a central element in the investment strategies (OECD, 2024[8]).

Uneven targeting of development objectives

While evidence shows that blended finance is generally anchored to a development rationale, the targeting of development objectives has been uneven. OECD data show that private finance mobilised via official development finance has targeted specific SDGs that mainly relate to developing production sectors, economic infrastructure and climate action, i.e. sectors/investments that are easier to commercialise. Shares of mobilised private finance targeting SDGs related to social sectors are relatively smaller. In terms of financing climate action, as explored in OECD (2023[9]), private finance mobilised tends predominantly to target initiatives on climate change mitigation, instead of adaptation, and focus on upper middle-income countries (UMICs). The uneven targeting of the SDGs is further illustrated by the evidence that blended finance funds and facilities focus on a limited number of SDGs, mainly SDG 9 (industry, innovation and infrastructure) and SDG 8 (decent work and economic growth) (OECD, 2022[10]).

The updated Guidance below reflects that Principle 1 has established itself as the foundation of blended finance and is core to any blended finance transaction. It also reflects that blended finance is most suitable for sectors that are relatively easy to commercialise.

Guidance for Principle 1

Subprinciple 1.A. Use development finance in blended finance as a driver to maximise development outcomes and impact

> *Root blended finance to ambitious development objectives, in line with the 2030 Agenda and the goals of the Paris Agreement*

To ensure development impact, donors should formulate the strategic ambition and policy objectives for blended finance and integrate blended finance into overarching development objectives in line with the SDGs, the Paris Agreement, Nationally Determined Contributions, national adaptation plans or similar strategic development frameworks. Where appropriate, donors should support partner countries in developing robust, investable development frameworks. These investment frameworks can also address climate change and its interlinkages to development. For instance, as the impacts of climate change grow more severe and frequent, greater adaptation action is increasingly urgent. Donors and other development finance providers have a pivotal role in providing and mobilising finance flows to support adaptation in developing countries, through blended finance. The OECD has developed separate guidance to explore and identify good practice in development co-operation activities to increase the amount of financing for adaptation by unlocking private finance.[1]

Blended finance is not equally suitable for all SDGs and should mainly target sectors with investment opportunities and clear potential for commercial viability. Donors and other providers may prioritise SDGs that have the ability to catalyse other positive development effects. Effective prioritisation and sequencing can accelerate progress towards sustainable development by facilitating the realisation of positive spillovers and limiting negative trade-offs.

> *Deploy blended finance when it is more effective and appropriate than other financing approaches within the broader development co-operation strategy*

Donors should consider blended finance within a broader financing and development co-operation strategy and support its deployment where it is most effective and appropriate to achieve specific development outcomes and results. Blended finance is one approach in a broader toolkit of development co-operation approaches for private capital mobilisation. It should be used when minimum conditions are in place that facilitate private capital mobilisation and where some concessional or non-concessional development finance may still be required to mobilise private finance that would otherwise not be forthcoming (this is elaborated further under Subprinciple 2.C) As such, it should be deployed when its comparative advantage and value-added relative to other tools are clear, based on ex ante assessments taking into account alternative financing approaches. The assessment of the effectiveness of the blended finance approach should consider both the expected development outcomes and a comparison in terms of "costs" including the fiscal implications for the partner country. Increased emphasis on mobilisation and blended finance should not detract from support for sustainable development objectives where commercial opportunities, and by extension the scope for blended finance, are more limited.

Subprinciple 1.B. Define development objectives and expected results as the basis for deploying development finance.

> *Agree on ambitious and realistic development results, jointly with the stakeholders involved in the blended finance transaction*

Donors should ensure that the objectives and expected results of blended finance are clearly articulated, measurable and communicated to all stakeholders at the outset (this reflects development additionality which is elaborated under Principle 2). Establishing a theory of change is a practical method for ensuring that interventions target the achievement of specific development objectives. Actors with different mandates can have a different approach and rationale behind their involvement in blended finance. Clarifying expectations and ensuring mutual understanding in an open dialogue with all partners is therefore key to ensuring effective partnerships. Before entering a blended finance operation, all actors should clearly understand and articulate how the particular investment is expected to lead to outputs, outcomes and eventually development impact. This should include assessments of expected impacts before investments (ex ante), throughout the duration of the investment (ongoing) and evaluating (ex post) the outcomes and impact of completed investments. This is elaborated further under Principle 5. Also, Chapter 6 of the Guidance contains case studies that illustrate how different actors have developed and applied a theory of change in blended finance interventions.

> *Build institutional capacity and incentives to co-operate with commercial partners effectively*

Organisational capacity – including the staff's technical expertise to structure, manage and execute blended finance transactions – is important to improve the adoption of blended finance across donor agencies. Internal organisational capacity and incentives are fundamental ingredients for both defining realistic development objectives and for engaging with the private sector. Donors, in particular, and other providers are therefore encouraged to continuously build internal capacities and ensure that the proper incentives are in place to effectively engage with private sector actors.

Subprinciple 1.C. Demonstrate a commitment to high quality

> *Leverage responsible business conduct standards to identify partners and projects*

Donors and other providers should observe the highest possible level of responsible business conduct (RBC) and build RBC expectations into their relationships with blended finance partners. RBC standards set an expectation that all businesses – regardless of their legal status, size, ownership or sector – avoid and address the negative impacts of their operations while contributing to sustainable development in the countries where they operate.

International RBC standards including the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct (OECD, 2023[11]), the UN Guiding Principles on Business and Human Rights (UNHCR, 2012[12]) and the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (ILO, 2023[13]) can provide reference points to help blended finance providers screen potential partners against RBC criteria, communicate clear expectations on RBC and use their leverage to promote and support the implementation of RBC standards throughout the project cycle. Donors and other stakeholders can refer to the forthcoming Guidance on RBC and Development Co-operation (OECD, forthcoming) for support on how to embed RBC expectations into blended finance operations.

Importantly, international RBC standards are based on meaningful stakeholder engagement, including with those that are or may be impacted by blended finance projects (see Principle 3). RBC standards also promote continuous improvement, over disengagement, using a risk-based approach to risk mitigation. This can be particularly relevant for strengthening the capacity of local private sector partners, including financial intermediaries (OECD, 2024[14]).

Apply environmental, social and governance safeguards throughout the project lifecycle

While blended finance-supported projects aim to deliver sustainable development outcomes, they can be associated with adverse impacts on people and planet, including through their supply chains. Embedding ESG safeguards throughout the project life cycle helps to identify, prevent and mitigate such adverse impacts.

Several internationally recognised standards and frameworks have been developed to support investors, DFIs and blended finance partners in integrating ESG safeguards into their risk management processes. These include the International Finance Corporation's Performance Standards (IFC, 2012[15]), the Principle of Responsible Investing (PRI, 2006[16]) and the Equator Principles (Equator Principles, 2020[17]). It is worth noting that some funds and investors apply their own proprietary tools or may adapt them on an ad-hoc basis, depending on the characteristics of each blending project and on the requirements of the investors involved (Basile, Bellesi and Singh, 2020[18]).

The OECD has developed tailored guidance on risk-based due diligence for project and asset finance transactions, to hep align existing ESG development finance safeguards frameworks with internationally recognised standards of RBC (OECD, 2022[19]). This includes stakeholder engagement, a risk-based approach to impact mitigation, addressing impacts in project supply chains and, when appropriate, providing for co-operation in remediation.

Promote sustainability performance through transparency and accountability

Although Principle 5 provides more in-depth guidance on transparency and results, it is worth noting that high quality should be maintained throughout, including a commitment to learning from the results of blended finance operations. Aside from the obligation to report to external stakeholders and informing social and commercial performance management, the evaluation of blended finance interventions can help prioritise the right strategies moving forward (Winckler Andersen et al., 2019[20]).

In addition, blended finance partners can strengthen accountability by establishing channels for reporting grievances and enabling remediation. Through well-functioning grievance mechanisms, donors and partners can become aware of and respond to sustainability risks and use their leverage to encourage remediation by enterprises and blended finance partners.

Notes

[1] The OECD Guidance on Blended Finance for Climate Change Adaptation focuses on framing the role of blended finance for adaptation and covers key adaptation sectors and areas with the highest additional financing need for adaptation, such as agriculture and water. The Guidance explores the use of traditional and innovative financing instruments with the potential to amplify the resources towards climate adaptation and provides concrete and practical recommendations on how to deploy different blended finance approaches across key adaptation sectors more effectively.

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2 Principle 2: Design blended finance to increase the mobilisation of commercial finance

According to Principle 2, development finance in blended finance should facilitate the unlocking of commercial finance to optimise total financing directed towards development impacts.

Guidance messages for Principle 2

Subprinciple 2.A. Ensure additionality for crowding in commercial finance.

- Ensure additionality is core to all blended finance operations.
- Blended finance interventions should strive to have the highest standard of additionality at both the transaction level and the systemic level.
- Ensure that additionality is assessed, documented and publicly disclosed.
- Encourage a more harmonised approach to interpreting and assessing additionality in blended finance.
- Additionality assessments and assumptions should be evaluated to enable continuous learning.

Subprinciple 2.B. Seek leverage based on context and conditions.

- Anchor the design of blended finance transactions in the specific development objective taking context-specific drivers into account.
- For scale mobilisation, select effective instruments and mechanisms, for example securitisation, guarantees, structured funds and bonds. For smaller scale opportunities, effective instruments include funds, risk sharing and liquidity facilities, guarantees, equity and technical assistance.

Subprinciple 2.C. Deploy blended finance to address market failures while minimising the use of concessionality.

- Use financial modelling combined with competitive processes (such as tender processes, calls for proposals and open access programmes) to establish a minimum level of concessionality.
- Identify market failures, analyse the drivers of concessionality and choose the right instrument.
- Make concessional finance available to all implementing entities at equal terms, for example by using open tenders or pooling concessional funds across donor agencies to enhance equal treatment.
- Co-ordinate and, where possible, harmonise on reporting of concessionality in a transparent manner including for implementing partners; agree on a set of standardised key parameters as part of this and make levels of concessionality of individual investments publicly available.

Subprinciple 2.D. Focus on commercial sustainability

- Combine blended finance with support to underlying market fundamentals through accompanying policy and regulatory reforms.
- Incorporate exit strategies into blended finance, both at the level of the transaction and at market level and reduce concessional blended finance gradually with increased commercial sustainability.

Context and trends

Significant developments have taken place since 2020 around the key concepts of Principle 2: additionality, mobilisation, minimum concessionality and commercial sustainability.

Additionality

Establishing additionality, particularly financial additionality, in blended finance has proven challenging. No single interpretation or assessment methodology has been agreed upon and an international debate is ongoing about what exactly constitutes additionality and how to assess it.

Since the first edition of the Guidance in 2020, a range of multilateral development bank/development finance institution (MDB/DFI) annual reports, evaluations and research activities for assessing additionality have been produced that illustrate the challenges around interpreting, assessing and establishing additionality (MDB Group, 2018[1]; MDBs/DFIs, 2024[2]; OECD, 2021[3]; DFI Working Group, 2023[4]; Norad, 2024[5]; EBRD, 2025[6]; Publish What You Fund, 2025[7]). The challenges include a:

- Lack of harmonised definitions/interpretation of additionality across development finance providers. This may lead to limited comparability due to, for example, different assessments of the same project, and it may challenge the verification of additionality claims across DFIs.
- Lack of harmonised assessment methodologies and metrics. This may lead to inconsistent benchmarking and evaluation of additionality in blended finance projects.
- Lack of data. Relevant data for the assessment of additionality are often either unavailable, outdated or incomplete. This may lead to weak assessments, or assessments that rely on assumptions or proxy indicators rather than evidence. It may also lead to inconsistent monitoring of outcomes.
- Lack of transparency. While providers assess additionality internally using proprietary tools and assessment frameworks, they almost never disclose the details behind the assessments. This may lead to reduced accountability and stakeholder trust as it becomes difficult to verify whether blended finance mechanisms are truly catalytic. Lack of transparency may also prevent learning and replication of successful models.[1]

The evidence also indicates that establishing financial additionality in contexts with more developed markets (e.g. middle-income countries) is relatively more challenging, highlighting an increased risk of crowding out private investments in these markets.

A range of new frameworks and methodologies for assessing additionality have recently been developed and good practice is emerging around both methodologies and documentation of additionality assessment. This is rooted in the mandate, principles and core frameworks of most MDBs, DFIs and other providers of development finance. Evidence (EBRD, 2025[6]; OECD, 2024[8]; OECD, 2024[9]) indicates how additionality is a key concern across DFIs and MDBs and is incorporated into their business model and due diligence processes. They typically include financial and value additionality in their assessment of investments and often use internal scoring systems that draw on both quantitative and qualitative indicators. Selected case studies on additionality assessment frameworks are provided in Chapter 6.

In 2024 the Development Assistance Committee (DAC) agreed on a new set of reporting methods for private sector instruments (PSI) that include a streamlined definition of additionality. DAC statistics distinguish between three types of additionality: financial, value and development additionality (OECD, 2024[10]). For a PSI to be ODA-eligible, it must be additional financially or in value, together with its development additionality. The updated Guidance below addresses the challenges and reflects the streamlined definition of additionality used by the OECD DAC.

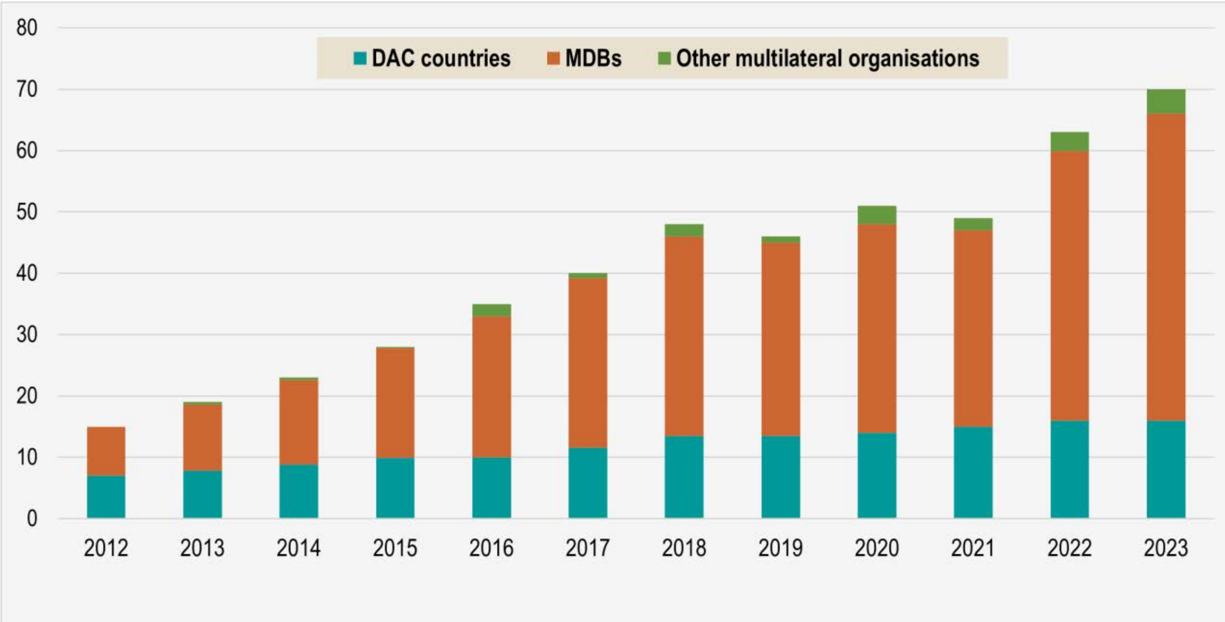
Mobilisation

Mobilisation of private finance has taken centre stage in the international discussion on financing for development. Since the launch of the SDGs and the Paris Agreement in 2015, most United Nations, G7, G20 and COP high-level communiques and statements[2] have emphasised the need to mobilise private investment in developing countries and have called for more action. However, despite this, private investment mobilisation by official development finance interventions has remained relatively low.

OECD figures on private finance mobilised by official development finance increased from 2012 to 2018, however levelling out at around USD 50 billion from 2018 to 2021. In 2022 and 2023, the amount increased to USD 62 billion and USD 70 billion, respectively (OECD, 2024[11]). During the last six years the average annual increase in private finance mobilised was USD 3.35 billion, and during the last two years it was USD 11.5 billion per year. Among the leveraging mechanisms included in the OECD mobilisation data, the three that mobilised the most private finance on average during the four-year period from 2020 to 2023 were direct investment in companies/special purpose vehicles (29%), guarantees (23%) and syndicated loans (19%). These were followed by shares in collective investment vehicles (CIVs) (13%), credit lines (11%) and simple co-financing (5%) (OECD, 2024[11]). The majority of the increase since 2012 is due to MDBs, raising mobilisation from USD 9 billion in 2012 to USD 53 billion in 2023 (a six-fold increase), whereas DAC countries increased mobilisation from USD 6 billion in 2012 to USD 15 billion in 2023 (a 2.5-fold increase). Mobilisation by DAC countries has shown a notable flat trend since 2019.

The total increases in private finance mobilised during the last 12 years are incremental and even if the trend of the latest two-year period (2022-23) continues, using the leveraging mechanisms included in the OECD data will not deliver any significant contribution to meeting the SDG financing needs which stands at USD 3.9 trillion per year (OECD, 2022[12]). Recent OECD analysis indicates that the SDG financing needs could reach USD 6.4 trillion by 2030 (OECD, 2025[13]).

Figure 2.1. Private finance mobilised by official development finance interventions, 2021-2023 (USD billions, constant prices 2022)



Notes: DAC: Development Assistance Committee; MDB: multilateral development bank. Official development assistance (ODA), other official flows (OOF) and private sector instruments are covered by official development interventions which capture all activities extended by providers in support of development, concessional and non-concessional, as well as in the form of contingent liabilities such as guarantees/insurance. Two United Nations agencies, the International Fund for Agricultural Development and the United Nations Capital Development Fund are not counted within MDB grouping, while all other 'multilateral institutions' within the Creditor Reporting System database are.
Source: "Mobilisation of private finance for development Dashboard", OECD (2025), "Mobilised private finance for development".

The limited mobilisation figures reflect a broader challenge of how to scale the mobilisation of private finance via blended finance. To address this challenge, the development finance community is increasingly focusing on instruments and structures that can produce assets investible for a wider market of institutional investors or are able to mobilise private finance at scale. Examples of such instruments and structures that have been highlighted in the international debate include **securitisation, guarantees, structured funds** and **bonds,** for example (BII, 2025[14]) (Convergence, 2025[15]) (MOBILIST, 2023[16]).[3] It is worth noting that not all of these are blended finance instruments and structures per se, but their deployment or issuance can be facilitated via blended finance approaches. It is also worth noting that several of these instruments and structures are not captured via the existing OECD mobilisation methodology and therefore are not represented in the mobilisation data referenced above.[4]

Securitisation

Securitisation refers to the conversion of an asset, especially a loan (or a basket thereof), into marketable securities, typically for the purpose of raising cash (and/or transferring risk) by selling them to other investors. Securitisation can transform a diversified pool of underlying assets into securities that can be listed and traded, issued with credit ratings that meet a range of investors' risk-return preferences. Investors who buy these securities receive payments from the underlying assets, while the capital freed up by the originator of the loans or receivables can be recycled into new projects and loans (MOBILIST, 2023[16]; OECD, 2018[17]).

An alternative model referred to as “synthetic” securitisation sees the originator (often banks) transfer a tranche of the credit risk from a pool of assets (loans) to investors without selling these assets. This can be a more efficient solution when originators want to maintain ongoing relationships with borrowers, diversify risk exposure or achieve better pricing by structuring tranches tailored to different investor risk appetites. Since this approach does not systematically result in the creation of marketable securities, it is also described as synthetic risk transfer (SRT).

The use of securitisation and SRT has increased in recent years with some MDBs and a few donors leading the way and using securitisation and SRT models to both recycle capital faster and mobilise private capital. The G20 Independent Review of the MDB’s Capital Adequacy Framework encouraged MDBs to use innovative structures, and several MDBs are now responding and considering or actively developing securitisation structures (OECD, 2023[18]; G20-IEG, 2023[19]). Examples of both SRT and true sale securitisation include:

- The original African Development Bank’s Room2Run transaction in 2018.
- Bayfront Infrastructure Management’s fourth Infrastructure Asset Backed Securities (IABS) transaction which was supported in 2023 by the UK Foreign, Commonwealth & Development Office’s MOBILIST’s pioneering equity participation.
- The Inter-American Development Bank’s Invest’s Scaling4Impact in 2024.
- The 2025 West Africa Development Bank securitisation programme providing finance to small and medium-sized enterprises.

A multi-originator synthetic securitisation platform was agreed in 2024 and is being established in a collaboration between the African Development Bank, the Development Bank of Southern Africa and institutional investors as a revolving vehicle to de-risk the balance sheets of DFIs operating in Africa, while providing attractive investment returns for private sector participants. In addition, the International Finance Corporation (IFC) is understood to be working on a Warehouse Enabled Securitisation Program (IFC, 2024[20]).[5] Selected case studies on SRTs and securitisation transactions are provided in Chapter 6.

Market precedents thus demonstrate innovation and growing momentum. Development finance actors are executing and proposing transactions at meaningful scale, and private sector supply of (and demand for) sustainable securitisations is growing. This provides opportunities for donors and other providers of development finance to use the modality to scale up the mobilisation of private finance.

Guarantees

Guarantees have proven to be one of the most efficient financial instruments from a cost, capital efficiency and mobilisation perspective given their high leverage factor.[6] They can mobilise five times more than loans (Carolien van Marwijk Kooij, Jesse Hoffman and Jeroen Huisman, 2023[21]). Private finance mobilised in 2023 via guarantees was USD 17 billion, only surpassed by syndicated loans, which stood at USD 19 billion (OECD, 2024[11]). A 2025 study reconfirms how guarantees are among the most powerful tools for mobilising private capital, particularly unfunded guarantees which are ideal in fiscally constrained environments (CGD and Lion's Head, 2025[22]).

The interest in using guarantees as a risk mitigating instrument to mobilise private finance has increased since 2020, against the backdrop of several developments:

- Importantly, the OECD DAC reform of PSI agreed in 2023 included guarantees as an ODA-eligible instrument, and the PSI reform paved the way for new donors to look at the possible use of guarantees.
- Several new bilateral donors have established guarantee schemes since 2020 including Czechia, Denmark and Norway, and others are exploring it (e.g. Germany).

- A range of multilateral institutions have either moved into guarantees or increased the use of them; these include EU-EFSD+ and the World Bank Guarantee Platform hosted by the Multilateral Investment Guarantee Agency.
- New guarantee institutions and platforms have been set up, e.g. the Green Guarantee Company, and new networks on developing guarantees have been established, e.g. the Green Guarantee Group. Both small and large-scale guarantees have been tested and used, from providing access to finance for SMEs in Africa via smaller guarantees to financial institutions' lending, to very large guarantee models that have mobilised billions of USD.
- More collaboration on guarantees has taken place, both among donors (e.g. the Investment Mobilisation Collaboration Alliance) and among MDBs/DFIs (e.g. the Innovative Finance Facility for Climate in Asia and the Pacific).
- Lastly, a range of analytical work of guarantees has been undertaken (OECD, 2021[23]; CPI, 2024[24]).

Guarantees can be used for portfolios (such as SME loan portfolios) and/or at the transaction/project level (e.g. infrastructure public-private partnerships where individual project sizes are significantly larger). Selected case studies on guarantees are provided in Chapter 6.

Despite the increased interest in guarantees, there is still limited availability of guarantees, particularly for higher risk countries such as fragile and conflict-affected situations and low-income countries (LICs). For example, the Multilateral Investment Guarantee Agency only provides guarantees for countries rated BB- and above. Guarantees covering risks such as liquidity and foreign exchange (FX) risk are also still in limited supply (CGD and Lion's Head, 2025[22]). In addition, research has indicated that the use of guarantees may be limited by financial regulations such as Basel III and Solvency II that affect how financial institutions perceive, value and use guarantees, particularly in high-risk markets.[7]

Structured funds

Structured funds have shown to be well-positioned private finance mobilisation instruments both upstream in developed markets, for example when pension funds invest in structured funds, and downstream through concrete transactions on the ground in emerging markets and developing economies (EMDEs). Funds can be structured in different ways, either with a flat structure where all investors share the same risk-return profile (*pari passu*) or in a layered structure that allocates risks and returns differently across different investor classes. This flexibility allows structured funds to blend development and commercial resources while mobilising additional financing at both the fund and project levels (Dembele, 2022[25]).

The use of structured funds, including private equity, private debt and fixed income asset classes, has increased in recent years:

- Convergence's Historical Deals Database has captured approximately 113 blended finance structured funds from 2014-2023 (Convergence, 2024[26]). In 2014, aggregate financing within captured structured funds stood at just over USD 612 million, while in 2023, aggregate financing within captured structured funds stood at nearly USD 2.2 billion, over a 260% increase (Convergence, 2024[26]).
- Similarly, the assets under management (AUM) captured by the latest OECD 2020 Blended Finance Funds and Facilities Survey have steadily increased since 2017 (Dembele, 2022[25]). The 2020 survey captures 198 collective investment vehicles (CIVs) with USD 75 billion under management, where the value of these AUM represents an increase of 24% over the 2018 survey (USD 60.2 billion) and a 152% increase over the 2017 survey (USD 29.6 billion). However, the 2020 survey analysis reveals that private commercial investors contribute less than 6% of the total capital in CIVs, despite the fact that blended finance funds are essential structures for blended finance flows (Dembele, 2022[25]). This underscores the critical need to mobilise more private finance at scale.

Yet, for structured funds to be able to mobilise institutional investors at scale requires more standardised structures that produce assets readily investible by investors (see the Guidance section below). Selected case studies on structured funds are provided in Chapter 6.

Debt instruments

Debt instruments, such as green, social, sustainability and sustainability-linked (GSSS) bonds, can mobilise private capital at scale. Within the global bond market, GSSS bonds have gained traction and importance due to their ability to link scale and their long-term duration and impact. 2024 was the GSSS bond market's second-best year to date, with issuances reaching EUR 878 billion (LuxSE, 2024[27]). However, issuances are currently not occurring in the countries or regions with the greatest financing needs. In 2022, only 13% of the overall GSS bond market (dropping to 5% when not including the People's Republic of China) and 5% of the overall sustainability-linked bond (SLB) market came from issuers in developing countries (OECD, 2023[28]; OECD, 2024[29]). At the same time, GSSS bonds only represent 5% of annual emerging market bond issuance – suggesting there is room for these countries to increase issuances of these instruments (IFC-Amundi, 2024[30]).

In recognition of the potential of these instruments for developing countries, recent years have seen donors provide different types of support to the issuance of GSSS bonds and to local capital market development more broadly. This can range from directly investing in issuances through anchor investments, providing credit enhancement to reduce risks or providing technical assistance to create a more issuance-ready and investment-friendly market infrastructure. Selected case studies on bonds are provided in Chapter 6.

When contemplating debt instruments, it is important to consider the broader macroeconomic context to ensure that these instruments are appropriately and effectively used. In 25 developing countries, debt servicing costs account for more than a fifth of tax revenue, while about 40% of EMDE outstanding debt will mature by 2027 (OECD, 2025[13]) (OECD, 2025[31]). Debt-servicing costs consume money that could otherwise be spent on the SDGs including education and health. In response, debt swaps have been used to refinance debt, reduce debt service costs and redirect the debt savings to development objectives such as nature restoration and climate (WB, IMF, 2024[32]). In 2024, swaps took place in Bahamas, Barbados, Belize, Côte d'Ivoire, Ecuador, El Salvador and Gabon unlocking USD 1.7 billion of financing over time (FinDevLab, 2025[33]). It is estimated that debt-for-nature swaps could redirect USD 100 billion of debt towards climate and nature in developing countries (OECD, 2025[13]). Furthermore, these instruments can mobilise private finance by restructuring debt into bonds that can be bought by investors. The Guidance messages below advice further on how these debt instruments (GSSS bonds and debt-for-X) can be used to scale the mobilisation of private finance through blended finance.

Minimum concessionality

Concessionality reflects the degree to which the terms offered by development finance providers are more favourable than market conditions; concessionality is thus a subsidy provided to the commercial investor(s) in blended finance transactions. According to Subprinciple 2.C, blended finance should be deployed to address market failures while minimising the use of concessionality. Concessional finance should be used to overcome market failures and enable crowding in commercial finance, and the principle of minimum concessionality is meant to avoid undue subsidies to the private sector in blended finance transactions. Concessionality can create a direct distortion by subsiding otherwise unproductive/unsustainable businesses, with the associated risks of rent-seeking, and an indirect distortion by the signal that the very presence of concessionality sends to market participants, i.e. that the assets - and even whole markets - are sub-commercial (the other side of positive demonstration effects).

Determining the exact amount of concessionality needed to unlock commercial investment while not over-subsidising has proven to be a complex exercise and is one of the key unresolved challenges in blended finance. Concessionality is context-specific; it is driven by the choice of financial instrument, the risk-return profile associated with the sector and geography in question, the project cycle and the degree of market maturity. All these drivers need to be considered, as does the availability of relevant data.

Research has illustrated how complex the problem is. For example, the Center for Global Development (2020[34]) emphasises that when a subsidy is in the form of concessional capital, persuading project sponsors to participate in a process designed to minimise the concession (maximise their cost of capital) is a tricky proposition. Gregory (2025[35]) also emphasises how MDBs and DFIs have been wrestling with how to set the appropriate level of concessionality to achieve their development objectives, while respecting the principle of minimum concessionality.

Evidence indicates that in practice, different providers of development finance use a range of different financial modelling approaches in combination with competitive processes to approximate the level of concessionality needed to crowd in the private sector. Financial modelling includes expected loss models and benchmarking data from comparable industries, sectors and geographies. Market mechanisms include tendering processes and auctions whereby multiple bidders compete for support based on minimum concessionality, as well as open access programmes which make concessionality available to investors who can meet predefined criteria for the outcomes they will deliver with the concessionality (IFC, 2021[36]). Several MDBs and DFIs are also increasing their use of performance-based mechanisms which link the payment of a subsidy to the achievement of impact outcomes (Gregory, 2025[35]).[8]

An example of the use of tender processes is the Investment Mobilisation Collaboration Alliance (IMCA), an alliance of several donors that have come together and use joint competitive tender processes to obtain the best offers from the market. Another practical example of determining minimum level of concessionality is Aceli Africa, which reviewed the historical loan portfolio of financial institutions and non-bank financial institutions to identify the profitability gap against other, less impact-oriented sectors. These were then used to calibrate the minimum level of concessionality (Aceli Africa, 2025[37]) (both IMCA and Aceli Africa are included as case studies in Chapter 6).

In some cases the level of concessionality can be significantly high. In a study by ISF Advisors analysing the historical use of concessional capital across 18 investment funds in sub-Saharan Africa with significant exposure to agri-SMEs, concessionality used to address senior private investors' risk perception was found to exceed expected losses by 15-20 times (ISF Advisors, 2025[38]).

Commercial sustainability

Ensuring commercial sustainability is linked to successful exit leaving investee companies or projects financially viable on market terms without the need for further concessional or non-concessional development finance. Commercial sustainability implies financially sustainable transaction structuring (where blending can enhance bankability through, for example, viability gap funding) and ensuring that blended finance takes place in a commercially sustainable enabling environment (through, for example, technical assistance), as blended finance cannot substitute for an enabling environment at the transaction level.

Evidence since 2020 has shown how successful exits of blended finance can be challenging, especially in more risky countries and markets where lack of commercial investor interest, persistent market failures and unforeseen risks can make sustainable private sector participation difficult. Evidence (IMF, 2021[39]; MOBILIST, 2021[40]; OECD, 2019[41]; CSIS, 2024[42]) points to a range of such challenges:

- Limited liquidity and underdeveloped exit markets. In most EMDEs there is a scarcity of active secondary markets or established exit mechanisms, such as initial public offerings or strategic acquisitions. This is compounded by limited local investor participation and it makes it challenging for investors to realise returns or divest their assets efficiently.
- Complex and bespoke deal structures. Blended finance transactions often involve bespoke structures that combines various forms of capital (e.g. grants, concessional loans, guarantees, equity

investment). The complex structures can make it difficult to align incentives among stakeholders and this can create challenges in standardising terms which are essential for facilitating exits.

- Currency risk. Only a limited part of MDB/DFI assets are held in local currency,[9] and this creates a mismatch with the risk appetite and/or capabilities of local investors. The dominance of hard currency assets thus limits the pool of potential investors and reduces the potential for south-south exits where, for example, African DFIs might look to exit to African institutional investors.
- Regulatory constraints and legal uncertainties. Foreign ownership restrictions, limitations on repatriation of capital and issues with contract enforcement can pose substantial risk to investors considering exit and may require additional due diligence and risk mitigation on their part. This complicates and increases the cost of exiting investments and challenges the execution of exit strategies.
- Limited availability of pipeline of investible projects. Limited pipelines in certain sectors or geographies restrict opportunities for investors to exit by selling their assets to new entrants. Scarcity of follow-on investors can lead to prolonged holding periods and reduced liquidity.
- Financial returns vs. development impact. An additional challenge is striking a balance between financial returns with long-term development impact and ensuring that private investors continue to meet environmental, social and governance standards after the exit of development finance providers.

Despite these challenges, evidence indicates how commercial sustainability is a key concern across DFIs and is incorporated into their business model and due diligence processes (OECD, 2024[8]). It is considered a prerequisite for blended finance investments to generate sustainable development impact (such as job creation) and it is regarded as a critical facilitator of successful exits. DFIs typically customise their exit strategies to match the financial instruments used, the investee's development stage and sustainability goals. Timing of exits thus depends on a range of factors including project maturity, fund closing, return performance, access to private capital, market maturity and impact performance. Instruments applied by DFIs typically include self-liquidating instruments, equity sales, fund exit mechanisms, loan repayment and refinancing, and transfer to commercial investors (OECD, 2024[9]).

Evidence has also highlighted the importance of exits to mobilise private capital. MOBILIST (2021[40]) explores exit-mobilisation opportunities for MDBs and DFIs in Africa through public listings or transfers of assets to commercial investors and emphasises how exit-mobilisation can transform MDBs/DFIs into catalysts for public market growth, enabling them to both recycle capital and scale impact. In line with this finding is the growing trend since 2020 of some MDBs to move towards originate-to-share/distribute business models, whereby they transfer projects and/or credit risks to private investors (as referenced above). This approach helps mobilise private capital while ensuring the financial sustainability of development projects.

The Guidance addresses the challenges and opportunities in relation to exit and ensuring commercial sustainability, particularly in relation to ensuring that long-term impact and ESG standards are safeguarded, and that the underlying market fundamentals (enabling environment) are in place.

Guidance for Principle 2

Subprinciple 2.A. Ensure additionality for crowding in commercial finance

Assessing and establishing additionality is not an exact science with definite answers for each investment. Additionality is transaction-specific; it varies depending on context and should be assessed with due consideration for contextual factors and drivers of additionality including country, sector, market and project characteristics. Table 2.1. provides a stylised illustration of the drivers and probabilities of additionality.

Table 2.1. Stylised drivers of financial additionality in blended finance

Drivers	Higher additionality probability	Medium additionality probability	Low additionality probability
Country characteristics			
Income level	LICs, LDCs, FCS	MICs	UMICs
Investment climate	Weak, untested	Medium, limited track record	Established, strong track record
Sector characteristics			
Sector framework	Framework in place but untested	Framework in place with some track record, more framework in place	Strong and tested framework in place
Financial viability	Low	Medium	High
Stage of market entry	First mover	Second mover	Repeat transaction
Financial market characteristics			
Number of active development partners	Low	Medium	High
Capital markets development	Undeveloped/ short term	Short- to medium-term	Full developed included long-term
Financial instrument/ asset class maturity	Low	Medium	High
Project characteristics			
Project cycle phase	Development phase	Construction phase	Operating phase
Technology/ innovation	Untested	Limited track record	Established
Financial tenors / terms	20+ years	10+	5< years

Notes: LIC: low-income country; LDC: least developed country; FCS: fragile and conflict-affected situation; MIC: middle-income country; UMIC: upper middle-income country. These drivers may also apply to development additionality. It is important to note that certain projects, technologies, innovations and financial instruments may exist elsewhere in the world; however, their entry into new markets and sectors can be additional in certain markets. This could require several transactions to create a reputable and/or comparable track record.

In general terms, deployment of development finance in contexts with relatively well-developed investment frameworks and deep, well-developed capital markets would be less likely to be financially additional and would need careful assessment to justify deploying development finance into blended finance. Deployment in contexts with poor investment climates and underdeveloped capital markets would be more likely to be financially additional and justify the use of blended finance to unlock additional commercial finance, as commercial finance would be less likely to be forthcoming without development finance. In principle, the closer a blended finance intervention is to 'perfect market conditions', the more thorough the assessment of additionality should be. This principle is also reflected in the MDB/DFI Enhanced Principles guidelines, which call for increasing the level of scrutiny of projects commensurate with the underlying risk that concessional resources could lead to market distortions or rent-seeking behaviours (ADB, 2022[43]; DFI Working Group, 2023[4]).[10]

Although definite answers regarding additionality cannot be assumed, adhering to a set of guiding principles and good practice in development finance operations can help ensure that both the nature and likelihood of additionality are addressed and used as a basis for decision making. As partly shareholders/ owners of MDBs and DFIs, and as main providers of development finance into private sector operations, donor governments play a crucial role in promoting that good practice is established and guiding principles are followed.

Ensure additionality is core to all blended finance operations

Donors should ensure that development finance is only used to catalyse private finance through blended finance structures if there is **a plausible degree of certainty** that private finance is required and is not forthcoming on its own (see the cascade approach under Subprinciple 2.C). This principle should be anchored in mandates, internal strategies and criteria for geographic, thematic and impact allocation of all institutions deploying development finance into blended finance, and it should be reflected in the reporting to donor governments to ensure accountability, integrity and efficiency in blended finance.

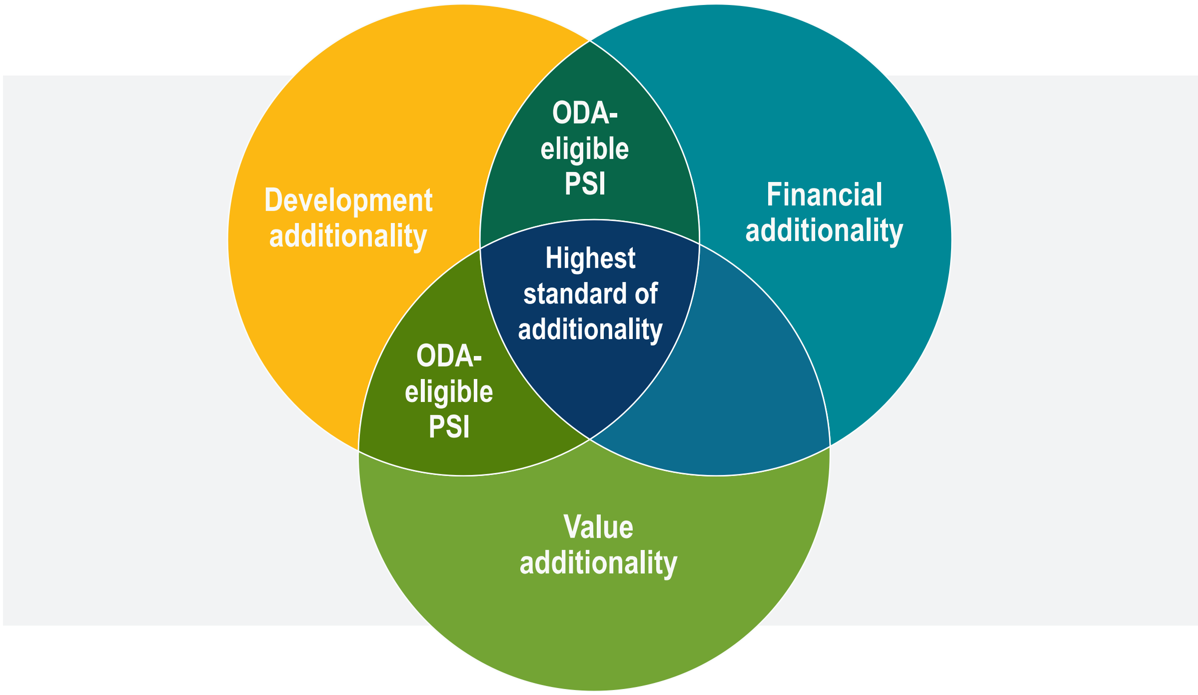
Additionality is in fact already anchored in the mandates, strategies and/or principles of MDBs, DFIs and most other providers of development finance. For MDBs and DFIs, the mandate is typically provided via parliamentary acts related to international development co-operation, government resolutions, ordinances or decrees, and is thus included in their founding documents. The MDBs/DFIs Harmonised Framework for Additionality in Private Sector Operations (IFC, 2018[44]) and the Enhanced Blended Concessional Finance Principles for Private Sector Operations (DFI Working Group, 2023[4]) establish that MDB/DFI support of 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.

Apart from MDBs and DFIs, additionality requirements should also extend to other intermediaries (civil society organisations, funds, facilities, programmes) as development finance is often deployed through such intermediaries to, for example, promote financial inclusion and local micro, small and medium-sized enterprise development.

Promote that blended finance interventions have the highest standard of additionality at both the transaction level and the systemic level

Donors and other providers of development finance should work to promote that blended finance interventions have the highest standard of additionality. When deploying development finance into blended finance, all three types of additionality applied by the OECD DAC – development, financial and value additionality – interact and complement each other, and they each play a role in blended finance interventions as seen in Figure 2.2.

Figure 2.2. Dynamics of additionality types



Notes: PSI: private sector investment; ODA: official development assistance. Development additionality, financial additionality and value additionality interact and complement each other. ODA-eligibility requires a combination of development additionality and financial additionality or value additionality. The highest standard of additionality combines all three forms of additionality.

Development additionality ensures the investment achieves impact beyond what would otherwise be achieved without development finance and will typically follow from screening of projects based on impact management and measurement systems. Financial additionality ensures that development finance is offering terms and conditions that private investors are unwilling or unable to offer, thus avoiding market distortion and preventing crowding out private investment through blended finance. Value additionality brings, for example, knowledge transfer, capacity building and ESG standard setting to an investment. The highest standard of additionality combines all three, as shown in Figure 2.2.

Donors and other providers should work to ensure that additionality is considered both at the transaction level and at the systemic level. Whereas transaction-level additionality ensures that a specific blended finance deal mobilises private capital and creates impact that would otherwise not have happened, systemic-level additionality ensures that blended finance helps create long-term market transformation that makes future private investments more sustainable and scalable. Systemic-level additionality focuses on market-building, regulatory improvements and strengthening the eco-system. It aims at reducing reliance on concessionality over time; measures impact through structural changes in capital markets, investor confidence and sustainable capital flows; and often involves policy reform, institutional strengthening and financial innovation. The leverage of systemic additionality – particularly in building of capital markets – is significantly greater than transaction-level additionality because it addresses challenges at a more aggregate level (factor markets) and helps create a stronger foundation for private investment in the longer term.

Whereas additionality at the transaction level can be challenging to establish, systemic-level additionality is even more complex, as it involves indirect, long-term and market-wide impact. Donors and other providers can apply a combination of several data collection methods including market diagnostics and investment climate surveys, stakeholder interviews, case studies and monitoring and evaluation frameworks. Possible key performance indicators for systemic-level additionality could be: market development indicators (e.g. increased bond issuance or new financial products); policy and regulatory shifts (e.g. reforms of laws/regulations); institutional capacity building (e.g. strengthening of local financial institutions' ability to finance projects without blended finance); replication and demonstration effects (e.g. number of follow-on projects or private investments) and exits from concessionality (e.g. improved risk perception or investor appetite).[11]

Ensure additionality is assessed, documented and publicly disclosed

Donors should ensure that additionality is assessed and documented ex ante of an investment and closely monitored and adjusted throughout the lifetime of the investment (see Subprinciple 2.D and EBRD (2024[45])). Good practice ex ante financial additionality frameworks typically involve a mixed methods approach combining a qualitative assessment based on project-specific narratives, and quantitative screening tools rooted in available data to maintain simplicity, replicability and rigour (see Chapter 6 for good practice examples of additionality assessment frameworks for selected DFIs and MDBs). As MDBs/DFIs generally lack sufficient data to ensure rigorous, high-quality ex ante assessments of financial additionality (see the Context and trends section earlier), co-ordinated efforts among MDBs/DFIs could enhance access to, and improve collection and interpretation of, such data.

Internal guidelines should be provided to deal teams on how and what to cover in their description related to financial additionality and they should be updated regularly to maintain relevance. The responsibility for updating the guidelines could be placed with a unit that has an independent controller function for each project, as an internal quality assurance mechanism. Experience with establishing independent controller and/or quality assurance units within donors, MDBs, DFIs and other development finance providers should thus be shared among stakeholders to learn about the concept and develop it further.

The principle of ensuring assessment and documentation of additionality include intermediaries, and it is therefore important to understand the additionality of the financing provided to these intermediaries as well as the additional services they offer to local enterprises beyond what they would provide on their own. Development finance providers therefore need to work collaboratively with intermediary channels to develop good practices for safeguarding the development profile and additionality of these channels.

Additionality assessments should be made publicly available to foster accountability and facilitate feedback from stakeholders. This is elaborated further under Principle 5.

Encourage a more harmonised approach to interpreting and assessing additionality in development finance, including blended finance

There is no commonly agreed-upon interpretation of and methodology for assessing additionality among blended finance actors. Many institutions (donors, MDBs, DFIs) interpret and assess additionality in blended finance differently. A more harmonised approach and methodology for defining/interpreting and assessing additionality in blended finance is therefore needed and donors should encourage this. This could include refining the typology of additionality and agreeing on good practices on assessment and documentation of additionality. A collaborative approach could also lead to agreement on clear indicators on additionality.

Ensure additionality assessments and assumptions are evaluated to enable continuous learning.

Evaluating additionality assessment and assumptions is critical to enable continuous learning and improve the frameworks. It is also important to ensure that development finance is used to truly mobilise private capital and generate impact while minimising the risk of inefficiency, market distortion and the misallocation of resources.

Evaluation of additionality should be undertaken at three stages:

1) ex ante through, for example, counterfactual analysis (where possible), market benchmarking and stakeholder surveys
2) during the lifetime of an intervention through continuous monitoring to undertake course corrections as needed
3) ex post through, for example, trend analyses, interviews and case studies to evaluate the accuracy and validity of the ex ante assessment.

Subprinciple 2.B. Seek leverage based on context and conditions

In the context of blended finance, leverage refers to the ways in which specific instruments and structures stimulate the allocation of additional financial resources for particular objectives. It requires a demonstrable causal link between finance made available for a specific project and the leveraging instrument used (Benn, Sangaré and Hos, 2017[46]). Greater leverage is often seen as a measure of success in mobilisation, as it measures the efficiency and effectiveness of development finance in mobilising private capital volumes. However, using high leverage as a target should be considered carefully, as more leverage is often easier to achieve in lower risk transactions where private investors have a higher appetite to invest. Pursuing higher leverage may push blended finance into lower risk contexts with better market conditions at the expense of contexts with higher risk and more challenging market conditions. The pursuit of leverage should, therefore, be aligned with the development co-operation policy choice and the related theory of change in question.

Anchor the design of blended finance transactions in the specific development objective, taking context-specific drivers into account

Seeking leverage implies designing blended finance transactions considering context-specific drivers. Like additionality, leverage – or mobilisation – is context-specific. Its potential depends on the environment's and the investment's risk and return profile and is a function of specific country, sector, market and project characteristics. This highlights the importance of using the right blended finance instruments and mobilisation models in the right context. Understanding the context of a specific project, programme or transaction is critical for the choice of instruments and for setting the right expectations and mobilisation targets. It is a development co-operation policy choice whether to support trailblazing investments such as in adaptation for smallholder farmers or access to finance for micro enterprises in LICs, growth of "missing middle" SMEs and market creation in MICs, and/or scale-like investments such as large infrastructure projects in upper middle-income countries. However, for each of these objectives it is critical to select the appropriate blending model and structure to ensure the optimal use of scarce development finance. Importantly, mobilisation models cut across both the investment value chain and the context. Evidence shows how small-scale investment opportunities do not always require small-scale solutions.

Mobilisation at scale implies increasing the volumes of mobilised private finance, but it also implies scaling up outreach to underserved stakeholders in EMDEs that need investment and access to finance. Increasing volumes typically involves large institutional investors in international capital markets buying standardised, large-ticket products (USD 100 million and greater). Important routes to scaling volumes include market-building interventions triggering transactions that require no blended finance but that otherwise would not have occurred. Scaling up outreach typically involves supporting smaller scale opportunities with higher transaction costs and smaller volumes of mobilisation – although multipliers can still be high. In this regard, engaging local investors can both help scale and support outreach, especially in local currency finance.

For scale mobilisation, select effective instruments and mechanisms, for example securitisation, guarantees, structured funds and bonds

Providers of development finance into blended finance should identify mobilisation instruments and structures that have proven to be efficient and effective in mobilising private finance. Mobilisation at scale requires instruments and structures that are able to produce assets investible for a wider market of institutional investors or that can mobilise large sums of private finance. As elaborated in the context and trends section above, examples include **securitisation, guarantees, structured funds and debt instruments** (bonds and debt-for-X). These mechanisms share a common feature in their ability to slice and distribute risks into different layers which are tailored to the risk-return preferences of various investors. By slicing risks and returns, these instruments enable tailored investment opportunities and thereby enhanced financial efficiency and broader participation in financial markets. At the same time, they also have standardisation features that facilitate the entry of investors at scale.

Securitisation

Securitisation presents an opportunity to mobilise private capital at scale by transforming some of the risk of illiquid assets into investible securities, thus enhancing risk-sharing and leveraging the capital market to fund critical sectors such as infrastructure and SME financing. It encourages the development of new financial instruments in which institutional investors can invest, signalling to the market that EMDE assets are investible. Particularly when undertaken in the transparency of public markets, securitisation can create demonstration effects and send strong signals to private investors. Securitisation can thus serve as an effective intermediation mechanism, enabling large-scale institutional investors to access dedicated exposures they would normally not consider due to ticket size mismatches, lack of due diligence knowledge and capacity, the absence of local presence, high transaction costs, or high perceived risk.

Securitisation is a well-established process for loans originated by commercial banks. Loans originated by MDBs/DFIs can also be securitised. MDBs and DFIs are well-positioned to leverage their high-quality loan portfolios – characterised by strong underwriting capacities, long track records, low default rates and where MDB lending to the public sector is concerned, their preferred creditor status – and transfer credit risk from their balance sheets to finance additional projects (OECD, 2021[47]).

While MDBs and DFIs play an important role in providing additional finance to otherwise underserved borrowers, local commercial financial institutions also have significant exposure to, track record in and knowledge of lending in EMDEs. Where appropriate, these institutions could scale their lending through securitisation, unlocking new sources of capital and enhancing financial inclusion in EMDEs (OECD, 2021[47]).

Donors with scale mobilisation as a development policy objective should investigate if securitisation could help deliver this policy objective. Donors could facilitate the use of securitisation in several ways:

- As partly owners and shareholders of MDBs and DFIs, donors engage with these institutions and could encourage scaling up multi-asset mobilisation and shifting the business model from "originate-to-hold" to "originate-to-share" (CGD, 2023[48]) while also encouraging closer collaboration between MDBs and DFIs. As part of this, donors should encourage pooling of assets across institutions. Few MDBs/DFIs have the volume of assets necessary to sustain a standalone true-sale securitisation programme; over time, they will need to move towards solutions that involve pooling assets held across different development institutions and even with private sector counterparts.

- Donors (and other development finance providers) could help enable local banks and financial institutions to undertake more lending by sharing or buying credit risks with or from commercial lenders' operations, thus incentivising them to lend more to projects with the greatest financing needs and highest development impact potential (OECD, 2021[47]).
- Donors could support and facilitate replication of transactions like the Bayfront IABS. This transaction holds significant strategic importance that reaches beyond the immediate financial impact. It mobilises institutional capital, enhances secondary market liquidity, introduces sustainable investment opportunities and sends a strong signal to the market that infrastructure assets in EMDEs are investible. The transaction thus exemplifies market creation through demonstration. It employs an innovative financial model that can be replicated to mobilise more private capital through securitisation and illustrates how public funds can mobilise institutional investment at scale while investing pari passu with private capital, particularly for climate-resilient infrastructure.
- Donors could build into investment assessment frameworks the possibility of creating securities that can be purchased by institutional investors, and they could proactively signal to the market their interest in blended finance models that create products for a wider market of investors.

Although securitisation is a powerful mobilisation tool, it is not an end in itself. It is important to understand the different types of securitisation models and the roles securitisation can play in relation to both balance sheet optimisation and the mobilisation of private capital at scale. Equally important is analysing which of the several different models are best suited to achieve a given objective and what role donor agencies can play. It is also essential to understand the risks and the limitations related to different securitisation models.[12]

Securitisation in development finance is relatively novel. Donors should therefore encourage development finance providers to continue to learn from each other and collaborate with market participants and regulators to intentionally build a market for securitisation of development finance and impactful private assets in EMDEs. MDBs/DFIs should learn from market participants and regulators to align with best practices and investor expectations regarding consistent documentation, structuring, risk management, terms, rating methodologies and underlying contracts. Collaboration on market standards should seek to enable competition and innovation, not to undermine it. Donors should also encourage the emerging development finance community of practice on securitisation to engage more systematically with their regulatory and private sector counterparts to build awareness of development finance assets in the market and deepen the understanding of investors' and regulators' expectations.

Lastly, donors should encourage more transparency around transactions. Transparency is critical for replication and benchmarking to build markets and achieve scale. Transparency is achieved by default in public market transactions; in private market transactions, often only a few actors have access to information about the transaction. To ensure that securitisation functions as a market-building exercise, donors should work to increase transparency when supporting securitisation, whether directly or indirectly through MDBs and DFIs.

Chapter 6 contains case studies on different securitisation models and transactions. Together, the cases illustrate how financial institutions can use both true-sale securitisation and synthetic risk transfer (SRT) as a powerful tool to create markets and mobilise institutional investors in capital markets while simultaneously starting, continuing or expanding their lending to borrowers such as entrepreneurs, SMEs, corporates or large infrastructure projects.

Guarantees

Development guarantees are an effective instrument to mobilise private capital at scale in addition to creating markets and providing access to finance for underserved segments of the population, as evidenced earlier.[13] However, guarantees are still an under-utilised tool for mobilising private capital. There is thus a significant need to scale up their use. There are several ways that donors can support the use of guarantees:

- Donors and other providers of development finance should investigate the possibility of establishing new guarantee schemes that are additional to existing supply, or engaging in, and pooling resources with, existing guarantee schemes and platforms to increase the supply of guarantees in the market. Collaboration and co-ordination are critical to minimise the risk of crowding out not only the private sector but also other public guarantee providers which would represent inefficient use of limited development finance.
- Donors should work to address the challenges that prevent realising the full potential of guarantees including a lack and limited transparency of data, limited capacity and knowledge on guarantees and complexity in setting up guarantee mechanisms.
- Donors should encourage the rules and practices of accounting for guarantees on providers' balance sheets to be further investigated to enable peer learning among providers with a view to possibly unlocking further guarantee capacity. Constraints posed by Basel III and Solvency II regulations should also be further investigated and addressed in consultation with relevant regulatory authorities.
- Donors could attempt to expand guarantees to LICs and fragile and conflict-affected situations depending on their development policy priorities. These contexts are riskier because of political instability, relatively weak legal systems, currency volatility, poor infrastructure and shallow financial markets. Designing guarantees for such contexts could focus more on local currency guarantees, fast and simple claims processes and bundling guarantees with capacity building.
- Donors should investigate the possibility of using the callable capital frame[14] (USD 900 billion) as a basis for issuing guarantees in EMDEs. This is in accordance with Recommendation 2.a. of the Capital Adequacy Framework (CAF) report noting that callable capital has considerable financial value that can be incorporated into CAFs and calling for MDBs to consider callable capital as a specialised type of shareholder guarantee that creates a certain amount of capital headroom (EC HLEG, 2022[49]; Independent Expert Panel, 2022[50]).
- Donors should consider key learnings for the effectiveness of guarantees, including that 1) guarantees must be better tailored to risk as one size does not fit all; 2) transparent and standardised additionality assessment is essential to ensure crowding in of private finance; 3) simplicity and speed are crucial for private sector uptake; 4) re-insurance can expand capacity and reduce risk concentration; and 5) guarantees work better within a co-ordinated and transparent system (CGD and Lion's Head, 2025[22]).
- Donors should ensure that guarantees serve as a temporary crutch for investors as the need for them should fade away as investors build experience and confidence under the protective umbrella of the guarantee.

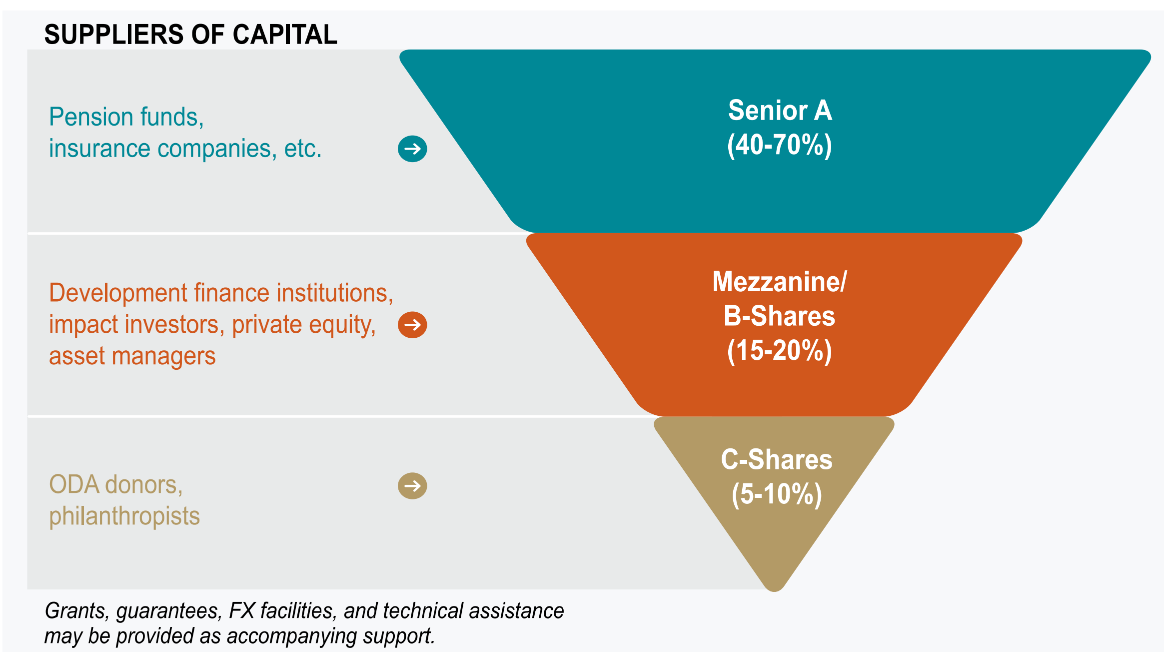
Chapter 6 provides cases studies on guarantees that have been able to scale the mobilisation of private finance for sustainable investment, stimulate the development of financial markets, unlock clean energy finance and promote small-scale investment opportunities by facilitating access to finance for micro, small and medium-sized enterprises. Together, the cases illustrate the flexibility, breadth, depth and scope of guarantees.

Structured funds

Structured funds are a mechanism designed to pool resources, distribute risks and address financing gaps in developing countries. Effectively structured funds incorporate layered risk-mitigation mechanisms that attract diverse investors, including junior, mezzanine and senior tranches that balance risk and return preferences. Diversification of risks across multiple projects, and layers of equity and/or subordinated junior and mezzanine debt tranches of capital, can enhance the senior debt in the fund to investment grade and attract institutional investors. Pooling also offers institutional investors large ticket sizes and avoids them needing to understand underlying risks/contexts, which is a major constraint to investment in individual EMDE assets.

Figure 2.3 illustrates the capital structure and operational flow of a typical blended finance fund. Capital is sourced from a diverse number of investors, including senior A-shares (pension funds, insurance companies), mezzanine B-shares (DFIs and mission investors) and junior C-shares (ODA donors and philanthropists), where a technical assistance facility may also be supported by extra grant financing. Managed inhouse by an MDB or DFI, or outsourced to a private fund manager, this capital is intermediated through equity, loans or other instruments (senior debt, mezzanine debt, guarantees) to target investees, ensuring dual alignment with both commercial returns and developmental impact goals.

Figure 2.3. Typical structured fund capital stack



Note: ODA: official development assistance. Technical assistance facilities - which are not part of the capital stack - play a critical role. This assistance can be provided by donors, development finance institutions, multilateral development banks and some philanthropists. While the structure depicted here reflects cases where sub-commercial terms are needed in junior tranches to attract private capital, in fully commercial structures private investors may also hold the most junior equity-like positions. Similarly, ODA donors may not always be found in the junior tranche, but often sometimes in the mezzanine trance. As such, the composition of each tranche varies depending on the risk-return profile of the investors and the availability of concessional capital.

Source: Based on Koenig and Jackson, (2016[51]), *Private Capital for Sustainable Development: Concepts, Issues and Options for Engagement in Impact Investing and Innovative Finance*, https://etjackson.com/wp-content/uploads/2019/05/2016_Private_Capital_for_Sustain_Development.pdf.

Donors should use and promote structured funds as part of their scale mobilisation efforts. Structured funds – particularly two- and three-tier funds – have been identified as one of the most effective private investment mobilisation models that can be standardised and replicated to scale mobilisation (Convergence, 2025[15]). However, several important considerations need to be made when promoting structured funds:

- Choosing the right fund structure, whether it be closed or open-ended, debt or equity-funded or flat or structured, remains key in ensuring the alignment of investor priorities and expectations, calculating appropriate concessionality levels and achieving effective impact. For example, while equity-based funds may typically drive greater impact by absorbing greater risks, they typically require more patient concessionary capital, whereas debt-based structures help appeal to more risk-averse investors but can often fail to serve early-stage or high-risk projects.
- Simple structures can expedite fund development and allow investors to clearly understand the risk-return dynamics of their position within the capital stack. However, for maximum capital mobilisation in consideration of specific market needs, sectoral risks and/or country-specific characteristics, more elaborated fund structures incorporating catalytic mechanisms – such as FX hedging facilities, reserve accounts and guarantees – can play a transformative role. These more intricate designs enable DFIs, MDBs, and asset managers to mobilise private capital effectively, tailoring solutions to align with diverse investor profiles and the unique requirements of high-impact sectors and regions.
- Avoid "subsidy stacking": When multiple development finance providers are involved in a fund there is a risk of "subsidy stacking" where they in fact mobilise one another instead of private capital, thereby setting artificially low benchmarks that distort markets and crowd out private participation. To ensure additionality in catalysing private investment, provider(s) of development finance must prioritise junior tranche positions, allow senior tranches to be reserved for private investors, maintain their role as market builders, adopt "originate-to-share" rather than "originate-to-hold" models, and establish clear exit strategies to avoid becoming long-term market participants.
- Balance the trade-off between scale and priority for high-risk sectors and geographies: Investments in contexts experiencing high and extreme fragility or high-risk sectors typically demand high levels of concessionality to address political instability, information asymmetries or nascent markets.
- Align policy with market demand to avoid donor fragmentation: Donor governments' political and strategic priorities may not align with investors' market demands. This misalignment can further complicate fund structuring and slow down fund management decision-making processes, thereby inhibiting the potential replicability required for scaling private mobilisation efforts.
- Standardise fund structures: Structured funds are resource-intensive, with high legal, due diligence, and reporting costs, and lengthy timelines from concept to first close. The lack of standardisation deters private investors (especially institutional ones) who prioritise predictable, simple and scalable investment opportunities. Enabling replicability and scale requires that fund structures be aligned with preferred investor frameworks and regulatory constraints, especially as smaller fund sizes and domiciliation sometimes restrict institutional involvement. Fund structures can be tailored to attract the necessary funding by making the target investor base clear, whether it be institutional, impact-driven, or regionally focused.

Chapter 6 contains case studies on different types of structured funds. Simple two-level capital structures, which allow investors to easily understand risk-return dynamic, have proven crucial in attracting a broad spectrum of investors, particularly institutional investors which is one of the segment groups required to scaling up private finance mobilisation efforts (BII, 2025[14]). Funds can however also adopt more elaborate structures, incorporating additional catalytic mechanisms (for example FX hedging facility, technical assistance, reserve account) to address diverse investor needs. Designing funds with a clear rationale and focus helps ensure that the fund's capital is directed towards underserved markets with intentionality – balancing concessionality with commercial viability while also embedding learning, transparency and local capacity building into the fund's operational model.[15]

Bonds and debt swaps

GSSS bonds have proven to be powerful tools to drive financing towards green or social projects, or to incentivise future improvements in agreed-upon sustainability outcomes.[16] Crucially, they link scale, impact and long-term investment horizons – and therefore hold significant potential for financing sustainable development in developing countries. It is important to note that GSSS bonds are debt instruments, meaning that they should only be considered for issuers that have room to sustainably take on more debt. This is particularly important considering worrying trends in developing countries' high debt vulnerability and distress (WB, IMF, 2024[32]). Relatedly, issuing bonds – let alone GSSS bonds – requires significant human and technical capacities, which may be lacking in developing countries (and can be especially pronounced for first-time issuances). This highlights the importance of effectively assessing and evaluating the decision to issue GSSS bonds. Where appropriate, however, GSSS bonds hold significant advantages for issuers, also in developing countries and for the public sector.

Donors are particularly well-placed to support GSSS bonds, which align well with their own sustainable development priorities. They are also familiar with developing country contexts and often have existing relationships with key stakeholders needed to support GSSS bonds (including debt management offices and diverse ministries). More broadly, donors' experience with blended finance instruments can also be applied in the context of GSSS bonds. The nascent stage of the SLB market provides an important opportunity for strong market development from the onset, and for ensuring that this instrument establishes itself as a credible financing tool for developing countries. While donor support in this area remains limited, some noteworthy examples exist. The Development Bank of Rwanda's 2023 SLB, for example, benefited from credit enhancement from the World Bank International Development Association (IDA) funds – which was also the first time IDA financing was used to leverage private capital. OECD (2024[29]) explores this example in more detail.

In situations where debt vulnerability or distress is an issue, donors can support debt sustainability in certain markets by providing technical assistance, guarantees or insurance. One instrument that has proven to be effective are debt-for-X swaps. These are financial arrangements where a country's external debt is reduced in exchange for commitments to invest in specific areas (X), such as climate, nature, health or education. The swaps can help highly indebted countries free up resources for development or environmental protection while reducing their sovereign debt burden. At the same time, however, debt swaps are complex and expensive, and should not be seen as an alternative to debt restructuring (when needed) or to putting in place policies and measures to avoid debt distress in the first place (OECD, 2023[52]; Georgieva, Chamon and Thakoor, 2022[53]).

Donors should explore if GSSS bonds and debt-for-X swaps can play a role in their development co-operation toolkit as mobilisation instruments and as instruments to reduce debt distress. A crucial first step in the decision to support GSSS bond issuances in developing countries is the recognition that these are complex debt instruments. Their issuance rests on broader macroeconomic and institutional factors; their use must therefore be carefully evaluated and assessed, while also recognising the complementarity of GSS bonds and SLBs based on an issuers' ultimate financing needs. Previous OECD work presents a decision tree to guide the choice of donor support for GSSS bonds (OECD, 2024[29]).

When either GSS bonds or SLBs are deemed the appropriate financing solution for issuers, donors can support issuances through a range of instruments/approaches, and by targeting different policy areas. Recognising the importance of donor support for GSSS bond issuances in developing countries, the OECD identifies five major policy areas for donors to effectively support the growth of the GSSS bond market, in its "Five Is" framework: investment, insurance, issuance, (market) infrastructure and impact (OECD, 2023[28]; OECD, 2024[29]).

- In relation to investment, donors can support developing country issuances via anchor investments. This can signal to other investors the credibility of the bond and the issuer and adjust the risk-return profile of a transaction. Donors should, therefore, encourage scaling up their engagement with potential bondholders and their investment in GSSS bonds.

- In relation to insurance, donors can leverage the mobilisation potential of guarantees. They should consider increasing their own institutional capacity to provide guarantees, or exploring joint guarantee programmes, with a view to scale up their use for GSS bonds and SLBs.
- In relation to issuance, support can be provided to address a variety of barriers, including a lack of technical capacity, limited project pipelines (in the case of GSS bonds) and missing stakeholder co-ordination. For example, donors can support the aggregation of small-scale projects or provide early-stage equity investments to build up robust project pipelines.
- In relation to market infrastructure, donor support can be fundamental in helping to create the right enabling environment for GSS bonds and SLB issuances in developing countries. This can involve, for example, targeting capacity building and technical assistance towards ministries of finance, debt management offices, local external reviewers and other key actors who can then support local issuances. Donor support can also focus on the development of local taxonomies and GSSS bond principles and standards which are adapted to local contexts but also interoperable between each other and with global best practices (e.g. those set by the International Capital Market Association).
- In relation to impact, donor support can target a range of areas. Standards, principles, frameworks and taxonomies all play a crucial role in increasing the robustness and credibility of GSSS bonds. Donors can support the development of these while ensuring that they are adapted to local contexts and aligned with global best practices. For SLBs in particular, donors can also assist issuers in choosing key performance indicators and sustainability performance targets which are ambitious, material and harmonised.

Regarding debt-for-X swaps, donors can support their scaling up, for example debt-for-development, debt-for-climate and debt-for-nature swaps. Given the complexity of these schemes, donors can provide capacity building to familiarise debtor countries with these instruments and support with designing and structuring schemes (OECD, 2023[52]). Donors and MDBs/DFIs can provide financial support for buybacks and restructuring and can offer guarantees and other risk-sharing mechanisms (e.g. currency hedging mechanism) to make the transactions more attractive for private investors. They can also support institutional capacity building and governance frameworks and enhance monitoring and impact measurement to track progress towards sustainability commitments. Debt-for-X swaps can also be combined with SLB issuances to achieve greater fiscal relief and lower borrowing cost, by issuing an SLB with sustainability targets and using the proceeds to fund a debt-for-nature or climate swap.

The importance of co-ordination and co-operation in this space should be noted. While some donors already support developing countries in these different policy areas, there is a need for donor co-ordination and co-operation to leverage synergies and comparative advantages. Donors should co-ordinate on supporting large-scale blended finance instruments for GSSS bonds and debt-for-X swaps. As part of this, donors should develop a strategic co-ordination mechanism for GSSS bonds and for debt-for-X swaps to facilitate co-ordination on impact and blended finance instruments that aim for scale. They should also promote the comparability and interoperability of taxonomies and standards and encourage the harmonisation of high-quality impact measurement and reporting on GSSS bonds.

Subprinciple 2.C. Deploy blended finance to address market failures while minimising the use of concessionality

> *Use financial modelling combined with competitive processes (such as tender processes, calls for proposals, and open access programmes) to establish a minimum level of concessionality*

When concessionality is deemed necessary, minimising it in the development finance element is important to find the right balance between mobilising commercial investors and not over-subsidising or crowding them out of the market. The minimum level of concessionality is a subsidy that is sufficient enough to mobilise private investors but not more than that so that subsidies are not offered to investors who would have accepted a lower level or could have obtained finance at market conditions. This is a very delicate balance to strike, as it requires private investors to willingly accept the most unfavourable terms at which they would like to participate in a transaction, and there is no reason for them to do so. It is difficult to make public the relevant financial information and actual preferences of private investors, and preferences even vary between international and local investors who possess better risk assessment capabilities. This complicates the work of development finance providers. However, both financial modelling and practical steps can be taken by donors and other providers to establish the minimum level of concessionality:

- Apply quantitative methods to determine the appropriate level of concessionality wherever possible. For blended finance involving debt finance, risk-based approaches such as expected loss models can be used as a reference point to size the share of concessional finance in a blended finance project or fund. For equity, project returns should not exceed average returns for the industry/sector in the country. Available benchmark data from comparable industries, sectors and geographies can be used, taking differences in country risk into account.
- Consider setting a maximum amount for concessionality. This can be a limit on the concessional amount as a percentage of total project costs based on context-specific risk analysis and benchmarks.
- Monitor concessionality over time. As risk profiles and markets evolve, the need for concessionality in each context and blended finance transaction may change. Donors and other providers of development finance therefore need to actively monitor blended finance transactions over time as well as market developments around them and re-assess the level of concessionality required.[17] For example, the risk profile of projects typically improves once they reach their operating phase, requiring lower or no concessionality; or growing track record and progress in developing local capital markets may close the gap in terms of maturity and return requirements that concessional finance initially aimed to fill.
- Build mechanisms to reduce concessionality over time. For example, in structured funds, concessional finance for first loss tranches could be phased out over time, thereby reducing the concessionality deployed for the donor as the investor gets more comfortable with the risk profile of the investment and ensuring financial sustainability. Similarly, over time and as the investment track record has been built in each market, concessionality can be redeployed to areas that help accelerate market building, such as technical assistance. In addition, underperforming assets should be exited if they are not showing any route to commercial sustainability, as maintaining a position while the value falls and other investors exit implies that the level of concessionality over time is increasing.[18]
- Combine financial modelling with competitive processes to better determine the minimum level of concessionality. This includes using tender processes, auctions and open access programmes combined with a thorough assessment of the barriers that prevent the investment.

Identify market failures, analyse the drivers of concessionality and choose the right instrument

If commercial finance is available in the market, it should be prioritised to limit the use of development finance. The World Bank cascade approach can help conceptualise if and when there is a need for development finance to overcome barriers for commercial investors, and which type of risk mitigation is appropriate. Barriers, or market failures, should first be addressed by upstream reforms, and risk-mitigating instruments should only be considered if this proves impossible. The cascade approach implies that highly concessional finance should only be used as a last resort in markets where commercial finance is not available and where market failures or barriers to investment cannot be addressed through reforms or risk-mitigation instruments (WBG, 2017[54]).

Donors should understand the root causes of market failures

It is thus crucial for donors and other providers of development finance to understand the root causes of market failures in each context to be able to streamline blended finance efforts accordingly. Market failures include public goods with positive externalities, information failures, structural market inefficiencies, first-mover challenges and misperception of risk in EMDEs. Providers should identify the source and extent of the market failure that the blended finance approach should address and verify if accompanying reform measures are needed to address it in a sustainable manner. Providers should also ensure that blended finance is only used to address temporary market failures.

Donors should understand the drivers of concessionality

Once the market failure(s) has been identified, the drivers of concessionality should be assessed. These include the expected development impact, the type of financial instrument, sector and geography, project cycle and market maturity. A high development impact (implying a high positive externality of the investment) can merit a higher level of concessionality to crowd in commercial investors. The concessionality of blended finance instruments can vary from 0% (senior loans at market terms) to 100% (one-off grant). Sector and geography influence investment risk and hence the level of concessionality necessary to crowd in commercial investors. Project cycle influences concessionality in the early-stage development phases and needs for environmental and social impact assessments (e.g. for large infrastructure projects) may require higher levels of concessionality. Market maturity determines the level of concessionality where higher levels may be justified in immature markets. As markets develop and investments become more commercially viable, the level of concessionality should reduce over time.

Make concessional finance available to all implementing entities at equal terms, for example by using open tenders or pooling concessional funds across donor agencies to enhance equal treatment

When deploying concessional funds, donors and other providers of development finance should establish fair and equal access procedures so that all market participants, both public and private, can understand the objectives, terms and conditions for accessing concessional funds.

As practical steps, donors can pool their concessional funds to enhance equal treatment and standardisation of access across development finance providers. They can also use tender processes, auctions, calls for proposals and open access programmes to test market demand for concessionality on equal terms. Open calls for proposals are a useful way to test market demand and typically provide a relatively high degree of flexibility by applications regarding the use of concessionality. Open access programmes set the parameters of a blended finance operation (e.g. a partial risk guarantee to financial institutions for SME lending programmes) which are open to multiple institutions to apply for (IFC, 2021[36]).

Co-ordinate and, where possible, harmonise on reporting of concessionality in a transparent manner, including for implementing partners, and agree on a set of standardised key parameters

Donors should engage in a continuous dialogue on concessionality with other donors and providers. This is necessary to harmonise principles to determine concessionality among development actors, including on reporting. Co-ordination on blended finance programmes and transactions is crucial particularly when a concessional element is part of a programme.

Donors should ask their implementing agencies (such as DFIs, MDBs and fund managers) to report on the use of concessionality in a transparent manner. Implementing partners need to regularly and publicly report on the amount of concessional finance used in blended finance transactions, financial returns achieved and impact generated on a project-by-project level. Reporting on a set of standardised key parameters in blended finance transactions in a transparent manner would enable a repository of reference data that can inform the structuring of future blended finance transactions. This would, in turn, contribute to developing the market for blended finance by creating a data set that would allow comparison of the use of concessionality in different contexts and the establishment of benchmarks to help ensure minimum concessionality.

Subprinciple 2.D. Focus on commercial sustainability

Blended finance is intended to temporarily intervene in a market with the purpose of enabling access to commercial finance, thereby making the need for further blended finance redundant. The long-term objective of creating commercially sustainable markets needs to be incorporated into blended finance approaches. However, this cannot be achieved at the level of the blended finance transaction alone. Achieving commercial sustainability therefore entails:

- accompanying interventions to develop adequate policy, sector and investment frameworks
- facilitating capital market development
- incorporating exit strategies into blended finance.

Combine blended finance with support to underlying market fundamentals

Donors should contribute to the establishment of the necessary underlying market fundamentals in developing countries, e.g. sector policies and regulatory frameworks that allow for cost recovery of investments, for example through technical assistance. Blended finance is not sustainable in environments where minimum market fundamentals are not in place or are not being developed to attract commercially sustainable investments. Blended finance transactions therefore need to be designed and implemented in close co-ordination with partner governments and development interventions focused on creating sustainable market fundamentals in countries, sectors and for population groups where they are not yet in place. Otherwise, blended finance risks providing ineffective subsidies to a target structure and market without ensuring commercial sustainability. As part of this, donors should work to facilitate local capital markets to underpin the commercial sustainability of blended finance transactions (see Subprinciple 3.B.).

Incorporate exit strategies into blended finance, both at the level of the transaction and at market level

Donors and other providers of development finance should ensure that blended finance is phased out once the investee generates sufficient cash flows and markets are developed enough to attract commercial investors. Exit strategies should be systematically included in the design of a blended finance intervention, both at the level of the transaction and at market level. Exit indicators should be defined within the due diligence of a transaction from the start. Relevant exit indicators include both financial and development indicators. Financial indicators include the stage of capital market development, return thresholds being achieved, available data on actual risks and loss rates versus initially perceived risks, and private investor response to auction processes. Development indicators can trigger an exit of blended finance both if the expected development objective is achieved and if there is a significant shortfall in achieving the target objective as this may signal a failure by the blended finance intervention to achieve its target.

Practical steps to ensure commercial sustainability

Timing of concessionality

- Assess the likelihood that the blended finance transaction will be financially sustainable without the concessional element after a reasonable time frame for the specific sector or geography and within an enabling environment.
- Build a clear exit strategy of the concessional element at the design stage, for example reducing levels of concessionality in repeat transactions, introducing a repayable grant mechanism in case of successful project development, or applying a limited maturity through closed-end blended finance funds that returns the donor capital after a defined period.
- In the case of open-ended blended finance funds or other structures that lock in concessional finance for a long-term horizon ex ante (such as project finance), build in market testing mechanisms at regular intervals to validate the need for concessional finance and recalibrate the estimation of the amount/relative value of concessionality left in the structure (e.g. following fund redemptions or as a securitisation amortises).

Exit strategies

- Consider a cascade approach for phasing out blended finance, with concessional finance gradually being replaced by non-concessional finance to finally reach stand-alone private finance based on market building and familiarity.
- Market the blended finance fund to private investors and assess their appetite to take out the development finance. If deemed inappropriate to change the conditions after the establishment of the fund, a maturity for the concessional portion could be set.
- In open-ended funds where take-out for concessionality is not available, use existing concessionality to invest in new, higher risk markets and sectors that still justify the use of concessionality.
- In a project finance structure, exit an asset (e.g. through asset sale of an infrastructure public-private partnership) once it has reached the operating phase. Alternative financing mechanisms for the development, construction and operating phase should also be considered.
- Exit mechanisms should as much as possible aim to attract local investors (such as local commercial banks, local pension funds, insurance companies), and there should thus be a focus on local currency financing where possible.

It should be noted that a complete exit of the development finance provider is not feasible in all contexts or under all conditions even in the medium to long term, especially in contexts facing high and extreme fragility and least developed countries (OECD/UNCDF, 2020[55]). Investments in pioneering firms in terms of patient or risk-taking capital can enable them to overcome high pioneering costs and have catalytic effects throughout the entire economy (International Growth Centre, 2021[56]). Hence, in such contexts the presence of development finance might be indispensable even in the longer term to enable private sector investment and eventually build up markets.

Notes

[1] In a report from April 2025 on the importance of disclosure of additionality, Publish What You Fund assesses how bilateral DFIs disclose the additionality of their private sector investments. The findings indicate: inconsistent compliance, with only few DFIs disclosing all required additionality fields in 2023; formulaic classifications, with inconsistent application of additionality types even among the DFIs that disclose the types; over-reliance on financial additionality at the expense of value additionality; and variable quality of additionality statements by the DFIs (more information at: https://www.publishwhatyoufund.org/2025/04/making-additionality-count-why-development-finance-institutions-must-step-up-on-transparency/).

[2] United Nations, G7, G20 and COP high-level communiques and statements have emphasised the need to scale up blended finance and mobilise additional private finance include G7 Canada 2018, G7 France 2019, G20 Osaka Declaration 2019, G20 Bali Leader's Declaration 2022, the G20 India Sustainable Finance Report 2023, the G7 Development Ministers' Meeting Communique 2024, the UN Pact for the Future 2024 and COP29 Baku 2024.

[3] Convergence has proposed a Scale Private Investment Mobilisation (SPIM) action plan to mobilise private investment by scaling up proven models that deliver impact and investment at scale. A significant part of the action plan consists of 12 Private Investment Mobilisation Models (PIMMs) identified by Convergence and consulted stakeholders as the most effective and efficient way to standardise and scale SDG and climate investment in developing countries. The PIMMs are based on a review of historical mobilisation transactions that 1) have demonstrated effective and efficient mobilisation, and 2) have best potential to mobilise private investment to/within developing countries in the quantity and quality necessary for sustainable development. The 12 PIMMs include guarantees, securitisation, structured funds (2-3 tier) and bonds. BII (2025) discusses particularly the use of structured funds to scale up mobilisation, and MOBILIST (2023) illustrates how securitisation is used to mobilise private capital at scale.

[4] The OECD is working with MDBs to harmonise mobilisation metrics and include new private finance mobilisation approaches in the measurement; these include portfolio mobilisation (e.g. securitisation), generation (e.g. bond issuance) and catalysation (activities to create an enabling environment, see also Principle 3).

[5] The Warehouse Enabled Securitisation Program (WESP) is the IFC's new securitisation programme designed to scale private capital mobilisation, aligned with the G20's call for MDBs to optimise their balance sheets. WESP's primary objective is building a new asset class of global emerging market securitisations. It will give investors direct exposure to a portfolio of investment projects in emerging markets, with a wide range of risk/return options (senior, mezzanine and residual/equity). See: https://www.ifc.org/content/dam/ifc/doc/2024/WESP-Presentation-Seminar-IFC-Day-Nov-6-2024-External.pdf.

[6] The leverage ratio of a guarantee is the total amount of private finance mobilised divided by the value of the guarantee provided. If a guarantee of USD 10 million is issued that helps mobilise USD 100 million from private investors, the leverage ratio is 100/10 = 10x.

[7] Basel III and Solvency II are regulatory frameworks that influence the use of guarantees in financial markets, including blended finance. Under Basel III, guarantees are subject to risk-weighted asset calculations which can increase the capital banks must hold. This makes providing guarantees more capital-intensive and potentially less attractive for banks. Under Solvency II, insurers offering long-term guarantees face higher capital charges, and this can discourage insurers from providing such guarantees. Also, Solvency II may limit insurers' ability to invest in certain assets or to outsource investment decisions to institutions not regulated under Solvency II, such as some DFIs (see: https://www.convergence.finance/resource/state-of-blended-finance-2024/view).

[8] Gregory (2025) notes that this method does not ensure that concessionality is entirely minimised, as it is possible another party could have delivered the same outcomes for less subsidy, but it does provide some protection against over subsidising activities (Gregory, 2025[35]).

[9] According to MOBILIST 2021 (at: https://www.mobilistglobal.com/research-data/mobilist-the-exit-mobilisation-opportunity-in-africa/), less than 5% of the MDB/DFI commitments covered by the study were made in local currencies.

[10] The DFI Working Group 2023 (in: https://publications.iadb.org/en/dfi-working-group-blended-concessional-finance-private-sector-projects-summary-report), indicates that additionality is often easier to establish in fragile and conflict-affected situations than in other countries. Also, an evaluation of ADB's non-sovereign operations in 2022 showed that additionality was weaker in advanced financial markets, underscoring the importance of phasing out support or shifting financial instrument (see: https://www.adb.org/documents/additionality-asian-development-bank-s-nonsovereign-operations).

[11] The IFC's Anticipated Impact Measurement and Monitoring System is an example of a system that distinguishes between project outcomes and market outcomes and that measures an investment's total anticipated impact.

[12] Securitisation played a central role in the 2008 global financial crisis, where the widespread use of securitised financial products – particularly mortgage-backed securities and collateralised debt obligations – significantly contributed to the crisis. The financial institutions adopted an originate-to-distribute model where they originated loans – especially subprime mortgages – and bundled them and sold them as securities to investors. The model reduced the lenders' incentives to ensure the borrowers' creditworthiness, leading to a proliferation of high-risk loans. Also, complex and opaque financial instruments were created in the securitisation process that were difficult to assess for risk. Investors relied on credit rating agencies, and risks were underestimated. It is thus crucial to understand the nature and the risks of the various securitisation models and ensure that the financial structures being supported with

development finance effectively contribute to sustainable investment without introducing unintended negative consequences.

[13] The OECD defines guarantees as "a type of insurance policy protection banks and investors from the risk of non-payment" (https://www.oecd.org/en/publications/guarantees-for-development_5k407lx5b8f8-en.html). A guarantee is a legally binding agreement under which the guarantor agrees to pay all or part of an amount due on a loan, equity or other instrument in the event of non-payment by the obligor (or a loss of value in case of investment).

[14] Callable capital is a portion of a shareholder country's capital that is pledged to an MDB but not paid up front. It serves as a guarantee that can be called upon in exceptional circumstances, such as if the MDB is unable to meet its financial obligations to creditors. The 2022 CAF report recommends that the financial value of callable capital should be recognised and used to enhance MDBs' lending capacity without necessitating additional paid-in capital.

[15] Regulatory complexities (Basel III and Solvency II) can limit the scaling of blended finance funds and create differences across jurisdictions and between different investor types. Some blended finance funds could be perceived as securitisation, and insurance companies covered by Solvency II face significant regulatory impediments when investing in a securitisation vehicle, i.e. having to maintain significantly more risk capital for investments in securitisation vehicles than investments in non-securitisation ones (See: https://www.convergence.finance/resource/state-of-blended-finance-2024/view).

[16] GSSS bonds can be divided into two sub-categories – green, social and sustainability (GSS) bonds and sustainability-linked bonds (SLBs) – based on the different underlying mechanisms. GSS bonds are use-of-proceeds instruments that are tied to underlying assets, whereas SLBs have structural and/or financial characteristics that change depending on whether issuers meet pre-defined sustainability objectives.

[17] Adhering to the principle of continuously adjusting concessionality over time should be adjusted in situations where specific criteria have already been agreed upon with the involved stakeholders, for example in a fund structure.

[18] Even in a case where the value decreases and blended finance is not working, the underlying asset may still have a strong development rationale, in which case there may be a need to restructure the intervention to conventional development assistance or public support (subsidy).

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3 Principle 3: Tailor blended finance to the local context

According to Principle 3, development finance should be deployed to ensure that blended finance supports local development needs, priorities and capacities in a way that is consistent with, and where possible contributes to, local financial market development.

Guidance messages for Principle 3

Subprinciple 3.A. Support local development priorities.

- Align blended finance with national policies, strategies and local investment blueprints.
- Promote country ownership through inclusive stakeholder engagement.

Subprinciple 3.B. Ensure consistency of blended finance with the aim of local financial market development.

- De-risk hard currency investments.
- Develop local financial markets.
- Reform and support multilateral development banks (MDBs) and development finance institutions (DFIs) to facilitate greater local currency lending.

Subprinciple 3.C. Use blended finance alongside efforts to promote a sound enabling environment.

- Support developing countries' institutional capacity building and technical know-how of local government authorities.
- Support developing countries' regulatory and policy reforms that address structural obstacles faced by both domestic and international investors.

Context and trends

National policies, strategies and local investment blueprints

Development priorities are becoming more anchored in global climate and development goals through the use of Nationally Determined Contributions (NDCs), national adaptation plans (NAPs), national biodiversity strategies and action plans and long-term strategies, ensuring that development interventions are strategically aligned with local needs. However, whereas "NDCs can be a useful tool for investors to assess countries' long-term climate ambition, in their current form, NDCs vary significantly in quality and detail across countries, and often lack sufficient information on policy implementation to effectively guide investment decision-making" (IIGCC, 2024[1]). As partner countries update their NDCs and NAPs with more ambitious targets for 2030 and beyond, the integration of private capital mobilisation in general, and blended finance specifically, within these frameworks becomes even more crucial for achieving climate and development goals.

Evidence also indicates that blended finance operations increasingly respond to local needs and realities through structured, country-driven investment platforms, such as Just Energy Transition Partnerships, and with Integrated National Financing Frameworks (UNDP, 2024[2]) (see also Principle 4). This indicates a growing dedication to matching national transition plans and investment strategies with external financing, particularly blended finance.

These frameworks, which can support shifts from high carbon to sustainable industries (OECD, 2022[3]), must also address local currency needs, ensuring that new climate financing goals do not further expose developing countries to foreign exchange risks. New instruments such as climate debt pause clauses,[1] debt-for-nature swaps[2] and sovereign disaster bonds[3] have proven useful to help integrate risk mitigation into local financing strategies. Yet evidence shows that these tools remain underutilised in blended finance frameworks and need more emphasis in scenarios when local development priorities intersect with growing climate risks.

Local currency and financial markets

Local currency financing is critical to reduce foreign exchange (FX) risks and promote deeper domestic capital markets. Some progress in facilitating local currency financing has been made since 2020 in the form of local currency loans provided by some DFIs and local currency bonds promoted by a few donors and MDBs. However, initiatives have been fragmented and local currency financing has largely remained an under-prioritised objective of development finance. Blended finance deals are still mostly USD- or EUR denominated (OECD, 2022[4]), and hedging instruments are still either limited, expensive or unavailable (World Bank, 2024[5]). Capital markets in most developing countries remain shallow and lack the necessary depth to mobilise domestic capital including institutional investors.

Currency mismatches occur when there is a misalignment between the currency denomination of a borrower's assets and liabilities or between liabilities and available currency resources. These mismatches take two main forms: 1) a balance sheet mismatch occurs when the currencies of assets and liabilities are different across all maturities; and 2) a maturity mismatch occurs when liabilities in a foreign currency surpass easily accessible resources such as hedges, foreign exchange income or liquid reserves (IMF, 2022[6]). Such mismatches expose borrowers to potential valuation changes driven by currency movements, making their debt more expensive and affecting solvency over long horizons and liquidity in the short term.[4]

A sustainable approach towards reducing FX risks includes the development of local capital markets and mobilising domestic actors in blended finance structures that facilitate local currency finance. Higher levels of local currency financing can strengthen domestic financial markets, enhance resilience to global shocks and support sustainable economic development (IMF, 2021[7]). Yet, local currency financing has proven challenging to deploy, necessitating careful planning to prevent market instability and increased borrowing costs. To be more effective, local currency solutions must be phased, integrated into broader financial systems and continuously refined to meet the evolving needs of developing economies.

The necessity of increasing concessional financing to support local currency lending has been emphasised by the European Commission's High-Level Expert Group on Scaling up Sustainable Finance (EU Commission, 2024[8]). While hard currency remains indispensable for certain sectors and contexts, there is growing consensus that strengthening local financial markets and using development banks to shoulder more FX risk are essential strategies to lowering reliance on external hedging strategies (Financial Times, 2024[9]). This necessitates the use of blended finance strategies that strike a balance between the short-term requirement for accessible and affordable local currency solutions and longer-term initiatives to create resilient capital markets in emerging economies, including increased co-operation with domestic players like financial institutions, central banks and investors. As local capital markets grow, institutions such as TCX continue to play a key role in supplying local currency hedging solutions, providing a shorter-term, yet complementary approach for reducing currency risk (TCX, n.d.[86]).

Enabling environment

A robust enabling environment is a precondition for the success of blended finance interventions. Enabling conditions to unlock private investment include national regulations, policies, institutions, subsidies and incentives, public-private partnership frameworks as well as market and legal infrastructure. Enabling conditions can be created by several actors, although national governments and regulatory authorities have a critical role to play in ensuring enabling environments and enforcing adequate regulatory and institutional frameworks.

Positive developments have taken place in supporting the creation of sound enabling environments in emerging markets and developing economies, for example through bilateral donors' policy dialogue and capacity-building programmes through government institutions and regulatory authorities (UNCDF/OECD, 2020[10]). MDBs and DFIs have also increased focus on policy-based lending, upstream reform and public sector capacity-building (e.g. IFC's "upstream approach" and the World Bank's cascade framework). In addition, new regional platforms have been established to better align reform efforts and local ownership with the provision of finance, as seen with initiatives such as the Africa Green Finance Coalition,[5] the Team Europe Initiatives,[6] amongst others (European Commission, n.d.[11]).

Despite positive developments and pockets of improvements, the overall progress remains insufficient to unlock larger flows of private capital. Evidence indicates that achieving transformational results requires long-term commitment to policy and institutional reform with a focus on institutional capacity-building and technical know-how of national and local government authorities, as well as support for regulatory and policy reforms that address structural obstacles to private finance mobilisation (World Bank, 2023[12]).

Capturing and reporting the impacts of macro-level catalytic technical assistance has proven challenging, particularly given the long-term horizons of achieving outcomes of such initiatives and the complexities of attributing outcomes. Several frameworks have or are currently being developed to capture activities that catalyse downstream investments; these include the World Bank's Private Capital Enabled indicator (World Bank Group, 2025[13]), Publish What You Fund's methodology (Publish What You Fund, 2024[14]), upcoming revisions to Joint MDB Framework for Reporting on Private Capital Mobilisation (IFC, 2025[15]) and the OECD's DAC Working Party on Development Finance Statistics (WP-STAT) work on developing a catalysation methodology (OECD, 2024[16]). While these initiatives attempt to capture the catalytic impact of macro-level technical assistance, they also illustrate the trade-offs inherent in short-term reporting pressures versus the long-term horizons required for successful and lasting macro-level technical assistance. This trade-off has implications for the Guidance (see below).

Guidance for Principle 3

Sub-principle 3.A. Support local development priorities

Blended finance should support investments that are aligned with national priorities to ensure that critical development priorities at the country level are met. Achieving alignment requires comprehensive inclusion of local context and perspectives at every stage of the project life cycle. By building inclusive partnerships with local stakeholders fostering local ownership and local investment, investors and development actors can help ensure that blended finance interventions are both impactful and sustainable. Establishing direct relations with credible local partners not only provides valuable insights into local needs and conditions, it also reduces risk perceptions among private investors. Investments tailored to local contexts and aligned with national and regional priorities are more likely to meet the dual goals of mobilising private finance while generating meaningful development impact, contributing to achieving the SDGs and delivering long-term benefits for local communities.

Effective alignment with local priorities requires careful planning and collaboration. While national governments often aim to attract investments to stimulate economic growth, certain projects may better align with specific local priorities and yield greater developmental outcomes. Blended finance can play a crucial role in financing businesses that serve local consumers and create decent jobs, ensuring that projects directly address people's needs.

Align blended finance with national policies, strategies and local investment blueprints

Donors should ensure that blended finance initiatives are firmly rooted in recipient countries' policy frameworks, such as NDCs, NAPs, national biodiversity strategies and action plant, long-term strategies and INFFs. These frameworks articulate a country's development vision and financing priorities, providing a roadmap for aligning international financial flows with local needs and sectoral plans.

Transform plans into investable proposals

Donors should support governments in translating national strategies into bankable projects. Technical assistance and capacity-building efforts can help create pipelines of investable opportunities that align with local development priorities while appealing to private investors. Additionally, ensuring early engagement with private sector investors, including asset managers, is crucial to aligning projects with commercial investment criteria. Investable projects should be structured to meet private sector needs, including risk-return expectations, liquidity considerations and regulatory compliance.

To better anchor blended finance in the local context and deliver a more transformational impact on local markets, while helping to transform plans into investable proposals, blended finance providers should look beyond single investment proposals and co-ordinate their operations where possible. A clustering of blended finance transactions (as opposed to focusing on project-level activities) may allow blended finance actors to achieve more systemic results in each market.

Use integrated national financing frameworks to promote policy coherence

Donors and other development finance providers should, where possible, make use of INFFs to promote cross-sectoral policy coherence and incorporate private funding into long-term development strategies. INFFs ensure that financing methods are integrated in national settings by combining public and private financial resources. The International Partners Group[7] leverages INFFs to foster policy coherence, aligning international investments with national development goals. By doing so, it enables countries to attract and deploy private finance in a way that supports long-term, sustainable development.

Promote country ownership through inclusive stakeholder engagement

Country ownership is critical to the success and sustainability of blended finance projects. As outlined in the Kampala Principles,[8] local actors should be co-owners in the design, implementation and monitoring of projects. Local investors also provide improved understanding and mitigation of local risks while providing much needed local currency finance.

Donors should ensure that local stakeholders are engaged throughout the project life cycle. Local stakeholders typically include national authorities, civil society organisations, local communities and beneficiaries, national development banks, as well as private actors such as investors, commercial banks and sponsors. Efforts should be made to collaborate with relevant local stakeholders in the design and implementation of both transaction-level and portfolio solutions. While it may not always be feasible to engage all stakeholders in every transaction, particularly in more complex financial structures, consultations should be inclusive and bottom-up where possible to increase the range of partners involved at the community level, as outlined in the Kampala Principles (GPEDC, n.d.[17]).

Stakeholder consultations should not be perceived as a single event but rather as a process parallel to the investment cycle. An ongoing engagement fosters a respectful and equal relationship in development co-operation and helps ensure that projects are better aligned with local needs and conditions.

A differentiated approach to stakeholder consultations could be taken depending on the type of project: For example, large infrastructure projects may require extensive consultations with a range of different stakeholders while consultations may be less extensive for direct investment in a small and medium-sized enterprise.

Subprinciple 3.B. Ensure consistency of blended finance with the aim of local financial market development, including the promotion of local currency financing

The development of efficient and robust local financial markets is essential in effectively channelling financial resources towards greater sustainable development outcomes in EMDEs. Local currency financing is a systemic enabler and should be treated as such.

Hence, donors should work to ensure that blended finance seek opportunities to expand the availability and affordability of local currency financing solutions, rebalance currency risks more equitably away from the borrower who shoulders most of the risk, and focus on crowding in domestic finance. This is essential to build local financial markets that allow blended finance to play out its transitory role and pave the way for private financing. Capacity building and improved co-ordination with local financial institutions – particularly central banks, ministries of finance and regulators within local markets – also provide opportunities to focus on systemic change that institutionalises sustainable local markets.

As evidenced in Box 3.1, there are deep-rooted constraints to local currency financing in EMDEs that stem from a combination of structural, market and instrument-specific challenges faced by DFIs, MDBs, and institutional investors.

Box 3.1. Overview of constraints to local currency financing

Main constraints to scale private finance mobilisation in local currency

There are significant constraints to local currency financing particularly in relation to liability constraints in MDBs' and DFIs' business models and regulatory mandates. The structural need for capital preservation and financial self-sustainability is deeply embedded in their operations, as these institutions must balance development mandates with the imperative to ensure that returns from their assets can adequately cover operational costs and meet shareholder expectations (OECD, 2023[18]). This structural need, rooted in long and often politically challenging recapitalisation cycles, linked to the preference for safeguarding their AAA credit ratings, can deter DFIs and MDBs from taking on the heightened risks associated with local currency lending. Coupled with risk-averse statutory policies[1] MDBs are often compelled to hedge exposures or avoid local currency financing entirely to preserve their net interest margins and maintain financial stability. Additionally, regulatory frameworks – whether external for certain bilateral DFIs or self-imposed by MDBs – create additional hurdles, making local currency lending more cumbersome and costly. In these higher-risk markets and geographies, the liabilities constraints found within these models restrict DFIs' and MDBs' investment operations more broadly.

Another significant constraint to local currency financing is a critical mismatch in both the incentives and instruments available to institutional investors, which limit private finance flows in local currency investments into EMDEs. Institutional investors, managing over USD 100 trillion globally, allocate more than 90% of their portfolios to bonds and listed equities (OECD, 2021[19]). However, the primary instruments offered by DFIs and MDBs – such as direct lending and intermediated private equity – are poorly suited to institutional investors' needs. Direct lending, whether in hard or local currency, requires significant internal resources, making it unattractive for these investors. Private equity – despite being intermediated – carries challenges such as limited allocations to developing markets, high fees and indirect exposure to exchange risk due to local currency earnings from underlying assets. Furthermore, regulatory hurdles such as Solvency II discourage local currency investments by requiring larger capital reserves for foreign currency assets (Horrocks et al., 2025[20]).

Meanwhile, benchmarking practices tied to indices catered towards institutional investors such as the JP Morgan GBI-EM Global Diversified Index skew capital flows towards larger, more liquid issuers, and this is sidelining frontier markets where funding is most needed.

The scaling of local currency mobilisation in EMDEs is also severely hampered by local financial market gaps, shallow domestic capital markets, information asymmetries and weak regulatory and enabling environments. Insufficient know-how and operational capacity among local institutional investors limit their ability to assess and execute investments in alternative asset classes like private equity and infrastructure, even where regulatory frameworks permit such allocations. For example, Kenyan pension funds can allocate up to 10% of assets to private equity but have only achieved 0.32%, highlighting key misalignments between regulatory limits and actual investment behaviour (Kenyan Retirement Benefits Authority, 2023[21]).

Local investment is further restricted by issues such as smaller investment plans' inability to reach minimum ticket sizes, limited opportunities for diversification and a preference for high-yield government securities. Domestic regulatory restrictions on overseas investments, such as Brazil's 10% cap on foreign assets, also discourage global or regional diversification. Moreover, pension fund trustees often lack the tools to align investment strategies with long-term liabilities, as seen in East African pension schemes' limited engagement with private equity or infrastructure investments (FSD Africa, 2019[22]). The lack of standardised legal and regulatory frameworks, the shallow depth and infrastructure of the local capital market, the inability of local banks and asset managers to engage in financial intermediation, and the lack of reliable market data and credit rating systems all contribute to these structural problems and further limit the mobilisation of local currency financing.

Note 1. This is seen in the founding agreements of several World Bank Group entities, for example Art. IV Section 3(a) (b) of IBRD Agreement, but also in terms of local currency borrowing for example Art. IV Section 1.b of the IBRD Agreement and Art. III Section 6 of the IFC Agreement.

Blended finance can de-risk investments and encourage private sector participation and it can thus be a critical tool in enabling more innovative approaches to enhance the efficiency of both local and hard currency financing efforts. The context and trends of local currency financing since 2020 has emphasised a need to use blended finance strategies that strike a balance between the short-term requirement for accessible and affordable local currency solutions and longer-term initiatives to create resilient capital markets in emerging economies. To this effect, donors can use several sets of interventions in blended finance to de-risk hard currency investments, increase the availability and accessibility of local currency finance, and strengthen local capital markets (Chapter 6 contains case studies that illustrate different approaches to promoting local currency finance).

De-risk hard currency investments

A first set of interventions is concerned with addressing the currency issues linked to the activities of development finance providers, be they bilateral or multilateral. These strategies – which include hedging solutions, first-loss guarantees and FX liquid facilities – aim to protect lenders and borrowers from the impact of a range of currency-related risks in the short term (while building and deepening local capital markets is necessary to sustainably reduce FX risks over time).

Hedging solutions

Donors should consider supporting hedging solutions as an effective short-term solution for FX risk mitigation. Hedging instruments, such as non-deliverable cross-currency swaps[9] and forward contracts,[10] enable development finance actors to lend in hard currency while providing borrowers with local currency funding, thereby mitigating FX risks.

Hedging solutions are a viable solution, for example in SME and microfinancing sectors, given their typically short-term maturities. It is important to note that hedging approaches might be inaccessible or unsuitable for long-term projects like private equity investments or infrastructure projects with maturities exceeding 15-20 years. Additionally, hedging costs tied to a fully hedged project can, in certain situations, surpass the actual costs of depreciation losses tied to unhedged position, limiting its cost-effectiveness, especially for borrowers in EMDE's (OECD, 2025[23]). In high-risk sectors and geographies, the cost of providing hedging solutions can be prohibitively expensive, deterring private investment. In such cases, higher levels of concessionality, including grants or other support tools, may be necessary – as evidenced by IFC blended finance projects done in local currency which had an average concessionality of 11% of total project costs between 2010 and 2020, compared to the portfolio average of just 4.8% (IFC, n.d.[24]).

First-loss guarantees

First-loss guarantees are a powerful mobilisation tool to facilitate local currency financing. They effectively de-risk investments by absorbing initial losses, thereby reducing perceived risks and enhancing the attractiveness of projects, especially in volatile markets where local currency is most needed. As evidenced in Principle 2, guarantees have proven to be one of the most successful instruments for mobilising private capital, highlighting their consistent effectiveness across years and sectors (OECD, 2021[25]).

Foreign exchange liquidity facilities

FX liquidity facilities can increase borrowers' access to local currency financing solutions. As donors and other development finance providers seek to concurrently mobilise global pools of capital and identify local currency solutions, they could leverage the market infrastructure of existing capital markets, thereby accelerating market development (OECD, 2025[23]). FX liquidity facilities mitigate the impact of exchange rate volatility and can provide borrowers with temporary access to foreign currency to meet debt obligations during adverse movements. For example, the Brazilian Ministry of Finance and the Inter-American Development Bank are currently working to finance the Eco Invest Brazil programme through a combination of blended finance solutions, including via a FX liquidity facility, with the support of the United Kingdom Foreign, Commonwealth & Development Office (Brazilian Chamber of Deputies, 2024[26]).

Develop local financial markets

While the above first set of interventions address currency issues in the short term, a second set of interventions is concerned with building and deepening local capital markets and reducing FX risks over time. These include engaging local financial actors, establishing credit bureaus and increasing transparency, supporting broader financial infrastructure and strengthening local capital markets.

Local financial actors

Mobilising domestic private capital is essential for the long-term sustainability of blended finance interventions and donors should ensure that blended finance prioritise engaging local financial actors – such as banks, intermediaries and investors – as active participants in investment structures. This includes structuring transactions that enable local institutional investors to invest through, for example local currency project bonds that align liabilities and assets and thereby reduce currency mismatches.

Local banks play a critical role in mobilising local currency financing, particularly for SMEs, by leveraging domestic deposit bases that are often a stable and low-cost source of funding in developing economies. However, their capacity to provide long-term loans is typically constrained by the short-term nature of these deposits. To bridge this maturity mismatch, additional support – such as concessional loans, bond structures or local intermediaries – is often needed. While DFIs and MDBs have been effective in providing hard currency financing, this creates vulnerabilities when borrowers lack foreign currency revenue streams. As such, donors and other providers of development finance should prioritise enabling local banks to access and mobilise local capital markets, helping them lend in local currency at affordable terms. Initiatives like FrontClear have proven the value of deepening local interbank markets by providing credit guarantees and technical assistance, thereby enhancing liquidity management and enabling long-term domestic lending.

In parallel, donors should engage MDBs and DFIs to reassess how effectively their local bank-intermediated models leverage deposit bases and whether more support should be given to specialist non-bank financial institutions to obtain banking licenses, granting them access to untapped local deposit funding.

To further strengthen local financial ecosystems, donors should support targeted technical assistance to domestic investors and asset managers to enhance their capacity to assess and invest in risky assets. This includes improving regulatory frameworks; environmental, social and governance strategies; credit-rating mechanisms; and risk assessment tools that enable local institutions to better participate in blended finance transactions. Engaging domestic capital not only increases financial resilience but also reduces reliance on external concessional funding, fostering a more self-sustaining and scalable investment environment.

Donors should also support adopting and structuring originate-to-share models in MDBs and DFIs that can help local financial actors to match local currency liabilities with local currency assets (e.g. project bonds) (see also Principle 2). The focus should be on structuring instruments that can readily be bought by local institutional investors (OECD, 2025[23]). This may involve structuring transactions with both hard currency and local currency components.

Credit bureaus and transparency

Donors should support initiatives to establish credit bureaus and enhance transparency in data on borrowers, as credit bureaus and data transparency work to reassure local investors. Due to the high origination costs and credit risks, lending to local SMEs is expensive which frequently discourages local banks from making loan extensions (OECD, 2025[23]). Limited information on borrower creditworthiness – which prevents local money from being efficiently directed into domestic investments – further exacerbates the challenges. Credit bureaus and improved data transparency can address these gaps, providing local investors with greater confidence and enabling better credit assessments. In this connection, digitalisation of financial services and products plays a key role in improving data availability and quality. Also, microfinance organisations will still be crucial in enhancing credit availability and financial inclusion for smaller businesses.

Financial infrastructure

Donors should consider supporting broader financial infrastructure development to enhance the effectiveness of local financial markets. This can include modernising payment systems, improving clearing and settlement mechanisms, and establishing reliable trading platforms to facilitate efficient transactions of local currency-denominated assets. Additionally, improving the effectiveness of credit rating agencies would enable them to provide better and more accurate credit ratings for local currency assets, reducing the challenges associated with perceived versus real risk in EMDEs (see also Principle 4).

Local capital markets

A well-functioning local capital market is critical for financial resilience, offering a sustainable alternative to foreign-denominated debt (World Bank, 2020[27]). Robust capital markets provide diverse funding sources that support businesses with larger, longer-term financing options while reducing dependency on external flows. In addition, well-developed markets allow governments to better fund public infrastructure projects and address fiscal needs domestically.

Donors should ensure that incentives are provided for local banks to issue bonds with the aim of encouraging longer-term local currency lending and strengthening the alignment between local currency liabilities and assets. This two-pronged strategy addresses currency imbalances and promotes local market expansion. Encouraging local banks to issue debt on local capital markets can strengthen financial resilience and promote the development of corporate bond markets. Financial institutions already dominate global and regional corporate bond markets, where banks are often the first issuers. For example, the International Capital Market Association estimates that as of August 2020, 53% (USD 21.5 trillion) of outstanding corporate bonds were issued by financial institutions (ICMA, 2020[28]).

Reform and support multilateral development banks and development finance institutions to facilitate greater local currency lending

Risk mandates and regulatory barriers

Donors should engage MDBs and DFIs to reassess risk mandates and regulatory constraints that limit local currency lending. These constraints should be carefully examined to ensure they do not unduly restrict MDBs' and DFIs' capacity to offer local currency finance, especially when such funding is in line with development directives.

Simultaneously, prudential laws in DFIs' home countries frequently prohibit bilateral DFIs from taking on local currency risk. Despite being designed to protect financial systems, these rules might be unnecessarily restrictive given the relatively low systemic risk posed by development finance. Donors should revisit these constraints and engage with relevant regulatory authorities to explore regulatory adjustments that would allow DFIs to engage more directly in local currency lending, hereby reducing the need for inefficient off-balance sheet vehicles.

Onshore treasury functions

Donors should engage MDBs with the aim of improving the efficiency of local currency financing by optimising treasury functions and enhancing co-ordination across institutions. A lack of harmonisation in MDB treasury operations results in fragmented liquidity pools and limits the scalability of local currency solutions (MDB Working Group, 2024[29]). Establishing onshore treasury operations in EMDEs – for example setting up local currency accounts or cash pooling arrangements managed by MDB treasuries – could improve liquidity conditions by enabling MDBs to source, manage, and deploy local currency directly within domestic markets. Such operations could minimise exposure to FX volatility, eliminate the need for expensive currency conversions and hold and recycle local currency profits from bond issuances or loan repayments.

MDBs should collaborate to pool donor resources and streamline funding mechanisms, as seen with initiatives such as the Asian Infrastructure Investment Bank and EBRD's "Delta" programme (AIIB, 2024[30]). Donors should help fund similar efforts, ensuring that MDBs and DFIs take a co-ordinated approach to local currency operations rather than duplicating efforts.

Subprinciple 3.C. Use blended finance alongside efforts to promote a sound enabling environment

A sound enabling environment is a vital condition for mobilising private investment. The relationship between blended finance and a sound enabling environment is mutually reinforcing. In a perfect enabling environment, no blended finance intervention would be required in the first place. At the same time, blended finance can help create and deepen capital markets and support existing ones. It does so by providing capital to projects in a difficult environment, facilitating further reforms and changing the perception of risks through technical assistance programmes and capacity-building initiatives.

Developing a sound enabling environment involves supporting institutional capacity-building and technical know-how of local government authorities as well as supporting regulatory and policy reforms that address structural obstacles to private capital mobilisation.

Support developing countries' institutional capacity building and technical know-how of local government authorities

Building institutional capacity refers to the process of enhancing the abilities, skills, resources and institutions within a developing country to empower local actors to take ownership of their development processes. Activities can include staff training, streamlining internal processes, participating in international events and conducting sectoral analyses, as well as establishing new institutions to address structural gaps and governance issues. Building capacity and empowering local institutions enable them to take a leading role in project management and implementation. This strengthens governance and ensures that projects remain sustainable beyond donor involvement.

Wherever possible, donors should ensure that blended finance projects are accompanied by institutional capacity building activities that empower local stakeholders to negotiate, structure and deploy appropriate financing arrangements, ensuring knowledge and skills are effectively transferred to partner countries (OECD/UNCDF, 2020[31]). Capacity building is a critical part of broader development finance efforts to address structural barriers that hinder effective private sector engagement. Capacity building should focus on interventions that can drive systemic change to investment environments and build a demonstration effect that may inspire confidence and mobilise further private capital. Initiatives should thus be designed to create long-term, sustainable improvements in the enabling environment, addressing fundamental weaknesses that can inhibit private capital flows in EMDEs.

Donors can, for example, contribute to policy dialogue, technical assistance and financing facilities deployed directly and through local partner banks and financial intermediaries. The overarching goal should be to enhance authorities' ability to attract and manage investments, including foreign direct investment and local investment. In emerging markets, where local authorities often lack institutional capacity, technical assistance can help overcome barriers to private sector engagement by creating a more supportive investment environment, identifying opportunities and providing targeted support to investors. Examples of capacity building at the local level include the EBRD's Regional Energy Efficiency Programme (REEP) and the SECO-IFC Crop Receipt Program (both included as case studies in Chapter 6).

Support developing countries' regulatory and policy reforms that address structural obstacles faced by both domestic and international investors

Donors should support regulatory and policy reforms as critical elements of creating a sound enabling environment. These can include investment and business climate reforms, sector-specific regulations, financial sector reforms or legal and judicial reforms. They can also include support to the development or improvement of public-private partnership frameworks. The aim of supporting the reform agenda should be to reduce risks for private investors, increase transparency and improve co-ordination between government and private sector actors. Reforms that help create a stable, transparent and investible climate for both domestic and foreign investors should be prioritised in close collaboration with partner governments.

While supporting the reform agenda, donors should leverage the comparative advantages of relevant partner organisations including MDBs, DFIs and civil society organisations. While donors play a critical role as actors in policy dialogue with government representatives including regulatory authorities in partner countries, MDBs and DFIs can play a critical role in diagnostics and reform prioritisation, investment climate assessments, co-ordinated public-private dialogue as well as providing technical assistance and capacity-building. MDBs and DFIs can also tie policy and regulatory reforms to investment commitments, providing stronger incentives for governments to reform.

Civil society organisations can play a critical role in policy advocacy and in shaping policy reform. They can facilitate more inclusive stakeholder engagements and promote voices of affected communities and marginalised groups. They often play the role as watchdogs for transparency and accountability and can lend increased public legitimacy to reform processes. Civil society organisations can also help build capacity, facilitate dialogue and raise public awareness around financial, legal and economic reforms so that citizens can participate meaningfully.

Balance project level and macro-level catalytic technical assistance

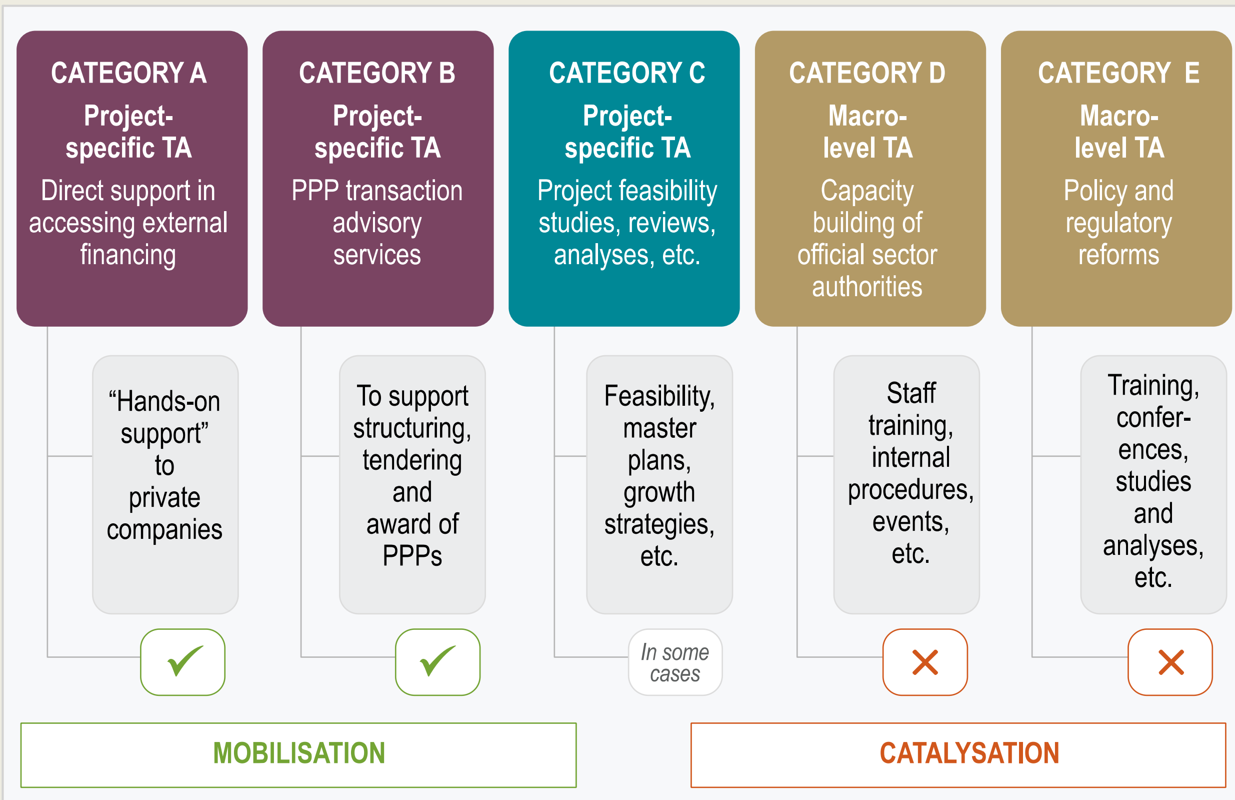
While regulatory reforms and capacity-building through technical assistance play a fundamental role in catalysing private investment, it should be noted that these are notoriously long-term initiatives for which the impact on specific investments and on mobilising private finance is often not immediately visible and may even take years to materialise; for the same reason the impact of the initiatives on private finance mobilisation is difficult to measure, attribute and account for. The interdependence between macro-level and project-specific technical assistance adds further complexity to attribution.

The OECD’s DAC Working Party on Development Finance Statistics identifies five categories of technical assistance which distinguish between technical assistance mobilising and catalysing private finance (Box 3.2, Figure 3.1).

Box 3.2. Technical assistance categories in mobilised private finance

The OECD DAC Working Party on Development Finance Statistics' technical assistance categories in the context of mobilised private finance include: (Category A) direct support in accessing external financing; (Category B) public-private partnership transaction advisory services; (Category C) feasibility studies or other support to help develop and implement projects; (Category D) capacity building of official sector authorities; and (Category E) policy and regulatory reform.

Figure 3.1. Overview of technical assistance categories in the context of mobilised private finance



Note: TA: technical assistance; PPP: public-private partnership.
Macro-level catalytic technical assistance initiatives (Categories D and E) differ from traditional, project-specific technical assistance by focusing on interventions that can drive systemic change to an investment environment. They are designed to create long-term, sustainable improvements in the investment climate, addressing fundamental weaknesses that can inhibit private capital flows. Compared to project-specific technical assistance, macro-level catalytic technical assistance aims to avoid the risks of market distortion that often come with direct subsidies or project-based interventions by improving the broader macro-level investment environment through regulatory reforms and capacity building initiatives rather than artificially lowering risk for specific projects. Additionally, macro-level catalytic technical assistance contributes to the development of resilient markets, allowing private finance to scale more effectively and endure over time without continued reliance on concessional resources.
Source: OECD, (2023[32]), *Measuring Mobilised Private Finance through Technical Assistance: Revised Proposal*, https://one.oecd.org/document/DCD/DAC/STAT%282023%2935/REV1/en/pdf.

Donors should be alert that the lack of robust methodologies to attribute and measure the impact of catalytic technical assistance makes it challenging to capture the full value of such initiatives and this may lead providers of development finance to favour project-level interventions over systemic, market-shaping initiatives. As a result, opportunities to leverage technical assistance for systemic change and long-term market development may be under-utilised. While project-level technical assistance remains crucial, macro-level catalytic technical assistance addresses the more underlying systemic barriers to help ensure that private finance flows can be transformative. Prioritising, scaling and co-ordinating these interventions alongside blended finance projects and anchor investments is therefore critical for donors to help ensure systemic, long-term impact and mobilise private finance effectively.

To underpin Subprinciple 3.C, Chapter 6 contains case studies that illustrate different approaches, instruments and lessons in supporting and improving enabling environments in EMDEs to make them more conducive to private investment. Together, they illustrate the importance of strong policy and regulatory frameworks, sector specific reforms, investment promotion and institutional co-ordination as well as support to local financial ecosystems.

Notes

[1] Climate debt pause clauses are contractual provisions in sovereign debt agreements that allow for the temporary suspension of debt service payments following predefined climate-related disasters. These clauses are aimed at providing fiscal space for recovery efforts.

[2] Debt-for-nature swaps are financial mechanisms whereby a portion of a country's external debt is forgiven in exchange for local investments in environmental conservation or climate resilience (see also Subprinciple 2.B).

[3] Sovereign disaster bonds are securities issued by sovereign governments that provide rapid financing in the event of a natural disaster. They are typically triggered by parametric indicators such as wind speed or seismic activity.

[4] For example, infrastructure projects in the renewable energy sector frequently produce revenue in local currency (utilities) yet necessitate substantial hard currency funding for imports (equipment or construction materials). The debt load associated with these imports rises when hard currencies, such as US dollars or euros, appreciate relative to local currencies, yet revenue, which is expressed in the depreciating local currency, is still insufficient to meet growing expenses - thereby potentially discouraging international private sector investment in infrastructure projects that yield local currency earnings.

[5] The Africa Green Finance Coalition (AGFC) is a pan-African initiative supported by governments, development banks, and private sector actors aimed at scaling green finance through enabling policies, regional co-operation, and capacity building (for more info, see Africa Green Finance Coalition (AGFC) - FSD Africa.

[6] Team Europe Initiatives are joint efforts by EU institutions, Member States, and European development finance actors to align and co-ordinate development co-operation, particularly to scale investments in priority sectors such as climate and digitalisation (for more info, see Team Europe Initiatives - European Commission.

[7] The International Partners Group, announced at COP26, is a coalition of countries committed to supporting EMDEs in their transition to sustainable energy systems. Its membership varies depending on the specific partnership and country involved (e.g. South Africa, Viet Nam) (for more info, see Joint Statement from the International Partners Group.

[8] The Kampala Principles toolkit provides tailored advice to countries and organisations engaging in private sector partnerships in development co-operation. It includes practical guidance on how to design, implement and review policies and partnerships to address global challenges and deliver on the 2030 Agenda through private sector engagement (for more info, see Kampala Principles | Global Partnership for Effective Development Co-operation.

[9] Non-deliverable cross-currency swaps are a derivative contract that allows two parties to exchange interest payments and currency exposures between a hard currency and a local currency, settled in cash without physical delivery. They are often used when capital controls restrict currency convertibility.

[10] Forward contracts are customised financial agreements between two parties to buy or sell an asset at a predetermined price on a future date. They are commonly used to hedge against foreign exchange risk.

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4 Principle 4: Focus on effective partnering for blended finance

According to Principle 4, blended finance works if both development and financial objectives can be achieved, with appropriate allocation and sharing of risk between parties, whether commercial or developmental. Development finance should leverage the complementary motivation of commercial actors, while not compromising on the prevailing standards for development finance deployment.

Guidance messages for Principle 4

Subprinciple 4.A. Engage each party based on their respective mandate.

- When engaging in blended finance, understand and respect each actor's mandates, objectives and risk-return profiles.
- Engage with all relevant stakeholders in the blended finance ecosystem.
- Partner as much as needed, but not more than necessary.

Subprinciple 4.B. Allocate risks in a targeted, balanced and sustainable manner.

- Understand and assess the different types of underlying country-, context-, sector- and transaction-specific risks.
- At each level of blending, apply different methodologies for risk assessment as a basis to determine the optimal blending instrument and concessionality level.
- Adjust the mix between concessional and commercial finance as risks evolve throughout the stages of the project life cycle.
- Bring in local entities to improve risk allocation in blended finance and reduce foreign exchange risk.

Subprinciple 4.C. Aim for scalability.

- Promote transparency, data availability and knowledge sharing.
- Set incentives for scaling up through appropriate targeted mobilisation objectives for multilateral development banks (MDBs) and development finance institutions (DFIs).
- Promote whole-of-government approaches and improved collaboration and co-ordination between donors, MDBs and DFIs.
- Prioritise project preparation to accelerate the creation of a pipeline of bankable projects.
- Encourage the replication of successful blended finance instruments as well as the development of new ones that further enable standardisation and scale.

Context and trends

Significant developments have taken place in recent years in relation to partnering for blended finance. A set of new and important players have entered the ecosystem, new platforms and alliances have been established, and stronger collaboration has been forged among DFIs and MDBs and with the private sector. While new opportunities are emerging, these developments have also highlighted key challenges and gaps in attracting commercial finance to developing countries. This has important implications for the updated Guidance on effective partnering for blended finance.

New players in the blended finance ecosystem

Development-oriented mandates are expanding beyond the traditional development community. Historically, development finance has largely been provided by donors, DFIs, MDBs and philanthropies. However, a new set of organisations and institutions have entered the development-oriented space, or have been participating more in blended finance deals, since the first edition of the Guidance from 2020. Examples include export credit agencies (ECAs), impact investors and a range of financial institutions and asset managers who are increasingly responding to client demands for sustainability and development-oriented products and solutions, including blended finance.

ECAs promote exports and trade while supporting national commercial interest abroad. However, since the first edition of the Guidance, they have been increasingly focusing on more broadly defined national interest, which includes contributing to climate goals and the Sustainable Development Goals (SDGs) (ExFi Lab, 2024[1]). Recent modernisation efforts also include activities related to climate change mitigation. The OECD's official development assistance (ODA) eligibility assessment of private sector instruments (PSIs) undertaken in 2024 calls for enhanced co-ordination with ECAs while emphasising how PSIs already leverage ECAs' extensive expertise in credit and political risk assessment, as well as their knowledge of sustainability and commercial characteristics in key business sectors. The ODA eligibility assessment also illustrates how ECAs frequently co-finance development projects with DFIs (OECD, 2024[2]). ECAs are mobilising significant amounts of private capital, and the developments open new opportunities for enhanced collaboration and partnering with development finance providers for sustainable investment in emerging markets and developing economies (ECDPM, 2024[3]).[1]

Evidence has also shown how impact investors increasingly participate in blended finance deals. A 2024 survey from the Global Impact Investing Network found that 42% of impact investors had "participated in a blended finance deal in the three years prior to 2024" and that 44% of emerging market headquartered investors planned to participate in blended finance in the future (GIIN, 2024[4]). Although most of the mobilisation resulting from impact investors has taken place in developed countries, blended finance – which is recognised by a majority of these investors as a de-risking mechanism – could play a significant role in shifting part of this mobilisation to developing countries. Partnerships with impact investors and impact asset managers in emerging markets and developing economies are already taking place, for example with Triodos Investment Management and BlueOrchard Finance (Triodos Investment Management, n.d.[5]; BlueOrchard, n.d.[6]).

An increasing range of financial institutions and asset managers are responding to demands for sustainability and development-oriented products and solutions from their clients, including through blended finance structures at scale:

- BNP Paribas has a microfinance portfolio of EUR 260 million in developing countries on their balance sheet; this indicates that mainstream financial players can operate and invest in the development area (BNP, 2024[7]).
- The Gaia platform from MUFG Bank has mobilised finance for adaptation and mitigation projects in emerging markets, including in least developed countries and small island developing states (MUFG, 2023[8]).
- The Climate Finance Partnership includes Blackrock, France (the French Development Agency), Germany (KfW), Japan (Japan Bank for International Co-operation) as well as philanthropic partners showcasing how the partnership between commercial actors, development actors and philanthropic actors is increasing.
- A consortium of private financial institutions (Impact Disclosure Taskforce), led by JP Morgan and Natixis has been established to develop voluntary entity-level disclosures on SDG impact intentions and performance with the intention of facilitating more investments towards the SDGs, primarily in emerging markets and developing economies.

These examples indicate increased interest in, and convergence of, philanthropy, development, and traditional investing and that commercial finance and private investors have a growing interest in blended finance.

Civil society organisations (CSOs) also play an increasingly important role in blended finance, particularly in ensuring that projects are accountable and aligned with development goals. A dual role of CSOs has crystallised where the community maintains a critical voice to ensure that blended finance is additional and avoids over-subsidising commercial investors. At the same time, CSOs increasingly engage in blended finance transactions with commercial partners and development finance providers where they play a key role ensuring that projects are tied to development outcomes, facilitating stakeholder engagement, providing local expertise and capacity building, advocating for safeguarding social and environmental standards and monitoring and evaluating projects. CSOs are thus becoming important partners in blended finance as they bring unique perspectives, expertise and accountability to the process. Further partnering with these organisations opens new opportunities for more effective blended finance (Volta Impact, 2022[9]; INFID & Green Network Asia, 2025[10]; Civil Society Financing for Development Mechanism, n.d.[11]).

The entrance of new players has also reflected market inefficiencies and highlighted gaps, notably in relation to risk misperceptions and credit rating agencies' (CRAs) methodologies in developing countries. These challenges have led to new partnerships and alliances such as the African Credit Rating Agency endorsed by the African Union and meant to provide an independent rating agency tailored to African needs (APRM, 2024[12]). The BRICS countries have also proposed a public CRA as an alternative to the "Big Three" agencies; this indicates a wish for a more diverse credit rating system. Capacity building initiatives like the African Peer Review Mechanism, the United Nations Development Programme's Africa Credit Ratings Initiative, and the Africa Legal Support Facility support this agenda. They also help developing countries address the complexities of credit ratings and capital markets.

New platforms and alliances in the blended finance ecosystem

The number of platforms and alliances to promote stronger partnership and frameworks to scale blended finance has increased since 2020. Platforms and alliances foster greater levels of co-operation and co-ordination and have proven to play a significant role in sharing of knowledge, pooling ideas and resources and building up the ecosystem of blended finance.

An example is country platforms, which essentially are partnerships established at the national level to co-ordinate development interventions among a range of stakeholders including government, MDBs, DFIs, private investors, CSOs and philanthropic entities. Country platforms encourage a whole-of-government approach to development finance as well as public-private collaboration. They align investment with national priorities, reduce fragmentation and enhance local ownership as well as collaboration with the private sector. They also serve to mobilise private investment via blended finance and to help prepare projects and build pipelines. Examples of country platform approaches include the SDG One in Indonesia, the Kenya Off-Grid Solar Access Project, the Global Agriculture and Food Security Program, the Compact with Africa and the Africa50 Infrastructure Fund. Chapter 6 contains case studies on county platforms that illustrate both the effectiveness and the challenges of this mechanism.

Another example is the creation of new alliances. The Global Blended Finance Alliance in Indonesia was established in 2024 to work with partners to strengthen the blended finance ecosystem and fill market gaps. The Just Energy Transition Partnerships are multi-stakeholder alliances designed to support emerging markets and developing economies in transitioning from fossil fuels to cleaner and more sustainable energy systems.

In addition, new platforms and alliances driven by donors have also been established, for example the Investment Mobilisation Collaboration Alliance (IMCA) initiated in 2022 with the participation of the Nordic donors and the United States with the aim of scaling the mobilisation of private capital, and the Growth Investment Partners Platform in Ghana established by British International Investment in 2023 to provide long-term, flexible capital, primarily in local currency to small and medium-sized enterprises (SMEs) in Ghana. Non-traditional actors have also engaged in country platform approaches, such as the partnership between the Glasgow Financial Alliance for Net Zero[2] and the Climate Finance Leadership Initiative.

New and stronger collaboration among development finance institutions and multilateral development banks

New partnerships involving DFIs and MDBs have been developed that show the benefits of joining forces. One example is a new African Multi-originator Synthetic Securitisation Platform that is being established with the African Development Bank, the Development Bank of Southern Africa, Academy Securities, Africa50 and Newmarket as partners. Its aim is to be a revolving, evergreen vehicle to de-risk the balance sheets of DFIs operating in Africa while providing attractive investment returns for private sector participants (AfDB, 2024[13]).

Another example is the Gridwork-backed Wesa Power utility company in Burundi where the International Finance Corporation (IFC), British International Investment and the government of Burundi have joined forces to bring clean, affordable and reliable power to up to 9 million people in Burundi. The partnership illustrates the benefit of sharing risks that enables investment in critical infrastructure in riskier environments. The collaboration around Wesa Power has thus enabled a new country-scale distribution utility which previously would have been too risky for a single DFI to take on (Gridworks Partners, 2024[14]).

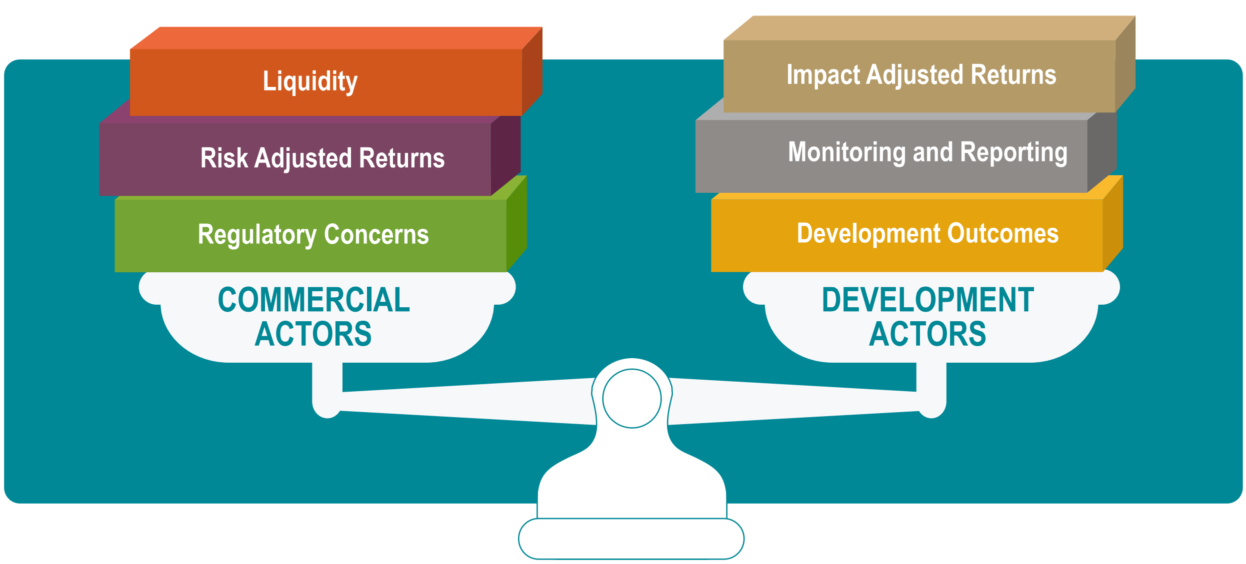
Guidance for Principle 4

Sub-principle 4.A. Engage each party based on their respective mandate

> *When engaging in blended finance, understand and respect each actor's mandates, objectives and risk-return profiles*

As a starting point, it is important for donors and other providers of development finance to understand and respect the mandate of each actor in a blended finance transaction, and to understand the risk-return profiles of both providers of development finance and commercial finance based on their respective mandates. Whereas commercial investors are concerned with a market-level risk-adjusted return, liquidity issues and regulatory constraints, development finance providers are concerned with development impact standards, monitoring and reporting (Figure 4.1).

Figure 4.1. Balancing the priorities of commercial and development actors



Notes: For illustrative purposes only. It is important to note that there are commercial actors, such as impact investors who have preferences similar to those of development actors. Development actors include philanthropic and impact investors who have development mandates associated with their capital allocations.

The blended finance ecosystem has evolved, and the public (development) -private (commercial) divide has become more blurred. There is increasing overlap due to the ongoing integration of sustainability and climate (risk) considerations into commercial actors' processes and/or regulatory regimes. In addition, the engagement of philanthropic donors in blended finance is growing.

Blended finance brings together diverse partners with differing mandates, preferences and skills sets and competences. It is incumbent upon donors and other development finance providers to facilitate partnerships in a way so that each partner's comparative advantage is leveraged and the development impact for the partner country maximised. Doing this effectively requires continuous interaction, collaboration and working together in a dynamic manner from start to finish. Commercial investors have more experience with investment products and can help structure products to be more accessible to a broader range of investors. Commercial investors can also provide a variety of services, beyond just capital. Development finance providers most often bring monitoring and reporting frameworks to the deal while ensuring the investment is anchored to a development rationale and adheres to high standards. MDBs and DFIs also play a leading role in structuring blended finance instruments. In addition, local actors can help ensure the investment is tied to the local context and that they can also benefit from technical assistance.

Engage with all relevant stakeholders in the blended finance ecosystem

Blended finance forges partnerships between development finance providers which typically include donors, MDBs and DFIs and commercial investors, which typically include private firms, financial institutions, asset managers and institutional investors. However, new and important partners have entered the ecosystem, providing opportunities for new partnerships that may facilitate and increase the mobilisation of private finance and thereby improve the effectiveness of blended finance.

Export credit agencies

Donors and DFIs should strengthen their engagement with ECAs further and investigate opportunities for closer co-ordination and collaboration on the mobilisation of private finance for sustainable development in EMDEs while respecting the different mandate of the DFIs and ECAs.

ECAs can play a significant role in blended finance interventions by leveraging their financial instruments and expertise to mobilise private investment for sustainable development. They provide de-risking through insurance and guarantees; finance infrastructure and capital-intensive projects; and support local capacity building through their engagement with banks, governments and other institutions. They also promote sustainable and green financing aligned with the SDGs and the Paris Agreement and facilitate project preparation and technical assistance to ensure projects are viable and bankable. In some instances, they help bridge gaps in local capital markets by enhancing the availability of local currency financing.

Closer collaboration between donors, DFIs and ECAs could benefit the blended finance ecosystem and facilitate the mobilisation of private finance to EMDEs through a range of activities. This could include sharing of information on sectors and local markets, credit and risk assessments, client due diligence, additionality assessment and industry-specific expertise. It could also include joint project identification and co-financing projects to achieve large-scale investment in risky contexts. Combining financial instruments and harmonising processes and standards (such as standardising legal agreements, financial terms and guarantees) would also help facilitate the effectiveness of blended finance.

Several issues should be considered when working towards enhanced co-ordination and collaboration. First, export credits are provided at near market terms and primarily for commercial purposes. For this reason, they are not eligible to ODA. Export guarantees have been ruled out from ODA eligibility, even in the context of private sector instruments (DCD DAC, 2023[15]). Second, the decision-making processes of ECAs and ODA should remain independent to avoid conflict of interest and ensure clarity in the pursuit of their respective mandates.

Yet better alignment on shared priorities such as sustainable infrastructure, renewable energy, or climate finance can help bridge ECAs and DFIs. Closer collaboration could foster mutual understanding of the distinct roles of development and trade finance and could strengthen safeguards to ensure a level playing field between the two types of institutions. Closer collaboration could also facilitate greater co-ordination and tapping of synergies in the field, including in co-financing scenarios.

Impact investors

Donors and other providers of development finance should strengthen collaboration with impact investors as they are valuable partners in blended finance due to their dual focus on achieving measurable social or environmental impact alongside financial returns. Such investors could include foundations, family offices, dedicated facilities/platforms (e.g. Acumen), retail investors, philanthropies, etc.

Impact investors can bridge the gap between the public and private sectors, mobilise additional funding and ensure that blended finance projects have a development rationale. Importantly, as they often prioritise underserved or marginalised populations such as SMEs and women-owned businesses, they can help ensure inclusivity in blended finance projects.

Impact investors often bring long-term and patient capital and will often accept below-market returns or take higher risks in exchange for achieving significant social or environmental impact. They can also bring innovative approaches to financing (such as pay-for-results models or revenue sharing) and help improve project design by setting impact metrics and participating in monitoring and evaluation exercises. As such, impact investors can help unlock capital, including from institutional investors; scale the mobilisation of private finance; and make blended finance projects and interventions more effective.

Civil society organisations

Donors and other providers of development finance should leverage the increasing engagement in blended finance by CSOs and strengthen collaboration even further. These organisations can act as intermediaries between development finance providers, private investors and local communities and can help facilitate dialogue between project stakeholders and ensure projects are inclusive and tied into the local context. CSOs have extensive experience providing technical assistance and training for local stakeholders, and from working as implementing partners for a range of projects financed by development co-operation funds. CSOs can also play an important role in monitoring and reporting on blended finance projects by collecting data on development outcomes, ensuring accountability and transparency in project implementation, and reporting on the social and environmental impact of projects.

While engaging with CSOs in blended finance projects it is important to establish clear roles and responsibilities to avoid overlap and inefficiencies, and to acknowledge each stakeholder’s comparative advantages in a transaction. These advantages can complement each other and be enhanced through mutual capacity strengthening as relevant and needed. Chapter 6 contains case studies on how CSOs have engaged in blended finance interventions.

Credit rating agencies

CRAs play a critical role in attracting private capital by providing standardised and independent forward-looking opinions of creditworthiness of both countries (sovereign), companies and project-specific transactions thereby improving investors’ ability to price risks. CRAs can play a role in supporting greater deployment of blended finance structures by evaluating the risk of different tranches and thereby enable a more precise allocation of risk and return. They can also contribute to greater investor adoption of blended finance instruments by establishing clearly defined rating methodologies adapted to market developments, which provide comparability and transparency to help investors take more informed decisions. This could encourage new and innovative financial instruments and market replication. However, to do this effectively, CRAs need access to more and better data.

While credit ratings are an important input for assessing and pricing risk, some limitations in their approaches to EMDEs have been highlighted which could contribute to market inefficiencies. Academic studies, independent think tanks and multilateral organisations have pointed to several challenges in relation to CRAs' methodologies for developing countries, including: insufficient differentiation between developing countries; conservative assessment and slow adjustment of ratings in response to improvements in a country's economic conditions; potential capping of firm and project ratings by the country sovereign ratings; limited and too negative consideration of risk-mitigating instruments, such as blended finance, and of developmental and ESG factors; insufficient data; and lack of transparency in rating methodologies and processes (UNCTAD, 2025[16]; UNU, 2024[17]; ODI, 2024[18]; ODI, 2024[19]; Africatalyst, 2024[20]; Environmental Finance, 2025[21]).

Donors could engage with CRAs – both international and regional – and help addressing the challenges in relation to CRAs' ratings of EMDEs and of risk-mitigation instruments. This could include support to refining their rating methodologies to take nuances and differences between countries into account, as well as support to regional CRAs that have expertise in local markets. Donors could also support improvement of data availability and reporting capacity of partner countries, corporates and financial institutions to generate and report high-quality, timely economic data. In addition, donors could help finance the cost of credit ratings of risk-mitigation instruments, which could help build the blended finance market further, also as CRAs might then invest in more capacity for ratings in EMDEs (which might otherwise be less financially attractive).

Partner as much as needed, but not more than necessary

Transaction costs in blended finance are a key concern for scalability. While partnering is necessary to de-risk transactions and leverage the strengths of the various actors, excessive or misaligned partnerships may lead to co-ordination challenges, diluted responsibilities and increased transaction costs. Finding the right balance in the number of partners is, therefore, critical to the success of blended finance transactions.

To create an optimal blended finance partnership it is important to assess the needs and gaps in the financing structure and other competences required to implement the initiative and achieve the expected development impact. When assembling the partners, it is critical to define clear objectives and roles from the beginning, focus on complementary strengths and establish clear and efficient governance structures. Each partner in a transaction should add value that justifies the added complexity of having one more partner in the transaction. For blended finance to be the most effective, it should involve a focused group of stakeholders, leverage the complementary strengths of the partners and balance the needs of the various participants in the partnership always with a view of the ultimate objective: mobilising as much private capital as possible for development impact. As blended finance structures become more standardised, more institutional investors will be able to join at marginal cost and mobilise significantly more private capital.

Subprinciple 4.B. Allocate risks in a targeted, balanced and sustainable manner

Understand and assess the different types of underlying country-, context-, sector- and transaction-specific risks

Achieving a balanced and sustainable risk allocation between development finance providers and commercial investors in blended finance requires a clear understanding of the type of risks involved: who among the respective parties are the best positioned to bear them; and the different and evolving nature of risk depending on the stage in the project cycle, the sector and the geography involved. Balanced and sustainable risk allocation also requires all of the partners involved have a minimum risk management capacity.

At each level of blending, apply different methodologies for risk assessment as a basis to determine the optimal blending instrument and concessional level

Blending and risk assessment can take place at three levels:

1. at the institutional or portfolio level (such as securitisation of MDB assets)
2. at the programme level (such as structured funds)
3. at the project level.

Different methodologies for risk assessment apply at each level to determine the right instrument for blended finance and the right amount of development finance needed to crowd in commercial finance, including the level of concessionality if warranted (See Subprinciple 2.C). Table 4.1 provides an overview of the different levels of blending and associated risk assessment methodologies.

Table 4.1. Different levels of blending and associated risk assessment methodologies

LEVEL OF BLENDING	EXAMPLES	RISK ASSESSMENT METHODOLOGIES
Institutional/ portfolio	• Multilateral development bank/development finance institution portfolio of operating loans • Concessional guarantees to enhance portfolio to investment grade	• Rating agency methodologies
Programme/ fund	• Senior commercial debt/ equity fund tranch(es) • Concessional first loss tranche	• Expected loss • Value-at-risk
Project	• Senior commercial debt • Concessional sub-debt/ guarantee/ viability gap funding/ results-based finance	• Public-private partnership risk allocation • Expected loss • Discounted cash flow

For blending at the project level and for larger projects and in sectors that allow for a high disaggregation of risk, such as infrastructure projects, development finance should cover the risks that the private sector cannot manage (such as political, regulatory and new technology risk) and provide risk mitigation in areas where no or limited market solutions are available for de-risking (through, for example, guarantees or insurance). In such projects, development finance can also be used to provide viability gap funding to enhance returns for commercial viability while maintaining affordability and avoiding over-subsidisation (see also Subprinciple 2.C.).

For blending at the programme level and in sectors with smaller transaction sizes that require an aggregate approach to financial risk analysis, such as SME finance or investment in agriculture, benchmarks need to be used to determine the amount of development finance required to crowd in commercial finance. Historic or expected losses can serve as benchmarks for, for example, determining the size of a first-loss tranche in a fund structure, while proxies may need to be used in sectors and geographies where limited data are available. For equity investments, return expectations should be benchmarked with returns in similar sectors and countries, possibly adjusted for country- or region-specific risk premia.

A differentiated risk analysis is required for each blended finance programme and project, considering the underlying country, sector, geography, technology, stage in the project cycle and financial structure. Factors such as first-time vs. repeat transactions, new vs. established technologies, new vs. established markets and performance track-record need to be considered when determining the amount of development finance required to crowd in commercial investors.

Adjust the mix between concessional and commercial finance as risks evolve throughout the stages of the project life cycle

Risk is dynamic; it declines along the project cycle and with the number of investments in each specific market. Different stages in the project cycle allow different combinations of risks and investors. For example, concessional finance may be needed during the high-risk project development phase and to de-risk certain types of investors during the construction phase, whereas concessionality may not be needed during the lower-risk operation phase (See Subprinciple 2.C.).

As risk profiles change and decrease during the project lifecycle, development finance providers should be open to adopt new financial instruments that allow better matching public and private investors with the respective risk profile. This is an important development for MDBs/DFIs that are evolving towards more originate-to-distribute/share. For infrastructure projects, this implies rethinking the standard project finance structure and exploring alternatives. For blending at the institutional/portfolio level, lower risks during the operating phase and/or in more mature sectors can be transferred to commercial investors, e.g. through securitisation. Similarly, financial risk-return models need to be adjusted to reflect declining risk over the project cycle.

Bring in local actors to improve risk allocation in blended finance and reduce foreign exchange risk

Donors and other providers of development finance should work to bring local investors and national development banks into blended finance transactions. Local investors such as sovereign wealth funds, local pension funds and commercial banks can provide local currency finance to projects that generate revenues in local currency, thereby eliminating foreign exchange risk. Local investors are also well positioned to provide long-term finance, and are better placed to understand, price and manage political risk in their country. Donors and other providers of development finance should, therefore, seek to catalyse investment from local investors in line with their regulatory requirements. Donors should also engage national development banks, as they can provide development finance through blended finance transactions and thereby participate in risk-sharing mechanisms.

Subprinciple 4.C. Aim for scalability

Donors and other providers of development finance can play an important role in improving co-ordination and collaboration in the blended finance ecosystem and setting the right incentives to enable scale. In aiming for scalability, co-ordination and collaboration among all partners in blended finance are critical, together with a broadened scope for institutional investors in the capital market. MDBs' and DFIs' renewed focus on maximising private capital mobilisation for the SDGs and climate action contribute to this. In addition, a clear, long-term vision to reach scale is necessary, including on the expected development impact resulting from the scaling up of projects or approaches. The following guidance messages are relevant to scale up blended finance:

Promote transparency, data availability and knowledge sharing

Donors and other providers of development finance should promote transparency and data availability and share knowledge. Lack of data constitutes a major barrier for scaling up blended finance, and donors and other providers should promote transparency by working with all relevant stakeholders to make data available to all market participants. This is elaborated under Principle 5: Monitor blended finance for transparency and results. In addition, knowledge sharing can also contribute to achieving scale. Lessons learnt should be made available to all market participants including development finance providers and commercial investors.

Set incentives for scaling up through appropriate targeted mobilisation objectives for multilateral development banks and development finance institutions

Donors should consider setting incentives for scaling up through appropriate, targeted mobilisation objectives for MDBs, DFIs and other implementing actors directly accountable to them. Setting mobilisation targets risks an excessive focus on countries and sectors where mobilisation is the easiest, such as middle-income countries and economic and financial sectors. Mobilisation objectives that include targets should, therefore, be linked to overall development policy objectives for different geographies, countries and sectors.

Promote whole-of-government approaches and improved collaboration and co-ordination between donors, multilateral development banks and development finance institutions

Strengthened co-ordination and collaboration among actors – including, in particular, donor agencies, MDBs and DFIs – can help scale up the blended finance market. Collaboration and co-ordination enhance scale, efficiency and private sector mobilisation. Pooling of resources, harmonising standards and procedures and jointly using risk-sharing instruments (such as securitisation, guarantees, structured funds and bonds) can ensure that resources are used more effectively. Structuring blended finance should be a shared effort where combined expertise and expectations are considered. Also, leveraging more from the deal-structuring experience of the private sector, such as commercial and investment banks, could add value to the system. Chapter 6 contains case studies on collaboration and co-ordination among donors and between donors, MDBs and DFIs. Together, the cases illustrate the importance of collaborating and co-ordinating efforts and how this can take place in effective ways.

Prioritise project preparation to accelerate the creation of a pipeline of bankable projects

Creating pipelines of bankable projects and establishing a conducive investment climate and regulatory environment are important preconditions for achieving scale. Donors should deploy grants and technical assistance in the early stages of project preparation to help build the project pipeline and create an enabling investment climate and regulatory reforms; assist partner governments developing investment plans around the SDGs, the Paris Agreement, nationally determined contributions, national adaptation plans and other relevant national development frameworks; finance project feasibility studies through (reimbursable) grants; provide early-stage, high-risk project development capital and project preparation facilities and as MDB/DFI shareholders encourage these institutions to scale up their upstream and mid-stream project preparation activities.

Encourage the replication of successful blended finance instruments and the development of new ones that further enable standardisation and scale

Donors and other providers should encourage the replication of successful blended finance instruments and the development of new instruments that further enable standardisation and scale, for example standardisation of funds' structures and guarantees, use of market-based credit enhancement, fund-of-fund approaches, and multi-MDB and multi-DFI securitisation approaches, as elaborated under Principle 2: Design blended finance to increase the mobilisation of commercial finance. To promote more collaboration and the replication of successful models, development finance providers, private investors and other participants in blended finance deals could issue review and recommendation reports regarding successful blended finance structures and specific transactions.

Notes

[1] Since the first edition of the Guidance, there have been several calls for enhanced co-ordination between ECAs and DFIs. The G7 ECA Heads acknowledged in 2024 the "important role that ECAs continue to play in supporting their own exports and foreign investments and confirm that now, a variety of roles are expected, including promoting inclusive and sustainable trade and investment in developing countries, emerging markets, and more established economies, and contributing to the realisation of various policy agendas of their respective governments" (see: https://www.exim.gov/news/heads-g7-export-credit-agencies-2024-meeting-statement). Among EU member countries calls have been made both by ECAs themselves (see: https://eifo.dk/media/chbibwiq/exfilab_whitepaper_better-together-in-transformational-times_2024.pdf), the European Union, and external organisations (see both: https://ecdpm.org/work/scaling-global-gateway-boosting-coordination-development-export-finance and https://ecdpm.org/work/unlocking-capital-towards-european-approach-mobilising-institutional-investors). The European Union is exploring options for enhanced co-ordination through an expert group established in 2024 (available at: https://data.consilium.europa.eu/doc/document/ST-8157-2023-INIT/en/pdf).

[2] At the end of 2024 and beginning of 2025, several major financial institutions withdrew from the Glasgow Financial Alliance for Net Zero and its affiliated sub-alliances including the Net-Zero Banking Alliance and the Net Zero Asset Managers Initiative. The institutions included the six largest banks in Canada, joining American banks such as JPMorgan Chase, Bank of America, Wells Fargo, Citigroup and Goldman Sachs. These withdrawals have been tied to political risks and growing environmental, social and governance backlash (read more at: https://www.clearbluemarkets.com/knowledge-base/financial-institutions-withdrawing-from-net-zero-alliances).

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5 Principle 5: Monitor blended finance for transparency and results

According to Principle 5, to ensure accountability on the appropriate use and value for money of development finance, blended finance operations should be monitored and evaluated based on clear results frameworks, measuring, reporting on and communicating on financial flows, commercial returns and development results.

Guidance messages for Principle 5

Subprinciple 5.A. Agree on performance and results metrics from the start.

- Adopt a well-defined theory of change, jointly with the other stakeholders involved in the blended finance transaction.
- Agree on reporting for results using a common set of key performance indicators, as a first step to track progress along the theory of change.
- Select a common framework for data collection.
- Adopt a common monitoring and evaluation framework and evaluate ex ante and ex post.

Subprinciple 5.B. Track financial flows, commercial performance and development results.

- Promote better tracking of financial flows, commercial performance and development results.

Subprinciple 5.C. Dedicate appropriate resources for monitoring and evaluation.

- Allocate sufficient financial, technical and human resources for monitoring and evaluation.
- Promote collaboration and joint evaluations as an integral part of a partnership.

Subprinciple 5.D. Ensure public transparency and accountability on blended finance operations.

- Commit to the highest standard of transparency with full disclosure as the point of departure.

The first three subprinciples pertain to monitoring and evaluation (M&E) of blended finance. While transparency is the key building block of Subprinciple 5.D, it is cross-cutting and should be included and followed throughout Subprinciples 5.A - 5.C. with a view to ensure Subprinciple 5.D. can be fulfilled. Transparency should not be seen as an end in itself but rather as an enabler of accountability, learning and trust. Transparency covers both 1) development outcomes, 2) mobilisation volumes and 3) financial data. While donors tend to focus on the first two elements, efficient blending also requires looking at the third element: to attract more private capital, investors need to have the necessary financial data to enable proper risk assessment (see below).

Context and trends

Since the first edition of the Guidance was approved in 2020, some of the topics addressed by Principle 5 have gained traction and progress has been made. In relation to monitoring of development outcomes, several impact management and measurement (IMM) frameworks have begun to distinguish themselves, and initiatives have been undertaken to converge on common impact indicators (Boiardi, 2020[1]). In relation to evaluation, only a limited number of evaluations of blended finance have been undertaken.

As regards transparency in blended finance, work is still ongoing to properly achieve this. In relation to transparency on development outcomes, IMM frameworks have been further developed to ensure more transparency (see below). On mobilisation volumes, some methodological efforts and statistical innovation to facilitate their monitoring have been undertaken by the OECD DAC statistical system to better account for the mobilisation of private finance in its Creditor Reporting System (CRS). On financial data, some recent steps have been taken to improve transparency. One example is the partial opening of the Global Emerging Markets Risk Database (GEMs) in 2024. The opening of the GEMs facilitated a shift in the high-risk perception by private investors of investing in EMDEs (Galizia and Lund, 2024[2]; OMFIF, 2024[3]).

However, in relation to financial transparency significant challenges remain as resistance to release financial data persist, mostly owing to confidentiality concerns. Increased financial transparency has also been constrained by limited data availability and data collection capacity, especially in EMDEs. Yet market participants cannot adequately assess investment risks and returns without comprehensive and consistent financial data and international calls for more transparency have evolved around this challenge.

Impact management and measurement: Moving towards inter-operable standards

Since 2020, various organisations have made efforts to further standardise metrics for measuring the impact of blended finance in a holistic manner. Major initiatives to standardise impact metrics had been undertaken years before, notably through the Harmonized Indicators for Private Sector Operations (HIPSO) framework, the Global Impact Investor Network (GIIN) IRIS+ Impact Metrics and the 2X Criteria in relation to gender lens investing (HIPSO, n.d.[4]; GIIN, n.d.[5]; 2X Challenge, n.d.[6]).[1] Throughout 2020, IRIS+ and HIPSO worked together to deepen harmonisation, and in 2021, the Joint Impact Indicators (JII) were released by the International Finance Corporation (IFC), the GIIN and several impact investors (HIPSO, GIIN, 2021[7]). The JII are a subset of the HIPSO indicators and the IRIS Catalogue of Metrics. They cover topics that are common across investments, including gender equality, jobs and climate. The JII are a step forward in harmonising impact measurement and reporting, as they help reduce the reporting burden and increase the availability of comparable impact data to inform decision-making. Other initiatives to align reporting on impact include the Impact Disclosure Taskforce, which produced guidance for corporate and sovereign entities in 2024 (ICMA, 2024[8]).

Despite various efforts to standardise and harmonise IMM frameworks, this has proven difficult due to different mandates, sector specific needs, legal and regulatory requirements between countries and proliferation of existing standards. There are still variations in definitions and reporting methods across institutions and actors, and application of IMM frameworks remains inconsistent.

In response to this challenge, an increased focus has been put on interoperability of IMM frameworks with the aim of making different frameworks work together more smoothly. For example, the Impact Management Platform (IMP) is a collaborative initiative whose purpose is to “clarify the meaning and practice of impact management, and work towards interoperability and alignment through co-ordinating content, and co-creating further guidance and standards” (Impact Management Platform, 2021[9]).[2] Rather than harmonising and creating single, unified standards, interoperability focuses on mapping and aligning different standards, sharing terminology and principles, promoting data interoperability and encouraging adoption of compatible practices (Impact Management Platform, 2025[10]). This approach is more flexible as it allows different organisations to use different standards, indicators and reporting systems that are context-specific while still enabling broad alignment of frameworks.

Both development actors and private investors generally acknowledge that measuring and managing blended finance outcomes is essential to ensuring that resources are efficiently and effectively directed towards the intended objectives. Certain principles and frameworks have emerged as go-to references. The five OECD Blended Finance Principles remain the most cited in G7 and G20 statements (see the foreword). The OECD-UNDP Impact Standards for Financing Sustainable Development (IS-FSD) approved by the Development Assistance Committee (DAC) in 2021 also constitute a best practice guide and self-assessment tool (OECD/UNDP, 2021[11]). The Standards aim to bridge the gap between high-level principles such as the five OECD DAC Principles and IMM frameworks. The IS-FSD were developed to operationalise Principle 5 and thus have significant impact on the updated Guidance (see below). Yet other organisations have provided substantive work in the area, including the IFC-led Operating Principles for Impact Management (OPIM, 2019[12]; OECD/UNDP, 2021[11]).

Evaluation of blended finance

While IMM frameworks have been developed and strengthened in recent years thereby improving the basis for monitoring of blended finance, the number of evaluations of blended finance projects and programmes has been limited. Evaluations are widely recognised to contribute to a better understanding of the efficiency, effectiveness, challenges and best practices, and most importantly the impacts of blended finance. The limited number of evaluations is, therefore, seen as a constraint for actors to learn and exchange experience and hence for improving future initiatives and policy decisions to ensure that blended finance is achieving the desired impact.

The limited number of evaluations is compounded by the challenges of evaluating blended finance. These were already analysed in the OECD paper “Blended finance evaluation: Governance and methodological challenges” (OECD, 2019[13]). This paper was followed by two OECD working papers ”Evaluating blended finance instruments and mechanisms: Approaches and methods” (OECD, 2021[14]) and “Evaluating additionality in blended finance” (OECD, 2021[15]). These three papers highlight the complexities and challenges associated with evaluating blended finance initiatives, both in terms of governance (e.g. multi-stakeholder complexity, alignment of interest and accountability mechanisms) and in terms of methodological challenges (e.g. attribution of impact, data availability and measuring additionality). OECD (2021[14]) concludes that, although “there is a rich diversity of methods and tools to evaluate blended finance instruments and mechanisms, the current practice of blended finance evaluations is unsystematised, fragmented and compartmentalised across instruments and mechanisms".

Box 5.1 shows examples of evaluations undertaken since the first edition of the Guidance was published in 2020. Although the evaluations cover a range of different blended finance projects and programmes, the challenges around evidence gaps and the recommendations to improve evaluation frameworks are almost identical across the reports:

- Monitoring and evaluation frameworks should be strengthened to better enable assessment of financial and development outcomes. This includes standardising metrics and the use of both quantitative and qualitative metrics to capture outcomes.
- Data are generally lacking, and data collection should be improved for better tracking of blended finance. This could include a centralised database with information on concessionality, risk-sharing and outcomes, as well as mandatory standardised reporting on concessionality, risk-sharing and impact metrics.
- More evidence is needed to demonstrate both financial and development additionality. Evidence is also lacking on the efficiency of concessionality. The minimum level of concessionality therefore remains unclear.
- There is a need for more transparency and clearer accountability mechanisms to ensure that development objectives are met.
- Attribution is challenging to determine due to complex causal chains, and it remains unclear whether development outcomes are directly attributable to blended finance interventions.
- There is a lack of long-term studies as few evaluations assess the long-term sustainability and impact of blended finance initiatives.

The significant number of challenges identified in the evaluations of blended finance projects and initiatives has shaped the updated Guidance messages below. There is increased emphasis on the need for harmonised definitions, standards and metrics across development actors to ensure consistency, transparency and comparability, along with an increased focus on addressing the lack of data and inconsistent monitoring of outcomes with a view to more robustly demonstrating financial and development additionality.

Box 5.1. Recent evaluations of blended finance

Some evaluations have been undertaken since the first edition of the Guidance was published in 2020.

An Evidence Gap Map made by the German Institute for Development Evaluation (DEval) (DEval, 2020[16]) identifies evidence gaps in understanding how blended finance contributes to sustainable development, and highlights attribution issues and insufficient data as some of the main challenges. It also emphasises that more evidence is needed to demonstrate additionality, impact on the Sustainable Development Goals and the efficiency of concessionality.

Another DEval evaluation (DEval, 2020[17]) examines the effectiveness of structured funds in mobilising private finance. It highlights the successes of structured funds but also points to a need for enhanced monitoring and improved transparency and accountability in fund operations.

The MDB and DFI ”2022 Joint Report: Mobilisation of Private Finance by MDBs and DFIs” (MDBs/DFIs, 2024[18]) analyses how multilateral development banks and development finance institutions have mobilised private finance, including the use of blended finance instruments, and discusses the effectiveness of various approaches while highlighting successful case studies.

Canada commissioned the formative evaluation of the “Supporting Blended Finance: The Global Network for Blended Finance” Project (Government of Canada, 2023[19]) to assess the progress of the project with a particular emphasis on the integration of gender equality into projects operations.

Yearly reports by Convergence, the latest of which is for 2024 (Convergence, 2024[20]), provide analysis of the blended finance market and recommendations (action points) to help stakeholders navigate the blended finance landscape effectively.

Transparency

Transparency has taken centre stage in the international discussion on the mobilisation of private finance. There is growing recognition of its importance for the efficiency and effectiveness of blended finance and for the accountability surrounding the use of public funds to mitigate risk for private investors. Evidence has shown how particularly financial transparency builds up market efficiency as it reduces the mismatch between perceived and actual risk, and how it facilitates replicability and scalability by allowing market participants to learn from experience. Conversely, a lack of financial transparency undermines market-building and accountability in the use of public funds to de-risk private investors and/or enhance their returns.

Financial transparency has thus become a fundamental pillar for private finance mobilisation via blended finance. However, evidence indicates that transparency in blended finance is still seriously lacking. Particularly multilateral development banks (MDBs) and development finance institutions (DFIs), as two important sets of actors in the development finance system, continue to protect financial data, largely due to commercial confidentiality considerations (see below).

Numerous international calls for increased financial transparency have been made over the past few years. Transparency in blended finance is on the agenda of the G7 and G20 and was explicitly mentioned in the G20’s review on Capital Adequacy Framework for MDBs. COP29 launched the Baku Global Climate Transparency Platform, and the need for more transparency appears in the Paris Pact for People and the Planet initiative. Civil society organisations have also made numerous calls for increased transparency – both in finance, development outcomes and mobilisation – by arguing that transparency is essential for accountability and effectiveness and for ensuring that blended finance achieves its intended development outcomes (Transparency International, 2018[21]; ODI, 2019[22]; Voices for transparency, 2019[23]; CGD, 2020[24]). In addition, in relation to financial transparency there is a growing pressure on the GEMs database to allow private market participants to leverage the data (ODI, 2024[25]; CGD, 2023[26]).

Several initiatives have been established to enhance transparency on financial data. A notable example is Publish What You Fund, which has produced extensive work and guidelines on the topic of both impact and financial data transparency, including a DFI Transparency Index and a call for more transparency in relation to the mobilisation of private capital (Publish What You Fund, 2023[27]; 2024[28]). Publish What You Fund emphasises that there is limited transparency around both the return on investment for partners in blended finance deals and around the impact of blended finance investments. They also point to limited transparency in relation to potential future blended finance deals, which is preventing private investors from receiving and reacting to information on available instruments, terms and conditions, pricing and expected returns. Another example of a transparency initiative, the Hamburg Data Alliance, was launched in 2024 at the inaugural Hamburg Sustainability Conference with the aim of demystifying risk in emerging markets through increased disclosure of financial data.

The Centre for Development Finance Studies (CDFS) has called for a fundamental reset in the debate around financial transparency, moving away from minimal disclosure towards a full data-sharing framework that can drive innovation, reduce capital costs and improve financial mobilisation in blended finance (CDFS, 2025[29]). The CDFS argues that the cost of opacity is mainly borne by the donors as owners of DFIs and shareholders of the MDBs, as well as by public and private borrowers in the partner countries. MDBs and DFIs defend opacity by arguing that confidentiality is necessary to protect borrower information and safeguard proprietary financial data. However, the lack of transparency comes at significant costs. According to the CDFS, these include:

- higher borrowing cost and capital constraints for the MDBs and the (leveraged) DFIs as the risks on their balance sheets are unclear
- limited ability to mobilise private capital as opacity drives investors to demand higher returns or withdraw altogether
- higher costs for borrowing countries as they face stricter lending terms, higher interest rates and reduced lending volumes
- limited ability of financial market actors to develop competitive financial products due to barriers of entry.

The CDFS argues that, when MDBs and DFIs cannot optimise their balance sheets, the donors as owners of DFIs and shareholders of the MDBs bear the cost in terms of more frequent recapitalisation rounds and a higher cost of subsidising risk mitigation, for example in guarantee programmes. The consequence of opacity is thus limited lending, creativity, competition, innovation and replication of successful projects, and ultimately reduced development impact in partner countries.

The trends in transparency policies in the development finance system have shaped the Guidance messages in “Subprinciple 5.D. Ensuring public transparency and accountability in blended finance operations”, which aims to address the challenges of opacity and the cost to the end beneficiaries of blended finance operations.

Guidance for Principle 5

To ensure accountability on the appropriate use and value for money of development finance, blended finance operations should be monitored and evaluated based on a clear results framework and on measuring, reporting and communicating on financial flows, commercial returns and development results. The OECD-UNDP Impact Standards for Financing Sustainable Development (IS-FSD) represent a main go-to framework on how to operationalise Principle 5 (see Box 5.2) and will be referenced throughout the chapter (OECD/UNDP, 2021[11]).

Box 5.2. OECD-UNDP Impact Standards for Financing Sustainable Development (IS-FSD)

In close collaboration with the UNDP, the OECD has developed the Impact Standards for Financing Sustainable Development (IS-FSD). The Standards are designed to support donors in the deployment of resources through DFIs and private asset managers, in a way that maximises the positive contribution towards the SDGs.

The Standards constitute a best practice guide and self-assessment tool and are freely available for subscription on a voluntary basis. They act as a framework for all organisations with a desire to demonstrate public accountability regarding their measurement and management of impact.

By applying these Standards, donors can guarantee adherence to the provisions on development impact measurement and management, and transparency set out in Principle 5 of the OECD DAC Blended Finance Principles.

The IS-FSD are developed to bridge the needs of the donors on one side and the investors and DFIs on the other side and provide a common framework for dialogue between parties.

There are four Standards, each covering an area of work:

- Standard 1 (Strategy) provides guidance on embedding impact consideration into an organisation's purpose and strategy.
- Standard 2 (Management Approach) deals with the integration of impact considerations into operations and management approach.
- Standard 3 (Transparency) puts the accent on the importance of disclosing how impact is integrated into purpose, strategy, management approach and governance, and reporting on performance.
- Standard 4 (Governance) focuses on how an organisation can reinforce its commitment to impact through governance practices.

Each Standard is accompanied by an implementation guidance note. The guidance notes are a practical tool, including success factors, key indicators of alignment and a checklist to self-assess alignment with each Standard.

Officially adopted by the DAC in March 2021, the Standards focus on impact management, not on measurement, putting the accent on how information is collected and used to maximise the development impact of investment decisions, and how the monitoring and evaluation system is strategically defined and implemented.

Note: Readers are invited to refer to the IS-FSD Standards and accompanying guidance notes for further guidance and detail on how to align with the Standards.

Subprinciple 5.A. Agree on performance and result metrics from the start

The successful implementation and evaluation of any blended finance transaction requires that the partners involved develop a robust theory of change[3] and establish key performance indicators (KPIs) with corresponding targets and relevant metrics. Contracting should allow for the disclosure of agreed-upon performance and results metrics. Partners should also agree on an M&E framework from the start of the intervention. This implies the partners should come to an agreement about the evaluation methodologies and measurement techniques, including how to collect data and how already collected data can be used, for example during due diligence missions.

Adopt a well-defined theory of change, jointly with the other stakeholders involved in the blended finance transaction

To ensure blended finance is used effectively as a development co-operation tool, the first step for donors and other providers of development finance is to agree with all the stakeholders from the outset on expected development objectives and results and how they will be achieved. Stakeholders could include local or national authorities, local communities, CSOs, local private investors and other DFIs and donors operating in the same area. Before entering a blended finance transaction, all stakeholders should clearly understand and articulate how the particular investment is expected to lead to outputs, outcomes and eventually development impact.

Applying a theory of change allows identifying the more transformative effects of blended finance by clearly articulating the causal links, mechanisms and assumptions at play, from inputs via outputs to outcomes and impacts. Several initiatives have been undertaken to guide the creation of a robust theory of change for private sector actors, for example the OECD report *Making Blended Finance Work for the SDGs* (OECD, 2018[30]). The GIIN's IRIS+ impact metrics catalogue provides a checklist for developing a theory of change (GIIN, n.d.[31]) and the OECD-UNDP IS-FSD provides guidance on adopting a well-defined theory of change while involving stakeholders, as seen in Box 5.3.

Box 5.3. Linking the Blended Finance Principles and the OECD-UNDP IS-FSD: theory of change and stakeholder consultations

Theories of change provide a structured framework to link the financial mechanisms of a blended finance transaction to its intended development outcome. Implementing a robust theory of change is a practical method to ensure that interventions target the achievement of specific Sustainable Development Goals (SDGs) or other goals, and that monitoring indicators are relevant to the achievement of the project's objectives. As the formulation of a theory of change can be a complex exercise (see Principle 1), clarifying expectations and ensuring mutual understanding from the beginning is key to ensuring effective partnerships (as seen in Principle 4) and that the intended outcomes are achieved. Key elements of a robust theory of change normally include:

- Defining clear objectives: link the financial mechanism to specific SGDs or other development outcomes, including how the link is supposed to work (at least in theory).
- Identifying partners and stakeholders: define the roles of all the partners and stakeholders in a blended finance transaction.
- Mapping pathways to impact: clarify how financial inputs and activities will lead to direct outputs, intermediate outcomes and long-term impact.
- Identifying assumptions and risks: highlight critical assumptions and risk and mitigation strategies.
- Establishing measurable indicators: establish measurable KPIs at each stage (output, outcome, impact) to track progress and evaluate interventions.
- Incorporating feed-back mechanisms: decide how to collect data and feed-back and allow for learning and continuous improvements in the transactions.
- Ensuring stakeholder engagement: engage all relevant stakeholders in the development of the ToC to ensure it reflects different perspectives and ownership.

Note: The OECD-UNDP IS-FSD Standard 1 and 2 provide useful guidance on how to create a well-defined theory of change, jointly with all stakeholders involved. Numerous other sources on how to create a robust theory of change are available, for example: (Structural Learning, 2023[32]; Climate Finance Lab, 2024[33]).

Agree on reporting for results using a common set of key performance indicators, as a first step to track progress along the theory of change

As part of the process to agree on a robust theory of change, the partners should establish a common set of KPIs, as a first step for reporting on results, engaging all relevant stakeholders in the process. KPIs in blended finance should ideally capture the dual objectives of commercial actors (risk-adjusted return) and development actors (development impact and mobilisation of private finance). When defining and implementing KPIs, partners should leverage existing frameworks, for example the OECD-UNDP IS-FSD; the GIIN's IRIS+ framework; the Operating Principles for Impact Management; the IFC-managed Anticipated Impact Measurement and Monitoring; the Impact Management Project Framework; and the DCED Standard (DCED, 2022[34]). Chapter 6 contains case studies on IMM systems that are aligned with the OECD-UNDP IS-FSD.

The selection of the KPIs should align with the objectives of the blended finance project. It is important to tailor KPIs to specific sectors, geographies and the project's scale while ensuring they are specific, achievable, measurable, realistic and time bound. At the same time, the selection of KPIs will have to be tailored to the available data set, or the data that can be made available, on a case-by-case basis (see the section below on a common framework for data collection).

Using an agreed set of indicators is particularly important in the measurement of blended finance initiatives compared to other development co-operation modalities, as blending involves a variety of partners such as DFIs, MDBs, commercial banks, pension funds, insurance companies and local financial institutions. Performance metrics/indicators must adapt to diverse corporate structures and incentives that coexist within the same framework; agreement is therefore crucial to avoid each partner attempting to claim their own additionality or development impact, and to help each partner better understand the goals of the other partners. As referenced above, examples of sources of indicators include the HIPSO, the IRIS+ Catalogue of Metrics and the JIIs.[4]

Select a common framework for data collection

After establishing a common set of KPIs and targets, donors and other providers of development finance should adopt a common framework for data collection in close collaboration with all partners in the blended finance operation. Agreeing on a robust framework for data collection is an important step to achieve solid impact measurement practices for the agreed-upon development outcomes and will ensure consistency in measurement techniques.

Collecting data usually requires a mix of quantitative and qualitative methods to capture both financial and developmental impact effectively. Frameworks for data collection differ but will typically include a subset of benchmarking, surveys and questionnaires, interviews and focus group discussions, financial and development data, administrative data, case studies, social and environmental impact assessment, field visits and direct observations and stakeholder feed-back mechanisms. One or more of these methods may be used depending on the case-specific needs.

It is important to ensure that the data collection framework is consulted with local partners, that the selection of data relies as far as possible on existing local data, and that the data collection itself takes place in collaboration with local stakeholders. Ultimately, consultation with beneficiaries at the local level gives these stakeholders a voice and allows for constraints and challenges to be highlighted and feedback on the impact of investments to be communicated in a transparent manner. Consultation with beneficiaries can involve conversational interviews around key themes or topics, through different methodologies, including focus group discussions, direct observation and participant observation. Lower cost digital approaches to beneficiary consultations have been developed, for example by 60 Decibels, and can be applied (60 Decibels, 2025[35]).

Adopt a common monitoring and evaluation framework

Donors and other providers of development finance should adopt a common M&E framework to facilitate collaboration and ensure both transparency and accountability as well as consistency and comparability across projects. M&E are essential to assess the performance of blended finance, build an evidence base, accumulate learnings and raise awareness of its effectiveness in achieving development outcomes.

When designing and agreeing on a M&E system it should be kept in mind that monitoring and evaluation are two different processes. Monitoring represents an ongoing, real-time tracking of inputs, activities and outputs, and is usually handled by an implementing team or fund manager. Evaluation represents a periodic and structured assessment of performance, outcomes and impact and is usually undertaken by independent evaluators. Methodologies and metrics differ, and monitoring and evaluation have different focus. In addition, evaluations are notoriously complex due to the involvement of multiple actors; varied financial instruments; differing expectations around impact, returns and transparency, long timelines for development outcomes; and lack of standardised metrics. The complexity is compounded by the fact that actors in blended finance interventions may have differing definitions, or interpretations, of key concepts, as well as diverse mandates and preferences. These are all important issues to consider when designing and agreeing on M&E systems for blended finance interventions. The OECD-UNDP IS-FSD provide guidance on the crucial role of evaluation in blended finance (see Box 5.4).

Box 5.4. Linking the Blended Finance Principles and the OECD-UNDP IS-FSD: the crucial role of evaluations

Standard 2.3 of the IS-FSD provides guidance on how best to use evaluations. In particular, Success Factor 2.3.5 in the accompanying guidance note foresees that the partner "determines at the due diligence phase whether an investment will be subject to in-depth ex ante and/or ex post evaluation, establishing an evaluation framework schedule. The evaluation framework is in line with the OECD DAC Quality Standards for Development Evaluation. The decision on whether an investment shall be subject to ex ante and ex post evaluation are based on strategic priorities and learning needs".

In addition, Step 2 of the "Alignment Checklist" recommends that partners reflect on the use of evaluations by asking themselves:

How does the organisation decide on which investment/projects will be subject to evaluation?

Which mechanisms other than evaluations does the organisation have to verify the achievement of outcomes and impacts?

Source: (OECD/UNDP, 2021[11]), *OECD-UNDP Impact Standards for Financing Sustainable Development*, Best Practices in Development Co-operation.

Evaluation standards

Donors should apply the same standard to evaluations of blended finance operations as they do to other development co-operation modalities and adhere to the relevant quality standards (OECD DAC Quality Standards for Development Evaluation) and ethical standards. Further, the OECD DAC evaluation criteria of relevance, coherence, effectiveness, efficiency, impact and sustainability should inform the design, monitoring and evaluation of operations and their results. As defined in the DAC Quality Standards for Development Evaluation quality standards, appropriate methodologies should be applied – matching the purpose of the evaluations.

Financial intermediaries (other implementing actors) should be encouraged to apply the same standard to ensure the same rigour in terms of conducting evaluations and publishing their findings. The process itself of evaluating blended finance should be independent from decision-making, delivery and management processes, as impartiality contributes to the credibility of evaluation and avoids bias in findings, analyses and conclusions. Impartiality also provides legitimacy to evaluation and reduces the potential for conflict of interest.

Ex ante and ex post evaluation

Both ex ante and ex post evaluation of blended finance operations should be undertaken and shared, subject to considerations of strategic importance of each operation. Ex ante evaluation refers to the assessment of a blended finance project before it is implemented to determine its feasibility, potential impact and financial sustainability. Ex ante evaluation of blended finance projects is typically included and specified in the IMM-systems used by the development finance provider, as referenced above, for example the OECD-UNDP IS-FSD. Ex post evaluation refers to the assessment of blended finance projects after implementation to measure its actual outcome, impact and financial performance.

The basis for successful ex ante and ex post evaluation is summarised by the three main messages in Subprinciple 5.A: 1) Adopt a well-defined theory of change; 2) agree on a set of KPIs; and 3) select a framework for data collection and analysis. Following these messages when implementing blended finance operations implies that the objectives are defined from the start, pathways to impact are articulated, indicators are established and data sources identified.

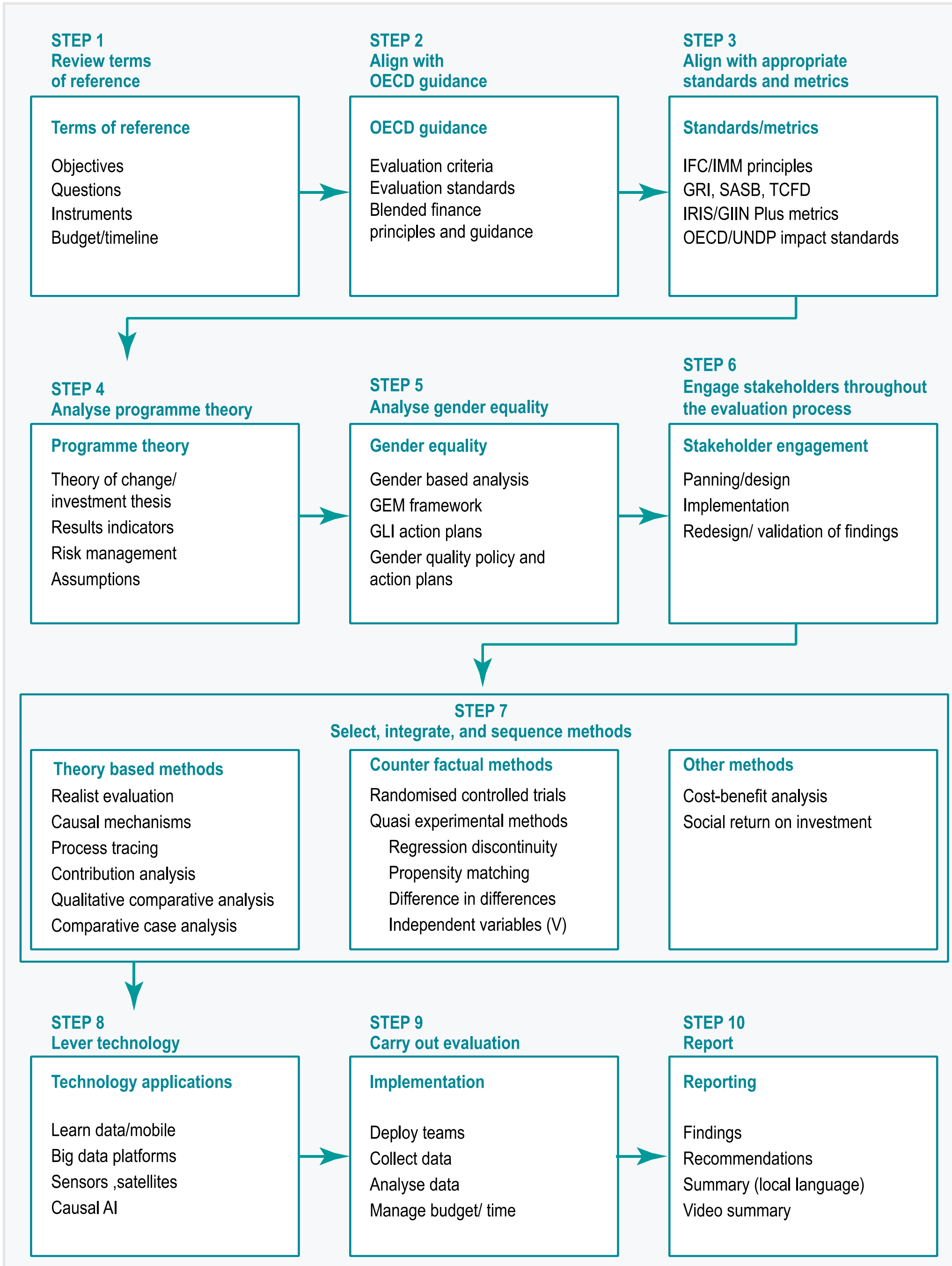
Methodological diversity

There is a methodological diversity in evaluations of blended finance, and a set of guiding questions that cut across evaluations can help design evaluation of blended finance operations (see case studies in Chapter 6). The guiding questions cover the main principles and elements of blended finance and provides a checklist to ensure the evaluation builds on a robust framework. It includes examples of both quantitative and qualitative methods for collecting and analysing data.

Designing the evaluation process

In relation to the design of the evaluation process itself, Figure 5.1 presents an integrated approach to evaluating blended finance instruments and mechanisms. This approach was developed in the 2021 OECD working paper: “Evaluating blended finance instruments and mechanisms” (OECD, 2021[36]). The approach involves ten successive steps in the design and implementation of such evaluations.

Figure 5.1. Designing evaluation of blended finance mechanisms



Source: (Habbel et al., 2021[37]), "Evaluating blended finance instruments and mechanisms: Approaches and methods", *OECD Development Co-operation Working Papers* No. 101.

Subprinciple 5.B. Track financial flows, commercial performance and development results

Promote better tracking of financial flows, commercial performance and development results

Tracking and disclosing financial flows are essential both to ensure accountability and to increase the efficiency and effectiveness of blended finance. It clarifies where flows of development finance and commercial finance are coming from, where they are going and how they are being used. It also helps measure how much capital is mobilised in each transaction and it facilitates the assessment of both financial and development additionality. Lastly, it helps evaluate the efficiency and effectiveness of different financial instruments and assess where financial risk is concentrated. It can thus facilitate assessment whether the agreed-upon risk-sharing mechanisms are working as intended. As such, tracking of financial flows provides evidence for better decision-making on a range of key issues in blended finance.

A multi-layered approach that combines different tools and principles can be used to help track financial flows in blended finance:

- **Establish clear financial flow categories:** to ensure consistency, financial flows should be tracked across key categories such as sources of funds, financial instruments used (e.g. debt, equity), leverage ratios, deployment channels and end use of funds. This requires clear definitions in financial market/ banking terms.
- **Use standardised impact reporting frameworks:** for example, GIIN IRIS+ metrics or the MDB Harmonised Approach.
- **Require granular, real-time reporting from financial intermediaries:** this could include mandating regular financial disclosures, auditing fund flows and tracking disbursements vs. commitments.
- **Monitor and measure mobilisation and leverage:** differentiate between mobilised vs. catalysed private capital and between direct and indirect mobilisation. Direct mobilisation is private investors co-investing alongside development finance; indirect mobilisation is market improvements leading to future private investments. Leverage ratios measure the amount of mobilised private capital relative to the amount of development finance used in the intervention.
- **Link financial tracking to development results:** financial flows should be assessed not just in monetary terms but also in relation to development results through agreed-upon metrics. This implies tracking how each dollar contributes to the SDGs for example, and it implies continuous monitoring of agreed-upon impact metrics (e.g. quality job creation, emissions reductions, social inclusion outcomes).
- **Promote transparency through open data policy:** this implies public disclosure of blended finance transactions, data sharing among other donors, MDBs, DFIs and other relevant providers and third-party verification and independent evaluation to strengthen credibility.

In relation to mobilisation of private capital, the DAC has developed a standardised method for measuring the mobilisation of private capital by official development finance interventions (OECD, 2018[38]). Donors should ensure this method is embedded in all the blended finance operations they support.

Subprinciple 5.C. Dedicate appropriate resources for monitoring and evaluation

Allocate sufficient financial, technical and human resources for monitoring and evaluation

Donors and other providers should allocate sufficient resources for adequate M&E activities as impact monitoring, reporting and evaluation are mandatory elements of all blended finance deals. This means dedicating financial, technical and human resources to enable M&E of blended finance operations according to harmonised and standardised indicators. Box 5.5. references the IS-FSD standard on resourcing impact measurement and management systems with focus on monitoring and evaluation.

Box 5.5. Linking the Blended Finance Principles and the OECD-UNDP IS-FSD: Resourcing IMM

Measuring and managing the development impact of investments requires the allocation of an appropriate amount of human and financial resources. The IS-FSD reference IMM resourcing across different standards. While Standard 2.3 mentions explicitly that “adequate resources are provided for monitoring and evaluation, proportionate to the size of the investment”, appropriate resourcing is also recommended with reference to stakeholder engagements in the implementation guidance.

Standard 4: Governance, also refers to the importance of IMM resourcing. In particular, Standard 4.4 stipulates that “the partner allocates adequate (financial and non-financial) resources to the development and implementation of a sound impact management process”. Standard 4.2 reminds organisations of the importance of “ensuring the presence of impact management competences in governing bodies, promoting a culture of learning and development”. As for all other standards and sub-standards, the accompanying guidance provides useful resources on how organisations can implement this Standard.

Source: (OECD/UNDP, 2021[11]), *OECD-UNDP Impact Standards for Financing Sustainable Development*, Best Practices in Development Co-operation.

Allocating financial resources involves the borrower and the lender budgeting for M&E to ensure that data collection, impact measurement and reporting activities are covered. To avoid budgetary constraints during or after the implementation of the project, a certain percentage of the development finance budget could be allocated from the start.

Allocating technical and human resources implies strengthening internal capacity to ensure donors and other providers of development finance have comprehensive knowledge on M&E frameworks and approaches to enable them to put a robust system in place. This can include hiring or training M&E specialists in management units of blended finance programmes or establishing a separate M&E unit inhouse. It can also include building capacity among implementing partners or outsourcing M&E functions to specialised companies or agencies. In this case funds reserved for evaluation may be transferred to other institutions.

It is important to note that, due to limited resources, varying levels of complexity and differing strategic importance, not all blended finance interventions can or should be evaluated. Decisions to undertake an evaluation could be based on a combination of strategic relevance, scale and financial significance, complexity and risk, potential for learning and replication, stakeholder demand and data availability. A multi-criteria scoring matrix could be used to decide whether to evaluate a blended finance intervention. If decided, an ex ante planning for evaluation should be undertaken, especially for large or innovative transactions. The decision to evaluate or not may vary depending on the institutional setup and governance structure; however, the decision should be separated from the implementing agency.

It is also important to note that, in some cases, evaluations must be undertaken even several years after project completion to be meaningful. This could be the case, for example, for infrastructure projects, market development or institutional reform. Development outcomes like job creation or small and medium-sized enterprise growth are long-term goals, and systemic-level additionality (see Principle 2) such as replication by other investors, or market shifts catalysed by the intervention may equally take more time to materialise.

Promote collaboration and join evaluations as an integral part of partnership

To further strengthen the M&E function and ensure increased harmonisation of approaches, donors and other providers of development finance should attempt to collaborate and use joint evaluations whenever and wherever relevant and possible. The overall context of blended finance with several partners involved presents opportunities for a collaborative approach to evaluations. This would enhance mutual capacity development and learning among the partners; build participation and ownership; share the burden of work; increase the legitimacy of findings; improve efficiency; and reduce the overall transaction cost of undertaking evaluations.

Subprinciple 5.D. Ensuring public transparency and accountability in blended finance operations

Transparency is critical for development finance. It ensures accountability, efficiency, effectiveness and trust among stakeholders while maximising development impact. Clear reporting on financial flows, risks and outcomes is essential to mobilising private investment, preventing misuse of funds and enhancing market confidence. The IS-FSD dedicates a full standard to transparency (see Box 5.6).

Box 5.6. Linking the Blended Finance Principles and the OECD-UNDP IS-FSD: Transparency

Given the crucial role of transparency in blended finance, the IS-FSD dedicates a full Standard to this topic: Standard 3.

Standard 3 of the IS-FSD stipulates that “The partner discloses towards donors and beneficiaries how it manages and measures the development impact and contribution to the SDGs of the private sector operations deploying public resources, as well as how development impact is integrated in its management approach and governance practices”.

In particular, Standard 3.1 foresees that “The partner discloses information at the portfolio, and, where feasible, individual operation level, that promotes SDG and ESG comparability and transparency towards the donors and relevant stakeholders with a view to building trust and confidence”, while Standard 3.2 stipulates that “The partner discloses to donors and other relevant stakeholders the sources of data used for both the ex ante and ex post assessment of development results, and for monitoring”.

Source: (OECD/UNDP, 2021[11]), *OECD-UNDP Impact Standards for Financing Sustainable Development*, Best Practices in Development Co-operation.

The rationale for transparency in blended finance has been emphasised by numerous international organisations and platforms (Busan, 2012[39]; Voices for transparency, 2019[23]; Publish What You Fund, 2022[40]; IFC, 2020[41]; Convergence, 2019[42]).The main arguments are summarised in Box 5.7.

Box 5.7. The rationale for transparency in development finance

Accountability. Development finance most often derives from public funds that by nature carry an obligation to demonstrate responsible management and prevent misuse. All parties to a blended finance transaction should be accountable for the use of development finance. Transparency mechanisms enhance accountability by ensuring that development finance can be tracked from its source to the ultimate beneficiaries. Transparency therefore helps prevent financial mismanagement and misuse of funds while helping to ensure that private investors receiving public support follow clear impact reporting and responsible business practices, and that blended finance aligns with development goals.

Efficiency. Development finance in blended finance aims to de-risk commercial investors and mobilise private capital. Opaque structures create uncertainty which raises risk premiums and may lead to increased cost of capital, excessive subsidies to private investors and inefficient capital allocation. Transparency reduces the cost of capital; it holds providers of development finance accountable for not over-subsidising private investors and helps ensure a fair risk allocation between development finance providers and private investors. Transparency thus contributes to more efficient use of scarce development finance.

Mobilisation. Capital market players – institutional investors, pension funds and asset managers – require clear data on financial risk and project viability before they will invest in blended finance structures. Transparency enables private institutional investors to assess risk and market opportunities, therefore increasing the mobilisation of private capital.

Replicability. Transparency plays a key role in enabling replicability in blended finance. Replicability ensures that successful investment structures, risk-mitigation tools and financing can be scaled and adapted to new markets, sectors or regions. It also helps reduce costs and negotiation time by leveraging existing templates and best practices. It therefore facilitates entry of institutional investors as they see repeatable, successful structures being implemented. Transparency thus enables replicability that enables standardisation and scaling while building investor confidence.

Additionality. Although ex ante assessment of additionality is not an exact science with definite answers for each investment, transparency combined with competitive approaches to the allocation of development finance allows for more efficient processes and increases the likelihood that private investors are not crowded out of the market. This also facilitates stronger accountability of providers of public funds.

Market building vs. unfair competition. Blended finance is a market-building exercise, and the availability to market participants of financial performance data, information pertaining to the legal structures of the instruments and the terms of each transaction are a core component of the value that is created by the development finance element. Transparency ensures this value is shared among all market participants to enable stronger market-building results of blended finance operations. Opacity, on the other hand, where financial information is selectively disclosed to a few investors, creates unfair advantages and distorts competition as other potential investors may be excluded from opportunities. Transparency ensures a level playing field so that all market participants can take informed decisions.

Monitoring and evaluation. Monitoring and evaluation of blended finance operations is important to ensure development objectives are met and lessons learnt are shared. Blended finance transactions should be evaluated based on development impact in addition to financial returns. Transparency and accessibility of data enable regular monitoring, impact reporting and disclosure of key performance indicators to determine whether blended finance projects contribute to sustainable development or merely generate financial returns for the private investors.

Financial innovation. Transparency is a key enabler of financial innovation in blended finance as it encourages the development of new financial instruments. Availability of information about risks, returns, impact and concessionality fosters competition and enables the creation of more efficient, scalable and investible financial products. For example, green bonds and sustainability-linked bonds became viable because transparent reporting frameworks enabled investors to assess their financial and environmental value. Securitisation of blended finance portfolios is only possible when investors have clear, standardised risk data.

Cost to donor agencies and borrowers in partner countries. As the Centre for Development Finance Studies' recent paper shows, the cost of opacity is mainly borne by donors as owners of development finance institutions (DFIs) and shareholders of the multilateral development banks (MDBs), as well as by public and private borrowers in the partner countries (CDFS, 2025[29]). When MDBs and DFIs cannot optimise their balance sheets, the donors as owners of DFIs and shareholders of the MDBs bear the cost in terms of more frequent recapitalisation rounds and higher cost of subsiding risk mitigation. Likewise, higher cost and increased scarcity of capital is impacting negatively on public and private borrowers in partner countries. Transparency helps reduce these costs.

Development impact. Increased accountability, efficiency, effectiveness, additionality, market building and financial innovation resulting from transparency lead to increased development impact of blended finance operations. Transparency therefore ensures that development finance mobilises more private capital, drives real development gains and improves the tracking of development goals.

Commit to the highest standard of transparency with full disclosure as the point of departure

Donors should commit to the highest standard of transparency with full disclosure as a point of departure to ensure accountability and more efficient and effective blended finance leading to stronger development impact. Transparency in blended finance is not just about disclosing data; it is about creating an environment of trust, accountability and inclusion. By following a set of principles, blended finance projects can improve financial efficiency, mobilise more private capital and ensure that development goals are met in a way that benefits all stakeholders.

Box 5.8. Principles for transparency in blended finance

Treat development finance information and data as a public good: subject to commercial confidentiality, information and data on development finance operations including blended finance should be considered a public good with free access for all market players and stakeholders. Given the potential value and impact of more accessible data in closing information gaps that constitute a fundamental barrier to private capital mobilisation towards EMDEs, it is incumbent on donors and other development finance providers to ensure this principle is adhered to in all development finance operations including blended finance.

Formulate a transparency policy including full disclosure as the point of departure: donors should formulate a transparency policy based on the overall principle of full disclosure of financial flows and instruments as the point of departure. Full disclosure implies sharing as much of the available data as can be safely released subject to commercial confidentiality, and working backwards to determine which limitations, if any, are truly necessary.

Donors should promote that the principle also applies for their co-operating partners including multilateral development banks, development finance institutions and other institutions and actors implementing donor-funded development finance operations. Donors should ask their respective bilateral DFIs of which they are significant shareholders and encourage MDBs and other implementing institutions to update their transparency or access-to-information policy and develop a roadmap to identify and quantify the costs and plan for mitigating the risks of the implementation of the revised policy.

The transparency policy should include the following elements:

- **Robust transparency framework:** this includes providing clear, consistent and comprehensive financial reporting to show how funds – concessional and non-concessional – are being allocated, leveraged and used throughout the project or transaction. Key aspects include the type of information to be disclosed (e.g. instruments, capital structure, risk and return profiles, financial terms, concessionality), reporting frequency, target audience and accessibility of data.
- **Reporting on outcomes and impact:** this implies transparency regarding development outcomes and the impact of blended finance projects. It includes disclosing the theory of change and key performance indicators while ensuring data are gender-disaggregated and other relevant factors to assess the inclusivity of projects. It also includes publishing independent evaluations of blended finance projects.
- **Transparency in stakeholder engagement:** this implies involving local stakeholders to ensure their voices are heard and that data and reports are available in languages and formats accessible to different audiences.
- **Transparency in offers to private investors:** this implies that offers of concessional and non-concessional finance including tools, financing structures and instruments are made public, and that the allocation of concessional finance is based on transparent mechanisms with equal access for all to ensure a level playing field.
- **Technology for transparency:** this implies leveraging digital platforms and technology tools to enhance transparency, allowing market participants and other stakeholders to track, monitor and engage with the project in real time. Key tools could include online dashboards, mobile applications, etc.
- **Reviewing and updating transparency practices:** donors should ensure that transparency practices evolve over time to respond to changing circumstances, emerging challenges and lessons learnt from monitoring and evaluation. This could include annual reviews, adaptive management and continuous improvement of the policy and the framework.

Chapter 6 contains case studies that illustrate the importance of transparency in blended finance and how different actors have approached the challenges in relation to transparency on project-level data, concessionality levels and rationale, additionality assessment, mobilisation and leverage metrics as well as development outcomes.

Notes

[1] The HIPSO were developed in 2013 by development finance institutions to provide a standardised framework for measuring development impact in private sector operations including blended finance initiatives. The IRIS+ system was first released in 2018 by the GIIN and provides a standardised set of metrics and tools for measuring and managing environmental and financial performance of impact investments, including in blended finance. HIPSO and IRIS+ indicators are closely aligned in several areas.

[2] The IMP is a collaboration between leading providers of international public good standards, frameworks and guidance for managing impact. Together, the platform partners are working to clarify and build consensus on the meaning and practice of impact management, work towards a more coherent system of impact management resources and have co-ordinated dialogue with policymakers. The partners thus engage in knowledge exchange, collaborative projects, awareness raising and improving the system of resources. The vision is to make impact management a standard practice and ensure that businesses and finance can reduce their negative impacts, enhance the positive ones and hereby contribute to achieving sustainable development goals.

[3] According to the OECD glossary, a theory of change is the way the intervention is expected to achieve or achieves changes. It represents how people understand change to occur in a given context, including explicit (or implicit) assumptions about the causal links between inputs, activities and results. It often also includes evidence and risks for these elements of the results chain.

[4] An example of metrics that can be used to assess the impact of blended finance on the poor been developed by the Tri Hita Karana (THK) Impact Working Group. Some blended finance investments directly target poor households, individuals, and businesses, whereas others indirectly target poverty reduction through their contribution to market creation or changes in the market in ways that benefit the poor. To address this challenge a practical guide, in the form of a checklist, for assessing the impact of blended finance on the poor can be applied. The checklist, developed by the THK Impact Working Group in 2020, offers a set of questions and screening considerations for ex ante assessment of expected impact on the poor as well as what can and should be measured in ex post evaluation of the actual impact (available at: https://www.thkforum.org/wp-content/uploads/2020/06/THK_Impact_checklist.pdf).

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6 Case studies

As a new feature in the OECD DAC Blended Finance Guidance 2025, a series of case studies has been added to help practitioners and policymakers learn from concrete examples of blended finance in practice. These case studies are unfolded in an online repository which will be regularly updated as new instruments, approaches and methodologies in blended finance continue to evolve.

Introduction

This chapter introduces a series of case studies, each rooted in one of 15 distinct thematic areas, aimed to help practitioners and policymakers learn from concrete examples of blended finance. While there are literally hundreds of examples of blended finance projects, programmes and interventions in the ecosystem, the case studies here have been selected specifically to underpin the Guidance and buttress the messages.

The 15 thematic areas are (listed alphabetically): 1) additionality; 2) bonds; 3) collaboration and co-ordination; 4) CSOs and blended finance; 5) country platforms; 6) enabling environment; 7) fragility; 8) guarantees; 9) impact management and measurement; 10) local currency; 11) securitisation; 12) structured funds; 13) theory of change; 14) trailblazing/market creation; and 15) transparency. These thematic areas do not intend to provide an exhaustive list of existing notions in blended finance; they have been selected because they represent core enablers, tools and concepts in blended finance and therefore constitute important building blocks for designing and deploying blended finance solutions that are efficient, impactful and scalable. They highlight persistent challenges but also emerging innovations in the field, and together they are meant to provide a resource for policymakers seeking to set strategic direction for their blended finance interventions, and for practitioners seeking to design, evaluate or scale blended finance solutions for sustainable impact.

Thematic case studies

The case studies within each of the thematic areas illustrate what works and why; they demonstrate innovative approaches and help translate the OECD DAC Blended Finance Principles into practice. Most importantly, the case studies support peer learning and replication by illustrating for practitioners and policymakers how peers have approached various challenges in blended finance and adapted tools and strategies to their own contexts.

It is important to note that the case studies have been presented in a **summary format**. They are meant to serve as appetisers for further investigation. Each case study thus provides links to more information. It is also important to note that the case studies constitute a **living repository** that will be updated on a continuous basis as the ecosystem continues to develop new instruments and approaches in blended finance.

This part of the Guidance can be used to browse the themes and explore topics of interest or relevance to specific challenges or contexts. It can also be used to compare cases across regions or instruments. And most importantly, lessons drawn from the case studies can be used to inform project design, policy development or investment strategies for donor agencies and other providers of development finance thereby helping to make blended finance interventions more impactful.

Blended finance is not a silver bullet to meet the financing needs of emerging markets and developing economies. It is an approach to help mobilise private finance and increase the flow of sustainable investment. By learning from the cases, this part of the Guidance is meant to help ensure that blended finance is not only mobilising private capital effectively but also delivers sustainable impact where it matters most.

Additionality

Introduction

Establishing additionality – both financial, development and value additionality – is core to blended finance and to development finance in general. It ensures that development finance is used efficiently to create development outcomes and mobilise private capital flows that would not have happened otherwise. Without additionality, blended finance risks misallocating scarce development finance, crowding out private capital and undermining its own credibility and accountability. Ensuring that blended finance interventions are truly additional brings value for money, prevents market distortion and crowding out of private capital, and strengthens the rationale for the intervention.

Why is this relevant to the Guidance?

While most blended finance initiatives today explicitly reference additionality in their design, the Guidance (particularly chapter 2) illustrates how challenging it is to assess and establish additionality. Providers of development finance have adopted various methodologies, with different questions, strategies and techniques being used to assess and establish additionality. This lack of standardisation is one of the key challenges of additionality assessment, alongside the methodological difficulties of the process, i.e. the establishment of a strong counterfactual and the lack of necessary data. Growing demands by a diversity of stakeholders for more robust evidence and transparency coupled with the experimentation of innovative approaches offer promising ways forward for the assessment of additionality in blended finance.

Case studies

The case studies on additionality illustrate different approaches to assess and document additionality by a range of actors including donors, MDBs and DFIs. They present different frameworks and methodologies and showcase good practices in assessing and documenting additionality. Together, the case studies aim to inspire providers of development finance and practitioners in blended finance when designing frameworks for additionality assessment.

Link to the online repository (https://www.oecd.org/en/toolkits/blended-finance-case-studies.html).

Bonds

Introduction

Debt remains a key instrument in financial markets, with both sovereign and corporate borrowing increasing significantly since 2007 and set to continue rising (OECD, 2025[1]). Bonds are also a powerful way to mobilise private investors towards developing countries, as investors are familiar with these instruments – which are typically liquid, have well-understood structures and a long-term duration. Green, social, sustainability and sustainability-linked (GSSS) bonds can be used in particular to finance sustainable assets/projects, or to incentivise behaviour towards sustainability objectives. They therefore leverage the benefits of traditional bond instruments to link scale with impact. When considering the issuance of bonds – both vanilla and GSSS – the question of debt sustainability is particularly important, especially for developing countries.

Why is this relevant to the Guidance?

Bonds, and GSSS bonds in particular, are not blended finance instruments *per se* – rather, whether they are considered blended finance depends on the involvement of development actors in mobilising additional finance (OECD, 2023[2]). For example, donors can support issuances via first-loss anchor investments or through the provision of credit enhancement. When deploying blended finance in this way in the context of bonds, all five Principles and related Guidance should be closely followed. Beyond this, donors can contribute to the development of the GSSS bond market (and the catalysation of private finance) more broadly – for example through the provision of technical assistance to guide the issuance process or supporting a strong enabling environment.

Case studies

The case studies on bonds highlight different ways in which donors have effectively supported GSSS bond issuances and the market more broadly. They include sustainability-linked bond (SLB) issuance with credit enhancement that demonstrates how donors can use blended finance to directly support issuances. They also include donor engagement with the broader market infrastructure for bonds – for examples through support to transparency platforms or capacity building for diverse market players.

Link to the online repository (https://www.oecd.org/en/toolkits/blended-finance-case-studies.html).

Collaboration and co-ordination

Introduction

Blended finance inherently involves multiple actors including donors, MDBs, DFIs, private investors and government agencies. When these actors compete or work in silos, it can often lead to inefficiencies, fragmentation and suboptimal outcomes in relation to mobilisation of private finance. Efficient collaboration and co-ordination between the diverse stakeholders can help address these challenges. However, collaboration among stakeholders – including around innovative and scalable approaches in blended finance – is notoriously difficult to establish. The challenges are rooted in different policy priorities, institutional mandates, operational models, risk appetites, incentives and political economy dynamics. Aligning a diverse set of stakeholders' interests is not easy to achieve, neither among donors nor between donors, MDBs and DFIs.

Why is this relevant to the Guidance?

Collaboration and co-ordination are central to the concept of blended finance itself and are therefore relevant to all the five Principles. Collaboration and co-ordination can – and should – happen at multiple stages of the blended finance process. Even before a specific blended finance operation is designed, collaboration and co-ordination around blended finance principles and frameworks is already crucial. At the project level, efficient collaboration and co-ordination can support the derisking of transactions and/or provide additional support to ensure a transaction can take place. At the portfolio level, collaboration and co-ordination allow for a more flexible and dynamic approach when deploying capital, where investors pool resources to spread risks across multiple projects. At the funds and facility level, collaboration and co-ordination can aggregate large pools of capital among multiple stakeholders, including donors, allowing for the scalability and standardisation of blended finance interventions.

Case studies

The case studies on collaboration and co-ordination demonstrate the potential of working more together for mobilising private finance for sustainable development. They illustrate a.o. how providers of development finance can partner with, for example, utility companies and government agencies to achieve sustainable development objectives, and how donor agencies can work together to scale up the mobilisation of private finance. They also provide examples of international platforms designed to increase collaboration and scale up the mobilisation of private finance.

Link to the online repository (https://www.oecd.org/en/toolkits/blended-finance-case-studies.html).

Country platforms

Introduction

Country platforms are government-led co-ordination platforms which bring together relevant stakeholders to co-ordinate and align on investment goals and priorities. Country platforms have emerged as a new form of alliances which can promote strong partnerships for blended finance. They can help reduce fragmentation, increase scale and impact, provide risk mitigation and enhance transparency. Their key challenges include: bringing together stakeholders with diverse mandates, preferences, resources, etc. such as governments, national and international private investors, development finance providers and local stakeholders; and transforming nationally determined contributions, national adaptation plans and other national strategies into investable opportunities.

Why is this relevant to the Guidance?

Country platforms can support the implementation of blended finance as they encourage both a whole-of-government approach to development finance and public-private collaboration. Investing through country platforms helps ensure that blended finance interventions align with broader national priorities, policies, plans and local investment blueprints, and that consultations are undertaken with relevant stakeholders. Aligning blended finance with local development priorities and ensuring country ownership enhance the likelihood of achieving transformative and sustainable outcomes. Local policies, plans and investment blueprints typically include nationally determined contributions and national adaptation plans but also integrated national financing frameworks, national biodiversity strategies and action plans, sector plans and other relevant long-term strategies.

Case studies

The case studies on country platforms highlight how these platforms have been able to improve the effectiveness, alignment and impact of development finance in developing countries. They illustrate that such platforms, when well-designed and government-led, can reduce inefficiencies and provide an enabling environment that is suitable for scaling blended finance and mobilise private capital.

Link to the online repository (https://www.oecd.org/en/toolkits/blended-finance-case-studies.html).

CSOs and blended finance

Introduction

Civil society organisations (CSOs) play an increasingly important role in blended finance. A dual role of CSOs has crystallised where the community maintains a critical voice to ensure that blended finance is additional and avoids over-subsidising commercial investors. At the same time, CSOs increasingly engage in blended finance transactions with commercial partners and development finance providers where they play a key role ensuring that projects are tied to development outcomes, facilitating stakeholder engagement, providing local expertise and capacity building, advocating for safeguarding social and environmental standards and monitoring and evaluating projects. CSOs are thus becoming important partners in blended finance as they bring unique perspectives, expertise and accountability to the process.

Why is this relevant to the Guidance?

The involvement of CSOs is important for all five Blended Finance Principles. As CSOs can act as intermediaries between development finance providers, private investors and local communities, they can help facilitate dialogue between project stakeholders and ensure projects are inclusive and tied into the local context. CSOs have extensive experience providing technical assistance and training for local stakeholders, and from working as implementing partners for a range of projects financed by development co-operation funds. CSOs can also play an important role in monitoring and reporting on blended finance projects by collecting data on development outcomes, ensuring accountability and transparency in project implementation, and reporting on the social and environmental impact of projects.

Case studies

The case studies on CSOs and blended finance highlight the diverse and increasingly significant roles CSOs play as partners in blended finance initiatives. The cases demonstrate how CSOs can act as critical intermediaries between private investors and local communities, helping to align financial objectives with local development needs and social impact. The cases studies also show how CSOs can serve as key providers of capacity building for local stakeholders.

Link to the online repository (https://www.oecd.org/en/toolkits/blended-finance-case-studies.html).

Enabling environment

Introduction

Fostering strong enabling environments is essential for the effective and scaled use of blended finance and for the creation of a resilient investment climate more broadly. Enabling environments build investor confidence; they also create the necessary conditions for private capital to flow effectively into sustainable development projects and endure beyond a period of donor support. A robust enabling environment includes transparent regulatory frameworks, sound governance, stable macroeconomic policies and strong institutional capacity, all of which reduce perceived risks for investors.

Why is this relevant to the Guidance?

Without the foundation of a robust enabling environment that is conducive to private investment, even well-structured blended finance mechanisms may struggle to attract long-term private investment. Moreover, supporting enabling environments is crucial to the rationale of blended finance itself – i.e. ensuring that it remains a temporary solution. While the enabling environment is thus particularly key to Principle 3, which explicitly focuses on tailoring blended finance to local context, it is central to the concept of blended finance itself, therefore relevant to the application of all five Principles. More broadly, donors have a role to play in providing macro-level catalytic technical assistance to support the enabling environment, for example through the provision of capacity building, and in support of regulatory and policy changes to facilitate more domestic and international private finance flows.

Case studies

The case studies on enabling environments highlight different ways in which donors have effectively supported an enabling environment which in turn unlocked further private capital. The cases show how combining regulatory reforms with capacity-building efforts can catalyse investment, enhance financial inclusion and strengthen resilience. They also exemplify how international financing can be blended with bilateral donor grants to provide an integrated package which includes policy dialogue, technical assistance and financing facilities. Ultimately, these approaches stimulate sustainable growth by creating a strong enabling environment and complementing this with targeted financing.

Link to the online repository (https://www.oecd.org/en/toolkits/blended-finance-case-studies.html).

Fragility

Introduction

In states and territories characterised by high or even extreme fragility, persistent political instability, weak governance and recurring economic shocks severely undermine the ability of public authorities and private actors alike to deliver essential services and sustain development. Conflict, natural disasters and large-scale displacement exacerbate these vulnerabilities, deterring conventional investors and leaving communities trapped in cycles of poverty and insecurity. In such environments, blended finance must be carefully tailored to address both the deep-rooted causes of fragility and the immediate risks that discourage private participation.

Why is this relevant to the Guidance?

Blended finance can help to de-risk projects also in zones of high or even extreme fragility. However, such zones may require differentiated and context-sensitive approaches in blended finance. Efforts must focus on designing financial tools and instruments that are appropriately tailored in both size and structure to meet the specific needs of the target markets. The specific needs may include customised levels and duration of concessionality; enhanced risk mitigation strategies; refined project selection criteria that emphasise developmental additionality; impact measurement frameworks that go beyond traditional metrics; application of ESG/performance standards that integrate conflict sensitivity, distributional equity, and safeguards for local market integrity; realistic timelines and expectations regarding the path to commercial sustainability; and strategic partner selection, including both official development actors and private sector player with relevant risk appetite, local understanding, and mission alignment. In addition, achieving success in such contexts often demands parallel investment in enabling conditions such as support for market infrastructure development, regulatory reform, project pipeline generation and the strengthening of local technical and institutional capacity.

Case studies

The case studies on fragility highlight how blended finance can be adapted to very challenging contexts while still delivering mobilisation of private finance and impact. The cases a drawn from a variety of geographical contexts and they illustrate how blended finance considerations have included political and security analysis as well as peace and development focus while taking into account the need for strong de-risking tools, local capacity building and flexibility in structuring.

Link to the online repository (https://www.oecd.org/en/toolkits/blended-finance-case-studies.html).

Guarantees

Introduction

Guarantees are the second most-used mechanism to mobilise private capital (after syndicated loans), making up USD 17 billion of the USD 70 billion of private finance mobilised in 2023 (OECD, 2024[3]). Guarantees act as a catalyst, combining impact and efficiency. By providing partial or full protection against losses, they help mitigate the perceived and actual risks – political, currency or other country risks – that often deter private investors from entering emerging markets. Moreover, particularly unfunded guarantees are a good way for development finance providers to optimise their balance sheets as they do not require an immediate outflow of funds by the guarantors.

Why is this relevant to the Guidance?

The de-risking function of guarantees is key in scaling blended finance as they help mobilise significant volumes of private capital towards sustainable development projects. Guarantees can also help crowd in first-time investors, build market confidence and can be structured to support local financial institutions, further deepening domestic capital markets. The interest in using guarantees as a risk-mitigating instrument to mobilise private finance has increased since 2020 partly due to the OECD DAC reform of private sector instruments, which agreed in 2023 to include guarantees as an ODA-eligible instrument. Guarantees are an instrument that should be further explored in the current context as they can effectively mobilise private finance at scale and also promote access to finance in underdeveloped and underserved markets, such as the least developed countries.

Case studies

The case studies on guarantees highlight the capacity of guarantees to unlock additional finance at scale, contribute to more inclusive, liquid and resilient money markets in challenging financial environments and provide access to finance for underserved SMEs. The cases illustrate how flexible and powerful the guarantee instrument is to unlock finance, provide access for underserved segments and create markets ensuring that blended finance is used as a transitory measure.

Link to the online repository (https://www.oecd.org/en/toolkits/blended-finance-case-studies.html).

Impact management and measurement

Introduction

Impact management and measurement (IMM) systems are essential for ensuring that blended finance answers to its development rationale, i.e. contributes to achieving the 2030 Agenda, the goals of the Paris Agreement or other development frameworks. IMM systems thus help ensuring that development finance delivers measurable development and climate outcomes, not just financial returns. They also help track additionality and enable accountability and transparency by providing a shared results framework with clear reporting on what is being achieved. Robust IMM systems can thus support better project design and risk management. However, challenges to establish and using a robust IMM system persist. These include a lack of available and accessible data (especially in emerging markets); limited technical capacity and resources in local administrations; knowledge gaps; and poor contextual understanding.

Why is this relevant to the Guidance?

Robust IMM frameworks are crucial to blended finance and go hand-in-hand with the need for transparency and accountability. IMM ensures that blended finance is rooted in clear development objectives by proposing solid and clear results frameworks through which operations can be designed and monitored. Directly linked, IMM is also key in aligning stakeholders' interests, building investors' confidence and thus attracting more capital. In addition, IMM systems support better project design, build market credibility and investor confidence and help align blended finance with both local and global priorities. Establishing and using robust IMM systems is thus relevant for all the five Principles of blended finance.

Case studies

The case studies on IMM systems highlight how different organisations have designed robust IMM frameworks and integrated IMM into their development finance operations. The cases illustrate a.o. the use of clear theories of change, alignment with development objectives, integration of impact into the entire investment process as well as learning and adaptation loops.

Link to the online repository (https://www.oecd.org/en/toolkits/blended-finance-case-studies.html).

Local currency

Introduction

Most development finance and private capital is still disbursed in hard currency, even in projects with exclusively local revenue streams. Hedging mechanisms for investments in developing countries are limited and local capital markets are shallow. This is compounded by lack of credit enhancement, high transaction costs and investor preference for hard currency. The predominance of hard currency financing is a serious challenge. Across EMDEs, projects within infrastructure, SMEs and social sectors typically generate revenues in local currency, but if financing is denominated in foreign currency, borrowers will be exposed to volatile exchange rates that threatens project viability.

Why is this relevant to the Guidance?

Local currency financing is particularly relevant to consider for blended finance operations as it reduces currency risk which is one of the main risks when investing in emerging markets. Local currency financing reduces the exchange rate risk for borrowers and enhances the sustainability of investments in developing countries (Horrocks et al., 2025[4]). By facilitating local currency lending, blended finance can help ensuring that projects are more in line with local economic realities, increasing debt affordability and promoting the growth of the domestic financial markets. Additionally, it makes financing more accessible to local institutions and businesses who might not otherwise be able to get access because of currency mismatch problems. By mitigating exchange rate risks and facilitating more scalable investments in local markets, promoting local currency financing is thus critical to attract private capital that might otherwise be deterred by unpredictable exchange fluctuations. Furthermore, aligning financing structures with local economic conditions helps to build up domestic financial institutions, ensuring that investments are better tailored to the local needs of the market. In addition to improving financial resilience, a localised strategy promotes long-term growth and creates a more conducive environment for private sector involvement and investment in emerging economies. In this way, local currency financing cuts across the blended finance Principles and the Guidance for their implementation.

Case studies

The case studies on local currency highlight the potential of local currency financing on mobilising private finance. The cases illustrate how various local currency financing initiatives have played a catalytic role; succeeded in crowding in local pension funds and banks; created new instruments, institutions or market norms; expanded lending to underserved segments; and reduced vulnerability to global financial shocks. The cases underscore how local currency financing is not just a technical preference but rather a development necessity.

Link to the online repository (https://www.oecd.org/en/toolkits/blended-finance-case-studies.html).

Securitisation

Introduction

Securitisation is a financial technique that bundles together pools of assets (like loans, mortgage or receivables) and transforms them into tradable securities which are then sold to investors. It is a critical enabler for scaling up the mobilisation of private finance – especially institutional investors – for development objectives such as infrastructure, climate and SMEs in EMDEs. Securitisation unlocks institutional investment at scale, recycles capital for MBDs, DFIs and local commercial banks and catalyses market development through demonstration effects.

Why is this relevant to the Guidance?

Securitisation in development finance is relatively novel and its potential remains untapped. By pooling assets, it reduces individual project risk and creates investment products that are attractive to a broader range of investors. Securitisation is thus a powerful tool that can be used to scale mobilisation of private finance and provide access for institutional investors to an exposure in EMDEs that they would otherwise not get.

Securitisation is a tool that should be further explored in blended finance. Both policymakers and practitioners in blended finance should be more curious about the potential of securitisation. However, it is also a complex financial engineering tool that may be associated with certain risks. It is thus important to understand the different types of securitisation models and the roles securitisation can play in relation to both balance sheet optimisation and the mobilisation of private finance at scale. It is also essential for donors and practitioners in blended finance to understand the risks and the limitations related to different securitisation models.

Case studies

The case studies on securitisation illustrate the potential for mobilising private finance using different securitisation approaches. These include both synthetic securitisation and true-sale securitisation, and they illustrate how assets in EMDEs – for example infrastructure loans and SME loans – can be investible and attractive for institutional investors even without any concessionality.

Link to the online repository (https://www.oecd.org/en/toolkits/blended-finance-case-studies.html).

Structured funds

Introduction

Structured funds are designed to pool resources and strategically distribute risks across different tiers of capital. These vehicles play a critical role in mobilising private finance for development, particularly in higher-risk markets and sectors such as infrastructure, renewable energy and climate resilience. By blending development/concessional and commercial capital within a single fund structure, structured funds allow for differentiated risk-return profiles tailored to diverse investor preferences. This enables development finance to absorb certain risks – often through a junior or first-loss tranche – thereby crowding in private investors into transactions that would otherwise be considered too risky.

Why is this relevant to the Guidance?

Structured funds are a key innovation in blended finance because they bring together diverse stakeholders – donors, DFIs, institutional investors and fund managers – under a common investment vehicle. Their layered design allows donors and other development finance providers to take on risks that private investors cannot, helping to unlock capital that would not otherwise flow into developing countries. At the same time, they offer a powerful demonstration effect when structured transparently and priced appropriately, contributing to long-term market development.

Yet structured funds also face challenges. Their effectiveness depends on careful structuring to avoid over-subsidisation and market distortion. Clear rules on concessionality and exit strategies are essential to ensure that structured funds deliver sustainable impact, crowd in rather than crowd out private capital and build functioning markets over time. Also, structured funds face challenges especially around fragmentation and lack of standardisation that can limit their scalability, efficiency and impact. Guidance for using structured funds is therefore appropriate to ensure they deliver sustainable impact while mobilising private finance.

Case studies

The case studies on structure funds highlight how donors and development actors can support structured funds to unlock private finance at scale. The cases illustrate several core design principles and common features around layered risk-sharing, impact-integrated design and strong governance that explain why the funds have been effective in mobilising private finance while delivering impact in EMDEs. The cases underscore that structured funds are one of the most effective tools in blended finance when quality, impact and investor alignment are properly managed.

Link to the online repository (https://www.oecd.org/en/toolkits/blended-finance-case-studies.html).

Theory of change

Introduction

In the context of blended finance, a theory of change provides a structured way to understand how a series of targeted interventions can lead to long-term, transformative outcomes. It is not just a planning tool – it is a mindset that ensures every financial innovation, pilot or investment structure is grounded in a larger vision for systemic change. By mapping out causal pathways from inputs via outputs to outcomes and impact, a theory of change helps actors remain focused on the broader development goals they aim to achieve, particularly in complex, high-risk markets.

Why is this relevant to the Guidance?

For blended finance to be truly catalytic, it must do more than mobilise capital – it must reshape the systems that prevent capital from flowing in the first place. A strong theory of change helps development actors align their financial tools with market-building strategies, ensuring that short-term interventions contribute to long-term change. It also provides clarity for investors and stakeholders, helping them understand how risk mitigation, technical assistance or progressive financing strategies are expected to unlock broader economic, social or climate-related impact.

In relation to the OECD DAC Blended Finance Principles, a theory of change illustrates the link between Principle 1 that ensures a development rationale for all blended finance interventions ("doing the right thing") and Principle 5 that ensures results are monitored, documented and disclosed ("proving it was the right thing to do"). A strong theory of change is thus a critical tool linking the two Principles.

Case studies

The case studies on theory of change highlight different ways in which a theory of change has been embedded into blended finance interventions – for example by aligning currency risk tools and institutional investor mandates with long-term SDG goals, building inclusive infrastructure access in fragile contexts or designing a progression model that helps clients evolve across financing stages. The case studies demonstrate how a clear causal logic can guide the deployment of blended finance towards deeper, more sustainable outcomes.

Link to the online repository (https://www.oecd.org/en/toolkits/blended-finance-case-studies.html).

Trailblazing: Market creation for small-scale opportunities

Introduction

In many frontier and emerging markets, small-scale enterprises and underserved sectors remain out of reach for traditional finance. These segments – such as early-stage SMEs, agricultural businesses or community-level infrastructure – are often perceived as too risky, too small or too complex for established financial institutions to serve. Trailblazing in this context refers to pioneering new financial solutions, institutions or models that intentionally target these market gaps. It is about breaking new ground where no market exists – laying the foundations for sustainable, inclusive growth in geographical areas and sectors that matter most for development.

Why is this relevant to the Guidance?

Trailblazing is essential in blended finance because it creates the enabling conditions for investment where none previously existed. By testing new financial instruments and structures, redefining risk-return expectations and building capacity within local markets, trailblazing efforts help transform high-risk, low-investment environments into more viable and investable ecosystems. These efforts not only unlock capital in the short term; they also shift how the market sees value, opening doors for broader systemic change over time. Trailblazing helps create pipeline and increase deal flow; it unlocks investment in underserved markets, and it demonstrates what is possible and thereby creates pathways where private finance can later flow. Yet trailblazing is high-risk by design and not all efforts will succeed. It requires strong impact measurement and patient capital, and efforts should be undertaken transparently and with an exit strategy to avoid over-subsidising or creating market distortions.

Case studies

The case studies on trailblazing illustrate how financial innovation in underserved markets have helped unlock investment for higher-risk, small-scale segments of stakeholders. Each case demonstrates a unique approach to building investable opportunities, whether through incentive design, long-term capital or structured progression. Together, they highlight how blended finance can pioneer solutions that build markets and drive inclusive growth in challenging environments.

Link to the online repository (https://www.oecd.org/en/toolkits/blended-finance-case-studies.html).

Transparency

Introduction

Transparency in development finance, and blended finance in particular, is about providing clear, accessible and timely information on how development finance is used, what development outcomes have been achieved and how risks and returns are distributed among stakeholders. It covers both development outcomes, mobilisation volumes and financial data. It is thus about reporting on development impact using agreed systems and metrics; disclosing volumes of private finance mobilised using agreed reporting standards; and disclosing financial terms of deals including size and structure of development finance and private contributions, levels of concessionality and risk sharing arrangements. Transparency also covers development-, financial- and value additionality to ensure development finance is truly being additional to what the market is prepared to offer.

Why is this relevant to the Guidance?

Transparency is critical for blended finance. It promotes public accountability as it allows assessment whether development finance is used efficiently, effectively and fairly in blended finance. It enables private institutional investors to assess risk and market opportunities, and it promotes replicability which reduces cost and enables standardisation. Transparency and accessibility of data is the foundation for a robust monitoring and evaluation system and a key enabler of financial innovation as it encourages the development of new financial instruments. Beyond this, transparency is crucial to assess the impact of blended finance operations and keep track of precedents that can enable learning from good practices.

While the rationale behind transparency is solid, the road towards full transparency and disclosure in development finance has so far been complex. Key challenges persist including lack of data, especially in emerging markets; confidentiality concerns of different stakeholders; and the cost of data collection and dissemination required by transparency, especially for smaller organisations.

Case studies

The case studies on transparency illustrate the importance of transparency in blended finance including how transparency has enabled mobilisation of private capital for example by enabling access to information about investment opportunities in EMDEs. The cases also illustrate how indexes can promote transparency among development finance institutions.

Link to the online repository (https://www.oecd.org/en/toolkits/blended-finance-case-studies.html).

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Best Practices in Development Co-operation

OECD DAC Blended Finance Guidance 2025

Since the first edition of the Blended Finance Guidance in 2020, the blended finance industry has experienced significant growth and evolution. Blending is no longer an innovative approach; it is a well-known and widely used method for providers of development finance and the private sector to work together and leverage each other's resources and knowledge. Yet it still faces important challenges. Blended finance has not scaled as rapidly as hoped and has mobilised relatively limited private finance. It has remained a cottage industry with largely bespoke and fragmented interventions, as well as lack of standardisation and transparency. This updated edition of the *OECD DAC Blended Finance Guidance* reflects on these challenges and on how the field has changed. It offers strategic advice as well as practical insights for both policymakers and practitioners who want to use blended finance more effectively. The Guidance is based on lessons learned and feedback from many stakeholders. It highlights the importance of working together, building trust through transparency and improving the conditions for investment in developing countries. The Guidance is underpinned by case studies within a range of thematic areas that are critical for blended finance to work more effectively.

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