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Community of Practice on Private Finance for Sustainable Development****Navigating Concessionality in Structured Funds to De-risk Private Finance**

9-11 March 2026 meeting of the DAC Working Party on development finance statistics.

This document has been prepared by the OECD Development Co-operation Directorate with inputs from the Community of Practice on Private Finance for Sustainable Development (CoP-PF4SD) and the Working Party on Development Finance Statistics (WP-STAT).

By using data from OECD DAC statistics and Convergence's Historical Deals Database, the paper examines how concessionality is measured and structured within blended finance Collective Investment Vehicles (CIVs). It also presents new tranche-level mobilisation analysis and puts forward policy recommendations based on technical consultations with donors, DFIs, MDBs and private sector asset managers.

The note is intended to inform discussions at the 9–11 March WP-STAT meeting on the use of DAC statistics, including on mobilisation, for analysing the role of official development finance intervention in de-risking private finance flows. This analysis will also support consideration of potential follow-up work, including to benchmark the levels of concessionality required across different sectors and geographies to scale up private finance mobilisation.

This document is circulated FOR INFORMATION at the WP-STAT meeting and is provided as an input to ongoing efforts to strengthen evidence and operational guidance on structuring concessionality in blended finance.

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Table of contents

Executive Summary	4
1. An introduction to structuring blended finance funds and their application	6
Spectrum of Actors Involved in Structured Blended Finance Funds	9
Drivers of Concessionality	10
2. What we know about setting terms and conditions of funds	19
Synthesis of Data Mapping	19
Data Trends in Structured Funds: Mobilisation Outcomes and Concessionality Implications	21
Structuring Concessionality in Practice: Evidence from Three Funds	31
3. Challenges to getting concessionality right in structuring funds	39
Lack of Historical Data and Concessionality Benchmarks	39
Risk Perceptions: Real or Perceived?	40
Co-ordination and Fragmented Priorities	42
Fund Structure Complexity	43
4. Practical considerations for structuring funds	45
Enhancing transparency and market data accessibility	45
Greater Standardisation	46
Aligning public and private actors in fund design and in concessionality structuring	48
Matching credit enhancements and risk mitigation tools to fund design context and flexibility	50
Seeking investment-grade senior tranches	50
Achieving Minimum Efficient Scale in Fund Size	51
5. Future Outlook and Steps Moving Forward	52
Short-term	52
Long-term	53
Conclusion	55
References	56

FIGURES

Figure 1. Elements of a typical structured fund	8
Figure 2. DFI's role in concessionality	11
Figure 3. Average Concessionality Levels deployed from sample of IFC projects	14

Figure 4. Mapping Exercise: Types of Data Available	20
Figure 5. Private Finance Mobilised through CIVs over time, (OECD)	23
Figure 6. Evolution of CIVs by Mobilisation and Number of Investments, by CIV Leveraging Mechanism (OECD)	26
Figure 7. Breakdown of Funds by Sector, (Convergence)	27
Figure 8. Sector breakdown, by Total Mobilised Finance and CIV Leveraging Mechanism, (OECD)	28
Figure 9. Breakdown of Funds by Region, (Convergence)	29
Figure 10. Breakdown of Funds by Region, (OECD)	30

TABLES

Table 1. Average Size of Junior Tranche within Structured Funds (USD) , (Convergence)	24
Table 2. Average Leverage Ratio within Structured Funds, (Convergence)	24
Table 3. Sector Breakdown, Flat vs Structured in terms of leverage and mobilisation ratio, (Convergence)	27
Table 4. Breakdown of Funds by Region, Leveraging Ratio, (Convergence)	29

Executive Summary

With global ODA budgets tightening and donor priorities shifting, mobilising far greater volumes of private capital is now an urgent policy priority if the international community is to meet climate and development goals. Structured blended finance funds – unique pooled vehicles that combine concessional junior capital, commercial senior tranches and a range of catalytic facilities – have emerged as a central tool for directing private capital into frontier markets and high-impact sectors. This unique design allows different actors to participate according to their risk-return profile and policy objectives, where donors, development finance institutions (DFIs) and multilateral development banks (MDBs) often provide the concessional first-loss buffer, while institutional investors such as pension funds and insurers join at the senior level once risks have been sufficiently mitigated.

Structured funds offer several distinct advantages for scaling mobilisation quickly and efficiently. They can be established relatively fast and for a limited lifespan; they pool resources from multiple actors depending on their risk tolerance; they can be targeted to specific themes, sectors and geographies; and, if well-structured, they can attract institutional investors by offering rated, senior-rated or market-like exposures. Funds also enable countries or donors without national DFIs to participate in blended solutions, create demonstration effects that reduce first-mover risk, and provide a vehicle for standardised documentation and repeatable structures that lower transaction costs over time.

Yet, even with evidence showing that funds with sizeable junior tranches consistently demonstrate stronger mobilisation numbers and leverage ratios, particularly in Sub-Saharan Africa¹, a significant share of development finance continues to sit in risk-averse senior positions or flat common shares, limiting the catalytic impact of concessional finance. Much of this reflects the difficulty of balancing the transfer of risk between public and private actors while minimising concessionality, a central challenge in blended finance and a cornerstone of the OECD DAC Blended Finance Principles (OECD, 2018^[1]) and associated Guidance (OECD, 2025^[2]). Under this context, concessionality within blended finance structures should be no greater than necessary to make an investment commercially viable and should ultimately demonstrate replicability under market conditions.

This holds true for structured funds, where the effectiveness of these vehicles depends on how their risk-mitigation mechanisms are designed and implemented. As such, getting concessionality ‘right’ remains a critical challenge within the development finance sector: too little subsidy leaves viable projects unbankable; too much subsidy risks inefficient allocation, long-term dependency and crowding out of commercial capital. The key challenges of getting the concessionality level “right” are listed below:

- **Lack of available and accessible historical data** constrains the ability of fund managers and donors to set and benchmark subsidy levels efficiently. Without reliable tranche-level performance data on defaults, recoveries and realised loss rates, funds risk either under-subsidisation, threatening sustainability, or over-subsidisation, which wastes scarce concessional finance and potentially deter private participation.
- **Risk perceptions, whether real or perceived**, continue to distort fund design in relation to concessionality. In many cases, concessionality is sized to address perceived risks of investing in fragile geographies or nascent sectors, even when project-level risks are demonstrably lower. This often leads to misaligned subsidies and missed mobilisation opportunities.

¹ Finding from Chapter 2, data trends in structured funds section: mobilisation outcomes and concessionality implications.

- **Co-ordination failures and fragmented priorities** among donors, DFIs, MDBs and fund managers drive up transaction costs and delay structuring. Differing budget cycles, mandates and reporting requirements, regulatory frameworks and due diligence processes hinder effective alignment on concessionality design.
- **Fund structure complexity** contributes to high costs and limited replication. With over 200 bespoke blended structures in use, each new fund often requires extensive legal and financial engineering, contributing to significant structuring fatigue and more complex concessionality decision making processes.

Addressing these challenges requires consistent, evidence-based approaches that balance fund design between market realities and development objectives. This paper examines how structured blended finance funds can balance these tensions and sets out a series of practical policy considerations to guide donors on how concessionality can be structured, sized, and deployed more effectively within blended finance funds.

- **Enhancing transparency and market data accessibility** is foundational for getting concessionality right. Greater disclosure of tranche-level performance, subsidy levels, and impact outcomes would allow donors and investors to move from perceived to real risks, benchmark subsidy levels more consistently, and ensure concessionality is specifically tied to measurable development outcomes.
- **Greater standardisation** of fund structures, legal processes, and mutual reliance frameworks would reduce duplication, lower transaction costs, and provide replicable “reference models” for different risk contexts. Standardisation makes subsidy sizing easier, more predictable and efficient, helping concessionality to be applied more consistently across markets.
- **Aligning public and private actors** in fund design is essential to balance donor risk appetite with the technical expertise of private managers, helping to ensure that development outcomes are maximised, yet still investable to private sector actors such as institutional investors.
- **Matching credit enhancements and risk mitigation tools to context** ensures that subsidies are sized according to the actual risks being addressed. By utilising risk mitigation tools to enhance the creditworthiness of funds and address specific and needed risks, funds can minimise over-subsidisation of junior tranches and instead deploy concessionality only when needed and only where it is most catalytic.
- **Seeking investment-grade senior tranches** is critical to attract institutional investors at scale. Credit ratings reduce perceived risk, expand the investor pool, and help size concessional tranches, ensuring concessionality is not oversized but directed where it delivers the greatest leverage.
- **Reaching minimum efficient scale is key to unlocking institutional capital.** Funds below USD 500 million struggle to meet the diversification, liquidity and regulatory requirements of large investors. Consolidating smaller vehicles into joint platforms can create the scale and efficiency needed to crowd in institutional participation.

Taking these steps will ensure concessional development finance is calibrated accurately and remain a strategic instrument and not the ‘default’ option in blended finance design. Striking this balance will be critical in ensuring blended finance funds remain one of the most effective leverage mechanisms, and a key piece of the puzzle in scaling private finance mobilisation for sustainable development.

1. An introduction to structuring blended finance funds and their application

In an environment where concessional public finance is becoming increasingly strained, as signalled by ODA decreases for the first time in 5 years (OECD, 2025^[3]), and where private capital remains risk-averse (IMF, 2023^[4]), blended finance and innovative risk-mitigation tools will be required to help bridge this gap and to enable capital to flow to high-impact, underserved markets. Blended finance, defined as "the strategic use of development finance for the mobilisation of additional finance towards sustainable development in developing countries" (OECD, 2018^[5]), is playing an increasingly important role in bridging the growing financing gap.

Over the past decade, the blended finance market has grown significantly. According to the latest figures from Convergence, blended finance transactions directed towards developing countries has mobilised over USD 213 billion through more than 1,123 blended finance commitments (Convergence, 2024^[6]). Of these blended finance commitments, approximately one third are structured through funds, highlighting the important role fund structures play in mobilising private finance.

Structured funds, also known as structured Collective Investment Vehicles (CIVs), are defined by the OECD as "entities that allow investors to pool their money and jointly invest in a portfolio of companies" (OECD, 2025^[7]). By pooling capital from both public and private actors and allocating risk through tiered capital structures, these vehicles help to channel private finance into underserved sectors and regions, particularly across emerging markets and developing economies (EMDEs). These mechanisms help to enable the efficient deployment of development finance by making higher-risk investment opportunities more attractive for private sector actors, including institutional investors, commercial investors and asset managers (OECD, 2018^[1]) (Basile, Bellesi and Singh, 2020^[8]). A breakdown of the core components and types of funds can be seen below in Box 1.

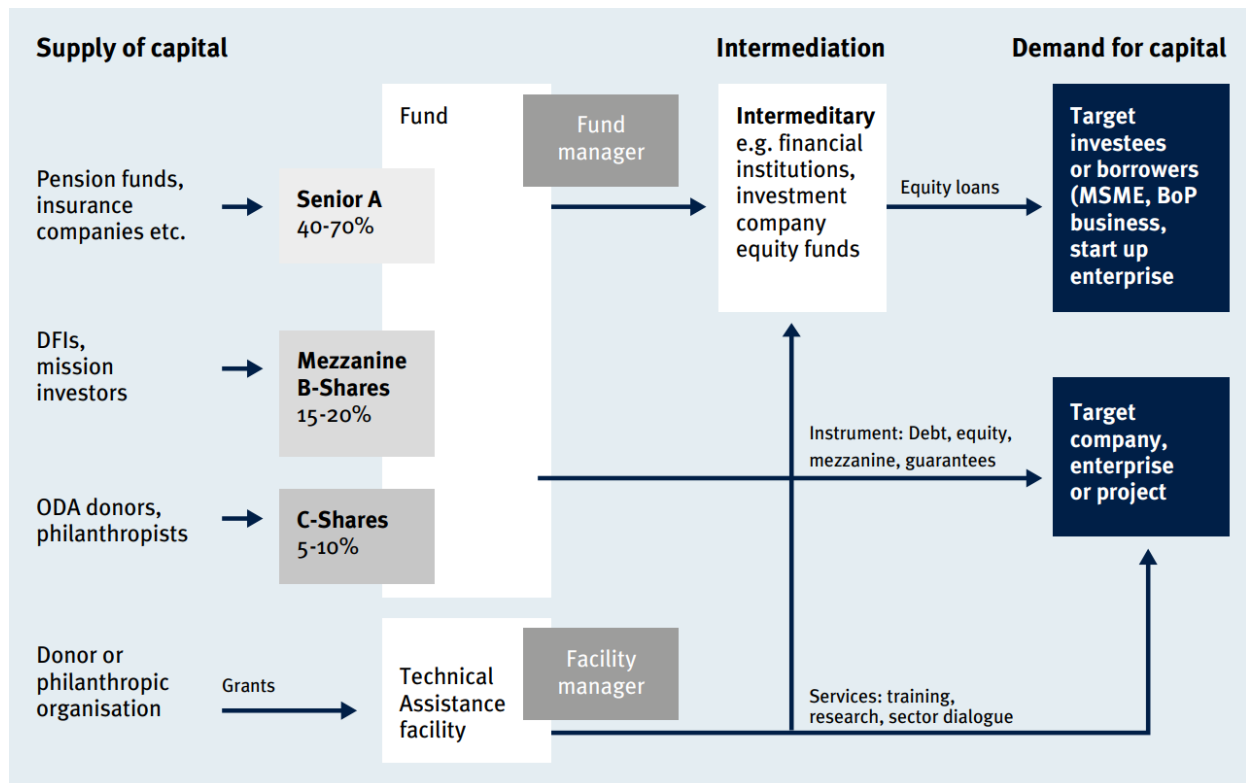
Box 1. What is a Fund?

In the context of blended finance, a fund is a pool of capital that can contain a mixture of development and commercial resources, providing financing to the direct investees (e.g. projects or companies) or indirect investees (e.g. through credit lines or guarantees) that provide on-lending (Faty Dembele, 2022^[9]). The OECD distinguishes between two different fund structures.

- (i) Flat funds apply a uniform risk-return profile across all investors (*pari passu*), with every party sharing the same risk-return profile. While this approach offers simplicity and is often suitable in mature markets or for lower-risk investments, it is generally less effective in high-risk environments, such as those found in many emerging and developing economies (EMDEs), where investor risk appetites vary considerably.
- (ii) Structured (or layered) models use a “waterfall” structure to differentiate investor exposure through tiered tranches - typically junior, mezzanine, and senior. This design is particularly valuable for blended finance structures, as it enables concessional capital placed in junior tranches to absorb first losses, thereby de-risking the fund for senior investors (OECD, 2022^[10]). The inclusion of a mezzanine tier (subordinated debt/junior equity), ideally capitalised by DFIs/MDBs, adds an additional risk absorption layer, reducing the burden on the wholly concessional tranche (first-loss debt or equity). Mezzanine investors earn returns commensurate with their risks. Importantly, this allows the senior tier, potentially structured with listed debt, to achieve an implied investment-grade profile, thanks to the priority of payment established by the mezzanine and junior tiers. This credit profile is critical to attract institutional investor capital, who comprise the largest managers in terms of asset under management (AUM). A breakdown of the typical elements of a blended finance structure can be seen below in Figure 1.

Source: (OECD, 2022^[10]) & (Basile, Bellesi and Singh, 2020^[8]).

Figure 1. Elements of a typical structured fund



Note: Technical assistance facilities do not fall under a blended finance fund's capital stack – but can still play a critical role. TA can be provided by donors, DFIs, MDBs, 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. The composition of each tranche varies depending on the risk-return profile of the investors and the availability of concessional capital. Source: Koenig and Jackson, (2016), *Private Capital for Sustainable Development: Concepts, Issues and Options for Engagement in Impact Investing and Innovative Finance*, www.convergence.finance/resource/5ziK8CqnWEMCAQ0OeQiYOk/view..

Figure 1. illustrates the flow of capital and risk-layering within a typical structured blended finance fund. On the supply side, different investors provide capital according to their risk appetite: institutional investors (such as pension funds and insurance companies) invest in the senior tranche (Senior A), DFIs and mission-driven investors typically subscribe to mezzanine tranches (Mezzanine B-Shares), and donors or philanthropic actors provide highly concessional capital to the junior tranches (C-Shares) to absorb initial losses. This credit enhancement protects senior tranche investors, who typically seek lower-risk, stable returns.

Grants from donors can also fund a parallel technical assistance facility, managed separately, which supports investee companies through training, research, and capacity-building efforts (OECD, 2025^[11]). Through intermediation by a fund manager and, in some cases, specialised financial institutions or investment companies, capital is channelled to target companies, enterprises, or projects - including micro, small, and medium-sized enterprises (MSMEs) and start-ups - via instruments such as debt, equity, mezzanine finance, or guarantees.

In terms of the priority of payments (waterfall distribution) for structured and flat funds, the distribution framework is typically customised for each fund, considering the unique expectations of different investor groups and concessional capital providers. While flat funds can also incorporate waterfall structures, they lack the distinct capital classes, such as senior notes supported by mezzanine or junior equity, which may

make them less appealing to institutional investors. The specifics of the waterfall structure, such as the order of distributions when preferred returns are realised, and downside scenario sharing terms, are crucial to aligning with private investor expectations.

For example, in flat fund structures where all investors are repaid *pari passu*, concessional investors do not take first losses but instead accept lower returns so that commercial investors can achieve market-level IRRs. In practice, the junior investors cap their upside, allowing senior investors to receive their preferred return earlier in the distribution waterfall, even though both sit at the same risk level. While this limits the potential upside for junior investors, it theoretically increases the likelihood of excess return, which reflects a fixed concessionality approach where higher risks are not rewarded beyond a certain threshold. This model may however, be less appealing to private sector investors in a higher risk scenario. Distributions on a pro rata basis mean commercial investors share in portfolio losses. This could be off-set by the inclusion of additional risk-mitigation instruments, such as credit guarantees on invested capital from commercial investors.

Spectrum of Actors Involved in Structured Blended Finance Funds

Structuring a blended finance fund requires a clear understanding of the diverse spectrum of actors involved and the varying risk-return profiles that guide their participation. They can broadly be categorised as follows:

- (i) **Development or philanthropic investors, such as donors, DFIs, and MDBs**, can accept higher risk in junior tranches to crowd in private capital, aligning risk allocation with investor preferences and building markets in high-risk sectors, as aligned with their dual development mandates of generating both development impact and financial returns, bridging public and private sectors (OECD, 2021_[12]). However, not all institutions within this group have the same balance-sheet strength or structuring capacity, meaning their ability to take first-loss positions or design concessional layers can vary significantly. These actors are typically willing to accept greater credit risk in exchange for projects that align closely with their development or policy goals. If a project addresses specific development outcomes or fills a market gap they are focused on, they may be willing to take on more risk.
- (ii) **Commercial investors, such as specialised impact funds and private equity firms**, typically seek moderate, risk-adjusted returns and may be drawn to mezzanine tranches when adequately rewarded for the level of risk. Their participation is often contingent on a clear alignment between expected returns and the fund's risk profile.
- (iii) **Private asset managers** play a central role as financial intermediaries, particularly in managing blended finance funds on behalf of DFIs and MDBs. They bring market expertise, fund structuring capacity, and operational efficiency - key to originating, executing, and managing investments that meet both development and financial objectives.
- (iv) **Institutional investors, including pension funds and insurance companies**, usually pursue stable, lower-risk, market-based returns and are most likely to engage in senior tranches. These investors usually prioritise reaching their break-even point and securing a preferred return before distributions are made to other stakeholders. This is driven by higher illiquidity, greater currency and credit risks associated with assets and countries targeted for investments, as well as interest rate and inflation volatility, particularly for debt funds. The rise of direct lending by non-bank financial institutions, such as pension funds for example, often necessitates more secure and higher quality assets due to their regulatory and capital adequacy requirements. As such, their participation depends heavily on risk mitigation measures - such as credit enhancement through junior capital - which enable them to meet fiduciary duties while contributing to sustainable development goals. However, it is also important to note that institutional investors are typically only enticed to invest in

senior tranches when fund sizes are large (typically over USD 500 million), as smaller vehicles often lack the scale, liquidity, and diversification needed to meet their portfolio thresholds

- (v) **General Partners (GPs) and Limited Partners (LPs)** are central actors in the governance and functioning of blended finance funds. The GP, typically a private asset manager or specialised investment firm, is responsible for fund design, structuring, and active management, including due diligence, portfolio construction, and risk mitigation. LPs, which include donors, DFIs, MDBs, institutional investors, and other capital providers, supply the bulk of the capital but take a more passive role, relying on the GP's expertise to manage the fund in accordance with agreed objectives.

Whilst each of these actors play an important role, mobilising finance from the institutional investor segment is arguably the most critical given the immense, although largely untapped, pools of global capital they hold. Research shows that a shift of only 3.7% of the USD 100 trillion of assets held globally by institutional investors towards sustainable activities in developing countries would be sufficient to fill the SDG financing gap (OECD, 2020^[13]). However, according to the OECD's Blended Finance Funds and Facilities Survey, private commercial investors contribute less than 6% of total capital in CIVs, with institutional investors making up only 4% (OECD, 2022^[10]). To better unlock institutional capital at scale, DFIs, MDBs, and donors must play a catalytic role by assuming subordinated risk in the junior tranches, deploy risk-mitigation instruments and support the creation of investable pipelines that meet institutional investors' requirements for scale, liquidity, and creditworthiness. However, according to the DFI Working Group on Blended Concessional Finance for Private Sector Projects Joint Report, 42% of total blended finance deployed by DFIs as of 2021 was allocated to senior debt - the least effective instruments for mobilising private capital, whilst only 11% was allocated to subordinated debt (IFC, 2023^[14]). This trend suggests that DFIs and donors are underutilising their capital by occupying lower-risk positions, rather than acting as market builders in high-risk sectors. As such, donors and DFIs should appropriately allocate concessional finance predominantly to the junior tranches of structured funds where it can have the most leverage, aligned with calls for these actors to remain as market builders and asset originators, rather than long-term asset holders (OECD, 2021^[15]).

Drivers of Concessionality

What is concessionality?

Concessionality refers to the use of development finance on terms more favourable than market conditions - typically through below-market interest rates, subordinated capital positions, or extended tenors, essentially a measure for the "softness" of a credit reflecting the benefit to the borrower compared to a loan at market rate (OECD, n.d.^[16]). In the context of structured blended finance, concessional capital is deployed to absorb risk, enhance creditworthiness, or improve the financial attractiveness of a transaction to mobilise private capital into higher-risk, developmentally significant sectors and geographies (OECD, 2018^[11]).

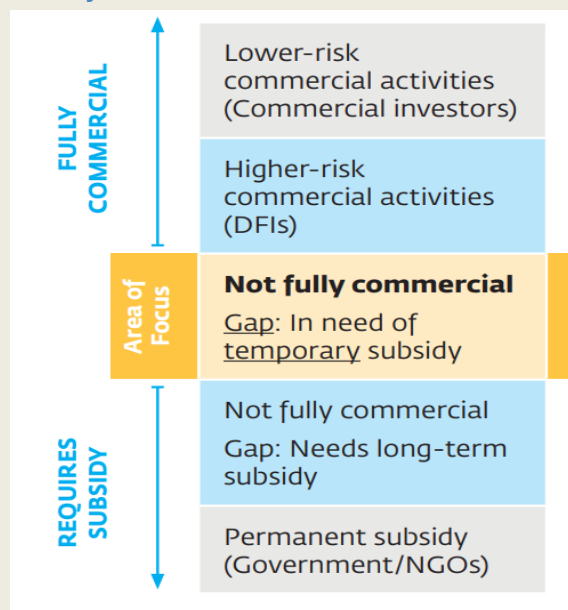
The key to all of these fund structures is that without the backing of concessional funds, these pieces of the financing plan would require high compensation to make them commercially viable—and in many cases, there is no compensation high enough to persuade a private investor to take the risk (Emelly Mutambatsere and Philip Schellekens, 2020^[17]). Concessionality is thus a necessary ingredient for market creation in contexts where private finance alone cannot reach commercially viable risk-adjusted returns.

Box 2. Crowding in vs Crowding out

An important consideration in structured blended finance fund design is the balance between crowding in and crowding out private capital. Crowding out occurs when blended finance is deployed in ways that displace or substitute commercial finance - such as through excessive concessionality or interventions in markets where private capital is already active - thereby undermining the objective of mobilising additional private investment (OECD, 2018^[5]). Crowding in, however, refers to the process by which concessional or public finance strategically reduces risks or addresses market failures in order to attract additional private investment that would not have occurred otherwise (OECD, 2018^[5]). If the set level of concessionality within the junior tranche of a blended finance fund is over-subsidised, it can lead to unfair competition, market distortions and the crowding out of commercial investors who might otherwise participate on market terms (IFC, 2025^[18]).

To avoid this, concessional capital should target activities that are not yet fully commercial but have the potential to become so with temporary support. This concept is illustrated below in Figure 2, which shows the spectrum of commercial viability in investment activities. While commercial investors and DFIs tend to operate in areas that are already financially viable or only moderately risky, blended concessional finance is best suited to address the “not fully commercial” middle segment - where investments are commercially promising but face risk-return imbalances that require temporary subsidy. This is the critical zone where blended finance can be most catalytic, addressing financing gaps without creating long-term market distortions.

Figure 2. DFI’s role in concessionality



Structured funds should therefore be designed at the fund level with concessionality calibrated carefully to ensure it is no greater than necessary to make the investment commercially viable (OECD, 2018^[5]). At the deployment level, these funds should then be deployed in high-risk sectors where commercial capital is unavailable to crowd in private capital (IFC, 2021^[19]). Effective components of a structured fund typically include an attractive capital stack that provides senior investors with priority in repayment and loss protection through subordinated or junior tranches, the utilisation of supplementary risk mitigation instruments such as guarantees for example, and, if possible, include a reinvestment mechanism that recycles concessional capital for self-sustainability (Sustainable Market Initiative, 2024^[20]). These recycling mechanisms, where returns from concessional tranches are reinvested rather than disbursed, help stretch scarce donor resources allowing the same subsidy to support a greater number of projects over time. Ultimately, these structures should demonstrate the potential for replicability under market conditions and across different sectors and geographies, contributing to the long-term sustainability of development financing.

Source: IFC Report: [Using Blended Concessional Finance to Invest in Challenging Markets](#)

What drives concessionality levels?

The level of concessionality required to mobilise private finance in structured funds depends on a range of contextual, market, and impact-related factors. Importantly, these drivers are not necessarily unique to just structured funds, but mirror the general determinants of concessionality across blended finance more broadly. However, understanding these drivers in the structured fund context remains critical, as they provide the basis for calibrating tranche design and subsidy allocation within capital stacks.

Sectoral Risk Profile: According to the OECD Blended Finance Principles, sectors with established regulatory and investment frameworks, a track record of private investment, and underlying financial sustainability are more likely to attract commercial finance (OECD, 2018^[5]). By contrast, high-risk sectors with no history of private sector participation may offer higher development additionality, but will likely require higher levels of concessionality and achieve lower mobilisation in early phases (OECD, 2018^[5]). Findings from the 2020 OECD survey of blended finance funds and facilities confirm that blended finance continues to be concentrated in sectors with clear revenue models - particularly energy, banking, and transport, which together accounted for over half of total investments by CIVs (OECD, 2022^[10]). Social sectors however, including health, education, and water and sanitation, often lack predictable revenue streams and operate in environments with weak market infrastructure, typically necessitating higher levels of concessionality to mobilise private finance (Faty Dembele, 2022^[9]). Finally, sectors with high-up front costs and long payback periods that are more prone to price volatility, such as climate mitigation and adaptation, agriculture, and renewable energy also typically require greater concessional support to offer investors more acceptable risk-adjusted returns (Climate Policy Initiative, 2024^[21]).

Geographic and Political Risk: Investments in fragile and conflict-affected states (FCAS) or regions with weak governance, macroeconomic instability, and low credit ratings often necessitate higher levels of concessional finance to mitigate elevated risks. A study by the World Bank Independent Evaluation Group, which focused on assessing the International Development Association's Private Sector Window (IDA PSW) found that in the absence of IDA PSW concessionary support, pricing for transactions by IFC and MIGA would be significantly higher - by 5 to 30 percentage points - rendering many of these project unviable (World Bank, 2024^[22]). Evidence from case studies reveals that, in 15 out of 17 PSW projects examined across Burkina Faso, Cambodia, Nigeria, and Tanzania, the IFC would not have been able to

price the transactions at a level affordable for clients or for the projects to be viable without PSW support, given the prevailing risks in these countries (World Bank, 2024^[22]). This highlights that projects implemented in countries with high risk ratings will typically necessitate higher concessionary support.

Market Maturity: In less mature markets, where there is little historical data, limited pipeline of investable assets, and minimal investor familiarity, concessionality levels will typically need to be higher to help build demonstration effects and lay the groundwork for eventual replication. Tools such as the IFC Domestic Capital Markets Size, Access, and Activity Index,² (based on three sub-indices: the government bond market index, the corporate bond market index, and the equity market index), as well as the IMF Financial Development Index³ (a relative ranking of countries on the depth, access, and efficiency of their financial institutions and financial markets), should be used to help calibrate the level of concessionality required for transaction projects in particular markets.

Development Impact Potential: Recent research has shown that development projects with high sustainability or inclusion impact, for example those targeting climate resilience, gender equality, or SME financing, may warrant higher concessionality levels due to their strong alignment with donor objectives, even where risks are not prohibitively high. A recently published National Bureau of Economic Research report found that the higher development project's sustainability impact, the more a DFI is willing to provide in concessionality, where estimates imply that a one-standard deviation higher sustainability impact corresponds to a blending subsidy that is higher by 1.4 to 1.7 percentage points (National Bureau of Economic Research, 2024^[23]). This aligns with the logic that since concessionality is costly to DFIs, the development returns need to be sufficiently high to justify the high costs or concessionality .

Foreign Exchange Risks: Foreign exchange risk remains one of the most significant deterrents to private investment in emerging and frontier markets, particularly for long-term infrastructure and social sector projects where currency mismatches between revenues and financing can erode returns (IMF, 2022^[24]). As such, blended finance projects financed in local currency, whilst helping to mitigate foreign exchange risk and build local capital markets (OECD, 2025^[25]), can often require higher level of concessional support. This is reflected in Figure 3, which shows that local currency projects have the highest average concessional level, consisting of 10.1% of total project cost - across all blended finance instruments, significantly above the portfolio average of 3.8% of IFC projects from 2010-2020 (IFC, 2025^[18]).

² Launched in 2020, the IFC Domestic Capital Markets Size, Access and Activity Index serves as a tool to assess and track the development of domestic capital markets across multiple dimensions. More can be found here: <https://documents1.worldbank.org/curated/en/228291627375113518/pdf/Capital-Markets-Development-A-Primer-for-Policymakers.pdf>.

³ Launched in 2016, the IMF Financial Development Index covers dimensions such as the depth, access, and efficiency of financial institutions and markets. More can be found here: <https://data.imf.org/?sk=f8032e80-b36c-43b1-ac26-493c5b1cd33b&sid=1480712464593>.

Figure 3. Average Concessional Levels deployed from sample of IFC projects

Average Concessional Level as a Percentage of Total Project Cost or Project Value	
Overall	3.8%
By Product	
Senior Debt	2.7%
Subordinate Debt	2.6%
Guarantee	3.7%
Equity	3.8%
Performance Incentive	1.5%
Local Currency	10.1%
By Industry	
Manufacturing, Agriculture, and Services	3.7%
Financial Institution Group	4.2%
Infrastructure and Natural Resources	2.9%
Disruptive Technology and Funds	2.5%
By Blended Finance Facility Theme	
Agriculture	3.7%
Climate	2.7%
SME Finance	2.5%
Gender Finance	1.3%
Low-Income & Fragile and Conflict Affected States	5.8%

TABLE 1 Average Concessional Levels in a Sample Of IFC's Blended Concessional Finance Portfolio (FY2010-FY2020)

Source: IFC.

Note: FY2010 – FY2020

Source IFC Report: [Using Blended Concessional Finance to Invest in Challenging Markets](#)

In sum, these drivers demonstrate that concessional levels reflects a combination of market, sectoral, geographic, and impact-related factors. The following section examines how these considerations are translated into practice by different actors, focusing on the approaches used to measure and calibrate concessional in structured funds.

How is concessional measured in practice?

Determining the optimal level of concessional is a challenge, as too much concessional can distort markets, build long-term dependency and discourage private sector innovation. As such, carefully measuring and calibrating concessional levels help to ensure transparency, limit over-subsidisation and encourage sustainable market development.

In this context, the OECD has developed a standardised approach to measuring concessional through its grant equivalence system, which offers a consistent way of quantifying the “gift”⁴ element found within financial instruments. This methodology, while originally designed for ODA loans, provides useful lessons for structured funds in terms of benchmarking subsidy levels, ensuring minimum concessional, and enhancing transparency across different contexts.

⁴ “In this context, the ‘gift’ element refers to the portion of financing that is provided on softer terms than the market would offer, effectively acting as a built-in subsidy to make the overall investment more attractive.”

Box 3. The OECD's Grant Equivalence (GE) Approach

Grant equivalence (sometimes called grant element) is a methodology designed to quantify how “soft” or concessional a loan is: effectively, how much subsidy is found within financial terms such as interest rate, grace period, maturity etc. The OECD adopted grant equivalent measures for its ODA statistics in 2014, and made them standard from 2018 onward. This was done so that ODA would more accurately reflect donor effort: grants count fully; loans are adjusted to reflect donor effort rather than just face value or cash flows. The aim is to ensure consistency, comparability, and transparency in assessing concessionality (OECD, 2017^[26]).

Key Components of the grant equivalence approach include:

- **Discounted Cash Flows:** Future payments from loans—principal + interest + fees—are discounted to their present value using predefined discount rates. If the present value of expected repayments is significantly less than the nominal disbursement, the difference is the “gift” or concessional part.
- **Income-group differentiated thresholds:** OECD uses different discount rates and minimum grant element thresholds depending on the recipient's income classification (e.g. LDCs / LICs vs LMICs vs UMICs). For example, to qualify as ODA, loans must exceed certain grant-element thresholds depending on the country income group: LDCs/LICs need about 45%, LMICs about 15%, UMICs about 10%.
- **Treatment of flow vs gross/net:** With the new methodology, repayments of old loans are not deducted from current ODA totals in the same way; instead, only the grant equivalent portion is counted. The “gross vs net” distinction is simplified under grant equivalent metrics.

Relevance of the approach for structured fund design:

While the OECD's grant equivalent methodology is originally designed for ODA flows rather than blended finance funds specifically, many of its features are relevant or readily adaptable to structured fund design:

- **Benchmarking subsidy / junior tranche size:** The grant element thresholds offer a usable benchmark for fund designers to gauge what level of concessionality (e.g. a subsidy or junior tranche) is “material” enough to be recognized under OECD norms and to satisfy donor / DFI expectations.
- **Instrument / maturity / country risk calibration:** As in structured funds, different instruments (e.g. junior equity, subordinated debt, guarantees) carry different risk profiles; discount rates and minimum element thresholds help reflect how much subsidy must be built into non-senior parts of capital stacks.
- **Transparency and comparison:** By using a standard formula and thresholds across income groups, the OECD methodology allows comparison across funds and over time — useful for structured funds to demonstrate “minimum concessionality” in practice, and to show that their subsidy layers are not excessive.

Source: (OECD, 2017^[26]).

While the OECD approach is a useful tool in understanding donor effort, in recent years, the IFC, in recent years has begun disclosing detailed data on its blended finance transactions, including systematically reporting the concessionality level within their blended finance deals. It is calculated as the total subsidy

derived from all concessional elements, expressed as a percentage of the overall project cost. For instance, a concessionality level of 5% implies that the concessional support accounts for 5% of the total investment value. A common method for quantifying concessionality is the grant equivalent approach, which estimates the present value of the financial subsidy embedded in an instrument. Box 4 highlights this approach.

Box 4. The IFCs Approach to Measuring Concessionality in Blended Finance Transactions

The IFC has looked to consistently and transparently record concessionality levels within their blended finance transactions in order to better compare and benchmark the process, with aims of helping to inform the structuring of blended finance instruments to meet the minimum concessionality principle on a consistent basis.

In terms of methodology, the IFC uses two approaches depending on the purpose of the calculation.

- (i) For internal assessments, the discount rate is tailored to each project and reflects its specific risk profile — including country risk, instrument risk, and the opportunity cost of deploying donor funds into that particular structure. This ensures a precise measure of the real subsidy implicit in each deal.
- (ii) The IFC has also proposed a standardised approach that replaces bespoke assumptions with predefined averages, in order to better enable comparability across projects and institutions. In this version, the discount rate is constructed using a fixed base rate plus standard country and instrument risk add-ons. While less granular, it allows concessionality levels to be compared more easily across portfolios and donors. These predefined averages include:

A 5% base applicable to all projects, derived from the current IMF discount rate, plus a country risk adjustment factor of

- 4% for LDCs and other LICS
- 2% for LMICs
- 1% for UMICS

Plus an instrument risk adjustment factor of

- 0% for senior loans
- 2% for subordinated loans and single IFC loan guarantees
- 3% for liquidity support guarantees
- 4% for guarantees in risk sharing facilities structures
- 6% for equity

This builds on ODA methodology for calculating public ODA.

Source: Consultations with IFC colleagues

The IFC's approach here represents a significant step forward in creating a consistent and transparent benchmark for concessionality in blended finance transactions. The grant-equivalent (GE) method provides a clear way to express subsidy levels as a percentage of project cost and enables comparability

across projects and instruments, proving very useful in advancing the principle of “minimum concessionality” by discouraging over-subsidisation and providing donors with a concrete accounting of their fiscal effort. While useful, the GE approach remains primarily an ex-post accounting tool and is less well-suited to guiding the ex-ante structuring of funds, where private investors’ risk perceptions and pricing behaviour determine whether senior tranches are actually marketable.

This is where private asset managers and general partners, such as Amundi’s research work on structuring as seen in Box 5, bring complementary perspectives. These private sector actors must calibrate structures to satisfy commercial investors in real time, making quantitative modelling of tranche performance central to their process. These private sector frameworks emphasise forward-looking simulation, including estimating portfolio loss quantiles, senior breach probabilities, and structuring premiums, ensuring concessionality is calibrated tightly enough to unlock private participation within the CIV (Amundi, 2025^[27]). Although DFI approaches like IFC’s provide transparency and comparability on subsidy costs, private sector models by asset managers are typically more grounded in econometric quantitative techniques that prioritise unlocking senior investment opportunities.

Box 5. Amundi research work on structuring blended finance funds

Amundi’s paper presents a rigorous, model-based toolkit to estimate the *minimum* concessionality (subsidy) required in junior tranches while ensuring senior tranches remain investable. The framework begins with the credit-risk building blocks. Inputs such as probability of default (PD), loss-given-default (LGD) and loan exposure are used to derive per-asset expected losses, calculated simply as:

$$EL = PD \times LGD,$$

which then feed into the mean and variance of portfolio loss distributions.

To capture portfolio dependence and tail risk, the paper implements Gaussian and Student-t copulas alongside one- and multi-factor asset-value models (Vasicek/Merton style). These methods allow joint default behaviour and regional/sector clustering to be modelled explicitly. In particular, Student-t copulas better capture tail dependence, where defaults cluster in extreme scenarios, substantially raising the protection needed for senior tranches. The quantitative insight here comes from the Vasicek approximation of the loss distribution at a chosen confidence level α . Under this approach, the portfolio loss quantile is

$$L_{\alpha} \approx E \left[LGD \cdot \Phi \left(\frac{\Phi^{-1}(PD) - \sqrt{p z_{\alpha}^2}}{\sqrt{1-p}} \right) \right]$$

where ϕ is the standard normal distribution, $z_{\alpha} \phi^{-1}(\alpha)$, the systemic shock quantile, and p the asset correlation. Operationally, the junior tranche size J must satisfy $\Pr(\text{portfolio loss} > J) < \varepsilon$, which is equivalent to $J \approx L_{1-\varepsilon}$. This highlights how higher PDs, lower recovery assumptions, or stronger correlations (p) push loss quantiles up non-linearly, directly inflating the junior cushion required.

Beyond pure loss modelling, the framework explicitly incorporates cash-flow and waterfall mechanics. The design of payout rules (pass-through vs pay-through), reserve accounts, loss-carry-forward and dividend-sweep provisions materially shape how shocks propagate through the structure, and thus determine which tranche is most vulnerable.

Finally, the analysis uses Monte-Carlo simulation to address parameter uncertainty. Large-scale simulations generate empirical distributions of tranche IRRs, expected losses and senior-breach probabilities. These are then benchmarked against rating-style thresholds to determine the minimum attachment and detachment points that make a senior tranche marketable at a given confidence level.

The key quantitative findings include:

- Correlation dominates tranche sizing. Even modest increases in default correlation or heavier-tailed dependence structures cause steep, non-linear increases in the required junior cushion, as captured in the Vasicek approximation above.
- The importance of a structuring premium - the extra value created by tranching (i.e. the incremental value that arises when pooling and slicing risks across different tranches makes the overall fund more attractive to investors than its underlying assets on a standalone basis). Minimising concessionality is mathematically equivalent to maximising the structuring premium while allocating only the smallest possible share of it to senior investors. This requires careful calibration and competitive placement to avoid “over-subsidising” junior tranches.
- Third, legal and payment rules materially affect outcomes. Simulated IRR distributions vary depending on whether a waterfall is pass-through or pay-through, whether reserve accounts exist, or whether loss-carry mechanisms are used. In other words, junior size requirements depend not just on raw credit parameters but also on contractual design.
- Finally, diversification reduces concessionality needs - but only if it is real. A well-spread portfolio across sectors, countries and borrowers lowers tail dependence and therefore reduces junior tranche requirements. Conversely, concentration and weak recovery assumptions rapidly inflate required subsidy levels.

Source: (Amundi, 2025^[27]).

The analysis by Amundi shows that a principled, simulation-based approach can, in principle, identify the smallest subsidy amount available consistent with a marketable senior slice. Despite its analytical clarity, the analysis highlights that rigorous optimisation faces two obstacles.

- First are data gaps: the framework depends on robust probability of defaults (PDs), loss-given defaults (LGDs) and correlation estimates, but DFI/MDB portfolios in frontier markets are often unrated and lack long-run histories, making credible calibration difficult.
- Second is model complexity vs implementability: while copula-based, multi-factor Monte-Carlo optimisation provides a “gold standard,” few DFIs or donors have the capacity to run and validate such models.

“Although in practice blended finance funds are typically designed through a combination of simpler modelling and negotiation” (BII, 2025^[28]), the paper helps to offer a more quantitatively sound method to structuring blended finance funds.

2. What we know about setting terms and conditions of funds

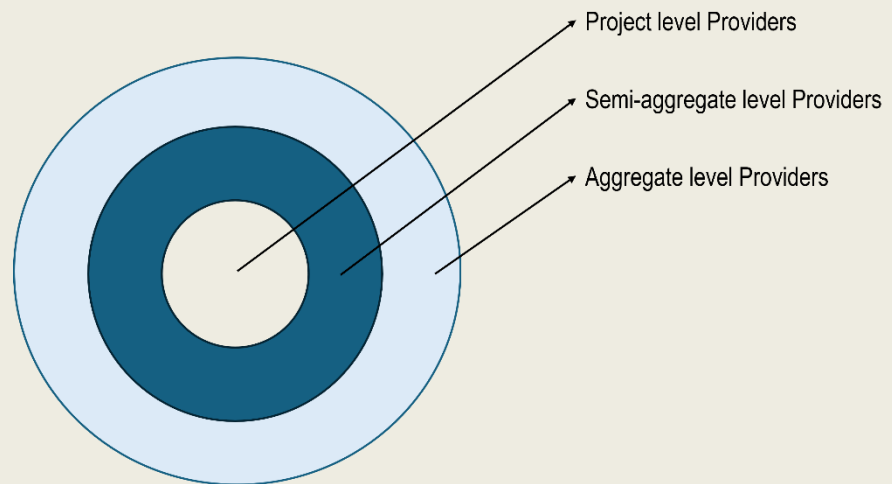
Synthesis of Data Mapping

To assess the state of play of structured fund data availability, the OECD has conducted a mapping exercise of 16 potential development sources of information that tracks information related to structured funds. This spans development actors, international organisations and private-sector providers, and covers a broad mix of project-level, semi-aggregated, and aggregated data. Collectively, these sources provide useful visibility on fund activities, but important limits remain for users seeking tranche-level, waterfall and realised-performance evidence required to understand more granular trends related to concessionality. This data mapping exercise is captured below in Box 6 and Figure 4.

Box 6. Mapping Exercise Analysis

The mapping analysis categorises data source providers based on the granularity of information they provide, distinguishing between project-level, semi-aggregate, and aggregate data providers.

Figure 4. Mapping Exercise: Types of Data Available



Data providers are defined as:

- *Project-level data providers* disclose individual transaction or deal-level information, typically including details such as financing structure, co-investors, and most importantly, concessionality levels (e.g. IFC Project Portal).
- *Semi-aggregate data providers* present grouped or facility-level figures, for example by investment facility, fund, or product line, where project-level insights are available but summarised without full deal granularity (e.g. Joint MDB Group Mobilisation reports reports).
- *Aggregate data providers* publish fully consolidated statistics at regional, sectoral, institutional or mechanism level, typically without exposing individual project records (e.g. OECD Data Explorer, Convergence blended finance dashboards, DFI Working Group joint reports).

Source: Authors own analysis

The mapping reveals that while multiple data sources provide useful insights on structured and blended finance activities, the level of granularity (particularly on the terms and conditions of financial information, including concessionality) varies significantly:

- **Project-level data:** A very small number of mapped sources include project-level data. The strongest example of transparency in the mapping includes OECD private finance mobilised and PSI data, along with the IFC Project Information and Data Portal (IFC, n.d.^[29]), which systematically discloses project-level information, including concessionality levels across all projects. This makes IFC unique among providers and particularly valuable for benchmarking, since users can see concessional terms, co-financing details, and project impacts in real time. While other providers do provide project-level sources they vary in quality. Some may disclose project size and co-

financing structures, but rarely tranche-specific concessionality data. Other actors also collect project-level data, but access is often restricted behind expensive paywalls, limiting their utility for public analysis

- **Semi-aggregate data:** A second group of sources provide insights at the semi-aggregate level, often through annual reports. For example, the EDFI Catalytic Investment Facilities publish annual reports for sector-specific vehicles such as AgriFI (EDFI, 2022^[30]) and ElectriFI (EDFI, 2022^[31]), disclosing mobilisation ratios, leverage and sectoral/geographic breakdowns. Similarly, MDB & DFI joint reports on blended concessional finance publish pooled statistics on mobilisation, terms, and sectoral allocation, though not with tranche granularity. These semi-aggregate sources are useful to identify broad concessionality trends and shifts in sector/geographic allocation but cannot be used to calibrate concessionally sizing.
- **Aggregate-level data:** Finally, aggregate sources provide high-level macro views on structured funds. Although sources such as the OECD and Convergence capture structured fund data at the transaction-level, it is aggregated and disseminated at this level due to confidentiality constraints. These two sources are helpful for identifying broader macro trends across the structured funds universe including trends in fund evolution, sector and geography analysis, although they cannot show how risk is distributed across tranches within specific funds.

The mapping underscores several key challenges in terms of data transparency and accessibility amongst blended finance providers:

- **Tranche-level concessionality data remains scarce:** While OECD collects data at the activity level, IFC stands out as the only mapped actor disclosing systematic project-level concessionality information, however tranche-level data remains elusive, preventing direct benchmarking of tranche sizing.
- **Data inconsistencies:** The mapping shows inconsistent labelling of “concessionality”, “mobilisation” and tranche categories across providers, reducing comparability. Additionally, concessionality information found in annual reports are typically only available once a year, constraining their usefulness for investors making live structuring decision
- **Private data remains inaccessible:** Private fund databases such as Bloomberg, Preqin, and IJGlobal contain rich project-level or entity-level data, but subscription costs create inequities and access problems in who can use them.

Taken together, the mapping exercise highlights both the diversity of data sources and their limitations, particularly the lack of consistent tranche-level concessionality information. To complement these findings, aggregate databases such as those managed by the OECD and Convergence provide a broader evidence base, allowing trends in mobilisation, leverage, and sectoral/geographic allocation to be assessed across the structured funds landscape. While less granular than project-level sources, these datasets remain critical for identifying systemic patterns and informing policy debates on concessionality in practice.

Data Trends in Structured Funds: Mobilisation Outcomes and Concessionality Implications

To better understand how concessionality levels should be applied effectively, this report leverages data from both the OECD and Convergence databases, helping to build a comprehensive picture of the blended finance fund landscape, including trends in fund evolution, sectoral and regional distribution, leveraging ratios, and mobilisation outcomes. The analysis shows that while overall donor⁵ commitments (by number

⁵ Donors here include development agencies, MDBs and DFIs

of investments) and private mobilisation amounts have risen significantly, progress remains uneven across sectors and regions. Although it is promising to see that funds with sizeable junior tranches consistently demonstrate stronger mobilisation numbers and leverage ratios, especially in Sub-Saharan Africa, a sizeable amount of donor capital remains in risk-averse senior positions or in flat fund common shares, highlighting the need for greater risk tolerance from these actors.

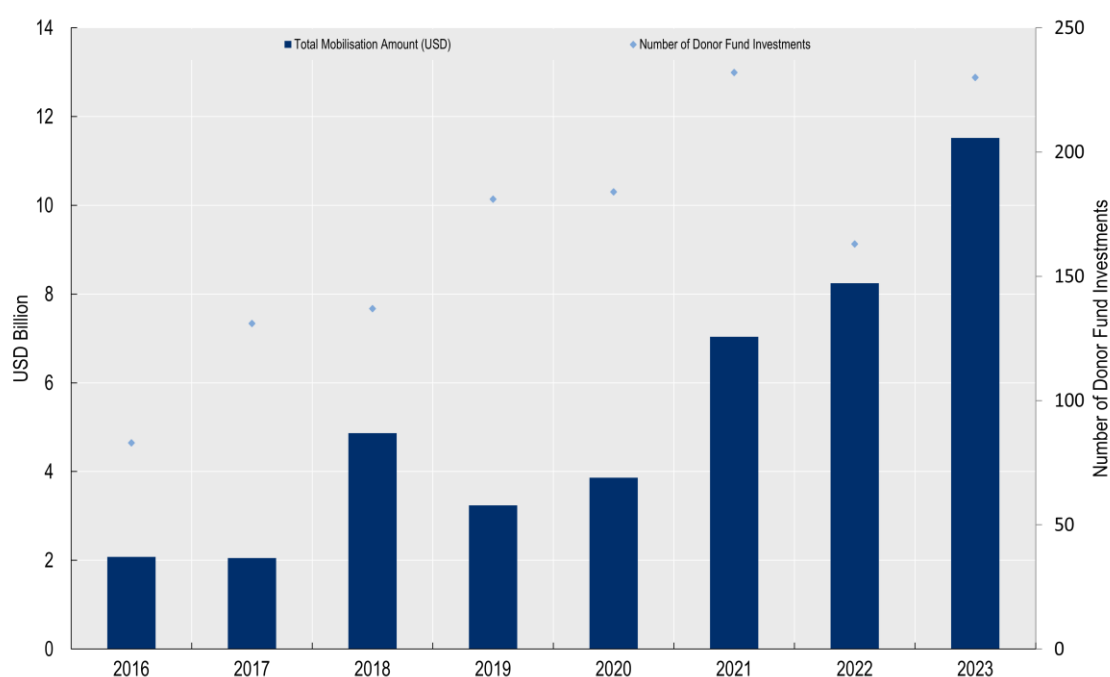
Box 7. Complementarity of OECD & Convergence Datasets

The OECD and Convergence datasets provide complementary perspectives on blended finance activity. A comparison of what the datasets covers can be found below:

	OECD	Convergence
Information overview	Data drawn from the OECD <i>Creditor Reporting System (CRS)</i> , based on recipient-level data on private finance mobilisation through collective investment vehicles (CIVs).	Data sourced from Convergence's <i>Historical Deals Database</i> , which compiles publicly available and proprietary information on blended finance funds. The dataset is continuously updated, verified, and amended as new information becomes available.
Information gaps	Limited granularity due to confidentiality constraints from certain donors, which restrict disclosure of certain geographies/sectors for example.	The majority of the data is derived from publicly available sources, which may be incomplete. To address this limitation, Convergence has analyzed only those funds where at least 80% of the investment information was available.
Years	2016-2023.	2014-2023.
Total funds analysed	1,341 donor commitments (by CIV type).	140 blended finance funds
Type of data analysed	Private finance mobilised within the fund, disaggregated by tranche type (riskiest share, mezzanine/senior share, common share).	Capital size (aggregate financing) of funds, including average junior tranche size, leverage ratios and mobilisation ratios (available for a subset of funds).
Unit of analysis	Transaction-level (each donor commitment by CIV type)	Fund-level (aggregated financial structure)
Analytical focus		Examines fund-level structuring characteristics i.e. how concessional

	Measures mobilisation outcomes i.e. the volume of private capital leveraged by donor-supported funds.	and commercial capital are layered within blended finance funds.
Source: OECD CRS & Convergence's Historical Deals Database		

Figure 5. Private Finance Mobilised through CIVs over time, (OECD)



Note: Data captures 1341 donor commitments to CIVs, and over 42 billion in total private finance mobilisation (USD) from 2016-2023.

Source: [OECD DAC statistics on Private Finance Mobilisation](#)

As seen in Figure 5, which captures a total of 1341 donor commitments to CIVs and over USD 42 billion in total private finance mobilisation from the years 2016-2023, the number and mobilisation amount of structured funds is increasing over time. The number of donor investments in CIVs has steadily risen from 83 in 2016 to 230 in 2023, reflecting a clear trend of growing donor engagement in CIVs. However, for the years between 2020 and 2022, there is an observable decline in mobilisation numbers, largely driven by inflationary pressures, mounting debt burdens, and geopolitical instabilities during the time period, of which ODA to blended finance has gradually decreased in recent years (IMF, 2023^[4]) (Convergence, 2024^[6]). Although there is a general upwards trend, mobilisation amounts have fluctuated year-on-year, with noticeable peaks in 2018, 2021, and especially 2023, where over USD 11.5 billion was mobilised - nearly six times the level of 2016.

From 2021 onwards, mobilisation accelerated sharply, with 2021–2023 accounting for more than half of the total mobilisation over the period. This rise may be attributed to a post-COVID rebound, the acceleration

of climate-focused funds ahead of COP26 and COP27, and heightened donor pressure to mobilise private finance in line with FfD4 momentum and SDG & Paris Agreement targets.

Table 1. Average Size of Junior Tranche within Structured Funds (USD) , (Convergence)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<25M	-	-	500,000	13,875,000	15,000,000	-	5,000,000	-	1,066,667	5,500,000
25-50M	13,200,000	14,675,000	5,000,000	12,000,000	-	-	3,000,000	7,950,000	6,000,000	7,957,023
50-100M	19,500,000	13,680,000	23,533,333	24,875,000	18,250,000	21,150,000	5,750,000	6,375,000	-	23,625,000
100-250M	38,000,000	-	86,000,000	90,575,000	-	38,950,000	26,442,458	27,066,667	-	43,000,000
250-500M	-	172,425,000	57,525,000	178,000,000	-	-	-	-	25,000,000	114,100,000
>500M	34,020,625	40,350,000	56,081,250	17,600,000	30,050,000	16,856,921	13,972,222	6,840,000	31,972,107	-

Source: Proprietary data from Convergence's Historical Deals Database

Table 2. Average Leverage Ratio within Structured Funds, (Convergence)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<25M	-	-	2.05	0.53	0.47	-	1.72	-	10.47	0.39
25-50M	1.65	1.65	9.00	1.95	-	-	10.67	5.19	6.15	2.10
50-100M	3.30	-	1.81	0.50	-	2.89	4.84	3.21	-	2.12
100-250M	3.30	-	1.81	0.50	-	2.89	4.84	3.21	-	2.12
250-500M	-	1.20	4.33	0.10	-	-	-	-	13.58	5.68
>500M	2.87	2.28	3.15	1.00	3.69	2.29	5.07	5.27	10.23	2.08

Source: Proprietary data from Convergence's Historical Deals Database

The data also highlight a clear relationship between average junior tranche and leverage ratio⁶ potential, as seen above in Table 1 and Table 2. Larger junior tranches, particularly those above USD 100 million,

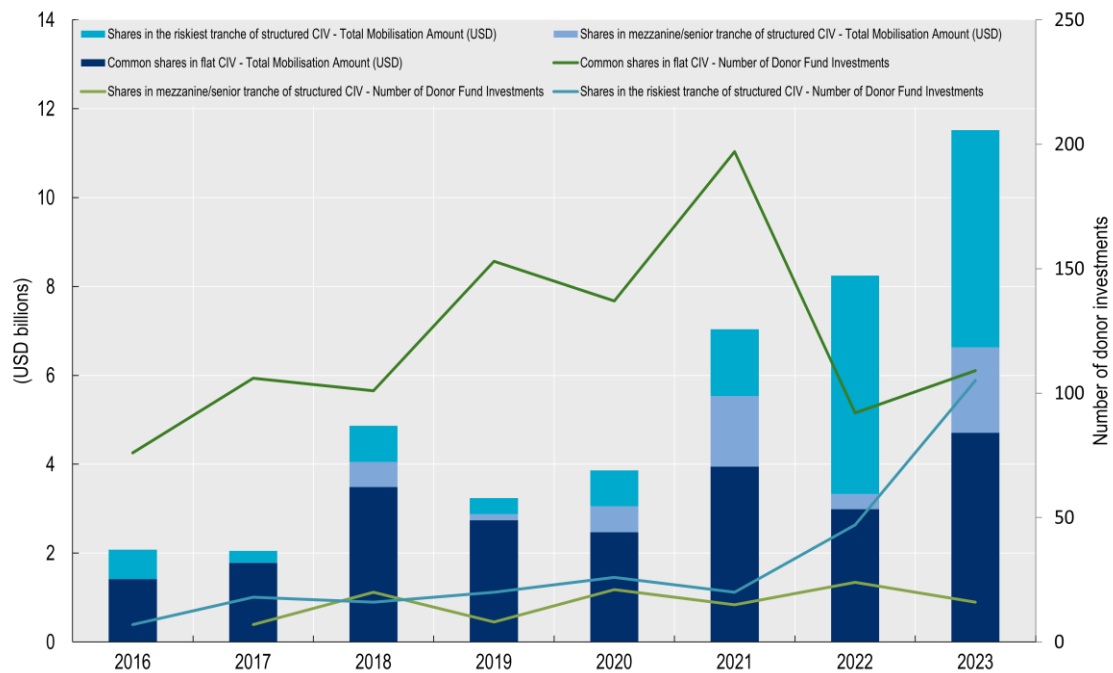
⁶ Leverage ratio's refers to how much private capital is generated in relation to the amount of public or concessional capital injected into the fund)

consistently exhibit stronger and more stable leverage ratios compared to smaller funds, suggesting that scale enhances the ability of concessional capital to crowd in private investors. For example, while junior tranches in the USD 100–250 million and 250–500 million ranges repeatedly achieve high leverage ratios typically above 3, even surpassing 10 in some years, smaller tranches under USD 25 million display more volatility, with ratios swinging from below 1 to double-digit levels. This may be because historically speaking, larger junior tranches leading to higher levels of overall financing, of which where the market-rate participation of DFI or MDB greatly helps with higher leveraging ratios. For example, according to data from Convergence over the sampled years, the leverage ratio of all blended finance transactions >USD 100 million is higher when there is market-rate participation from a DFI or MDB; 5.10 with DFI/MDB commercial investment vs. 2.54 for deals with no DFI/MDB commercial investment. This reflects the greater efficiency of larger structured vehicles, where risk can be more effectively distributed and investor confidence is reinforced by the participation of anchor DFIs and MDBs. It is however important to note that while the data highlights clear patterns between junior tranche size and leverage, these dynamics also depend heavily on the type of fund structure, for example debt vs equity considerations. Debt funds typically exhibit higher leverage potential given their capacity to layer senior and subordinated instruments, whereas equity funds are more constrained by valuation limits and investor risk appetite, which can moderate overall leverage ratios.

The aggregate financing data reflects the typical fluctuations seen in portfolio investments in emerging markets and developing countries. Gaps in data for certain years are due to limited public disclosure on some structured funds. Convergence has observed that funds in the USD 50-100 million and USD 100-250 million ranges are more prevalent. Despite this, the blended finance market has expanded over the past year. This is partly because the involvement of DFIs or MDBs tends to lower the amount of ODA needed to attract private sector investment (ODI, 2019^[32]). Their participation in mezzanine or senior tranches reduces perceived risk for commercial investors, meaning that donor capital in the junior tranche can be smaller while still providing sufficient credit enhancement. As a result, the recent increase in DFI/MDB participation has helped stretch ODA resources further.

Convergence positions structured funds (specifically three-tiered funds) as having the greatest mobilisation potential in the blended finance market, given their ability to offer the appropriate types of assets to private sector investors, who hold the greatest sums of AUM, at acceptable credit risk (Convergence, 2024^[6]).

Figure 6. Evolution of CIVs by Mobilisation and Number of Investments, by CIV Leveraging Mechanism (OECD)



Data captures 1341 donor commitments to CIVs, 971 common shares in flat CIV, 111 shares in mezzanine /senior tranche and 259 shares in riskiest tranche of structured funds, mobilising a total of 42 billion in total private finance mobilisation (USD) from 2016-2023.

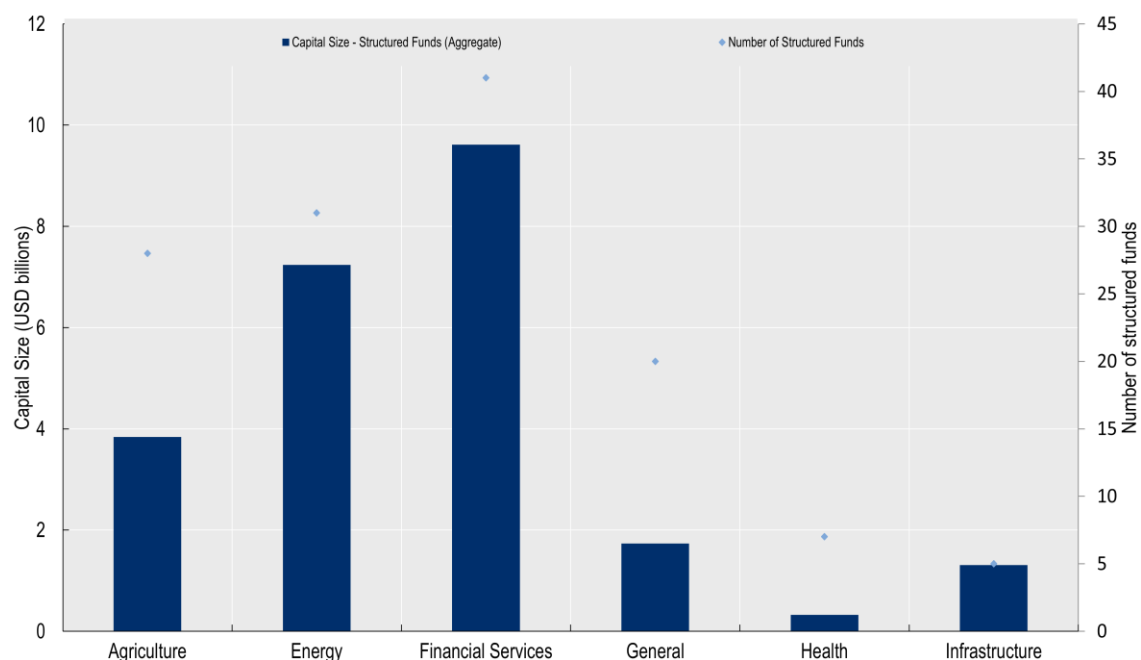
Source: [OECD DAC statistics on Private Finance Mobilisation](#)

The data highlights a consistent trend where investments in the riskiest tranche of structured CIVs generate significantly higher mobilisation amounts compared to their share of total investments. For example, in 2023, despite attracting only 105 donor commitments compared to 109 for common flat shares, riskiest tranche funds mobilised nearly USD 4.9 billion, more than the mezzanine/senior tranche and slightly more than flat CIV mobilisation. **This suggests that while riskiest tranches are less frequently utilised across the dataset, they remain a powerful driver of overall mobilisation, underscoring their usefulness for donors and development financiers seeking to maximise private finance mobilisation.** Over the entire period (2016–2023), riskiest tranche vehicles mobilised more than USD 14.2 billion, almost three times the amount generated by senior/mezzanine tranches, despite only receiving about double the number of donor commitments.

At the same time, common shares in flat CIVs dominate in terms of participation, with nearly 1,000 donor commitments over the period, almost four times the volume of riskiest tranche deals. However, their mobilisation power has been relatively moderate compared to their scale of investment, contributing USD 23.5 billion across the eight years, a lower ratio compared to investments made in the riskiest tranche. Investments made in the mezzanine/senior tranches remains relatively underutilised. Only 111 donor commitments were made, with mobilisation barely exceeding USD 5.1 billion. **This underlines that while senior tranches offer safer risk-return profiles, their mobilisation potential is significantly lower, which may limit their strategic importance for donors seeking to crowd in private capital.**

Taken together, these patterns highlight how tranche selection directly influences concessionality needs, where deploying scarce ODA into higher-risk junior positions tends to unlock the greatest mobilisation impact, while allocating to safer senior tranches requires less subsidy but generates weaker crowding-in effects. This reinforces the importance of using tranche-level data to calibrate concessionality more precisely in line with mobilisation objective.

Figure 7. Breakdown of Funds by Sector, (Convergence)



Source: Proprietary data from Convergence's Historical Deals Database

Table 3. Sector Breakdown, Flat vs Structured in terms of leverage and mobilisation ratio, (Convergence)

Sectors	Average Leverage Ratio (Structured Funds)	Average Mobilization Ratio (Structured Funds)	Average Leverage Ratio (Flat Funds)	Average Mobilization Ratio (Flat Funds)
Agriculture	2.55	1.66	2.57	1.72
Energy	2.53	1.74	3.15	1.73
Financial Services	2.78	1.65	6.70	3.1
General	6.99	3.52	4.92	1.568
Health	4.58	2.48	-	-
Infrastructure	2.26	1.21	-	-

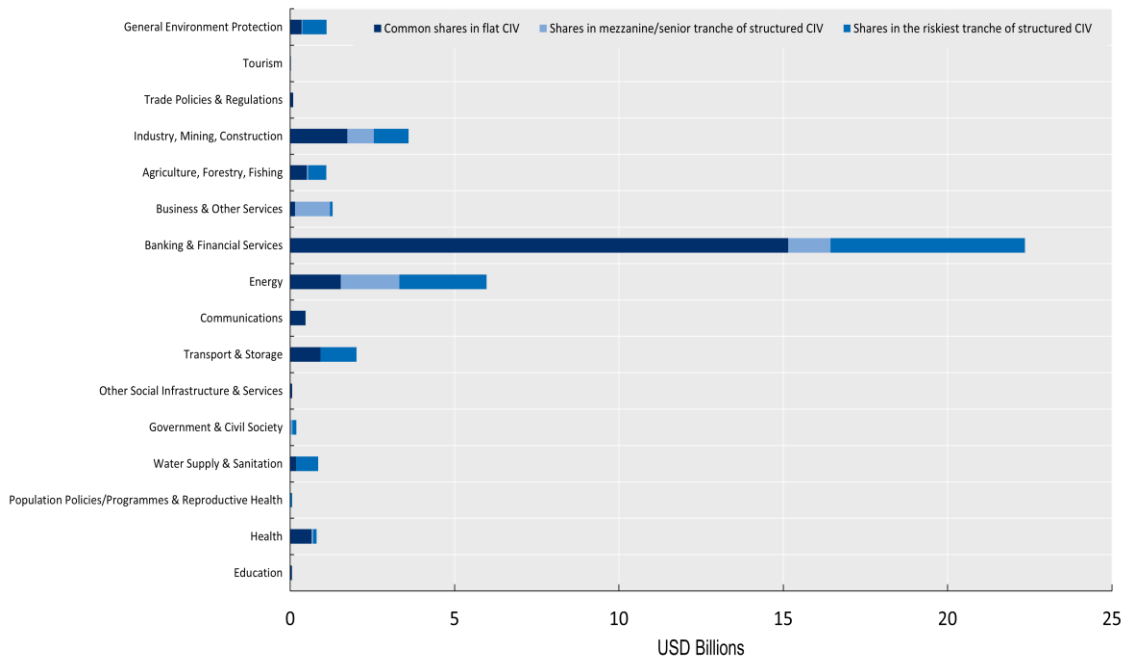
Source: Proprietary data from Convergence's Historical Deals Database

The data reveals that financial services dominate in both scale and count of structured funds, with over a USD 9.6 billion capital size across 41 funds, reflecting the sector's relative maturity, risk-sharing needs, and scalability. Yet interestingly, flat funds in financial services exhibit extremely high average leverage (6.7) and mobilisation (3.1), suggesting that in more established markets, simpler structures can sometimes crowd in private finance more efficiently than complex layering.

Agriculture and energy both have high aggregate capital volumes of structured funds (USD 3.8 billion and USD 7.2 billion respectively) and a large number of funds, signalling persistent real or perceived risks that necessitate structuring (e.g. commodity volatility, climate risk, political risk), with moderate leverage and mobilisation ratios for both. Health and infrastructure are smaller in volume but highly reliant on structuring, with no flat funds being observed. In health, high leverage (USD 4.58 billion) and mobilisation (USD 2.48 billion) ratios likely reflect donor willingness to provide risk capital to crowd in private co-investment into frontier areas following the COVID-19 pandemic (e.g. vaccines, pandemic resilience). Infrastructure shows

weaker leverage ratios (2.26) and mobilisation ratios (1.21), consistent with the more long-term nature of these projects, often requiring large amounts of concessional capital to de-risk private finance.

Figure 8. Sector breakdown, by Total Mobilised Finance and CIV Leveraging Mechanism, (OECD)



Data captures 1341 donor commitments to CIVs, 971 common shares in flat CIV, 111 shares in mezzanine /senior tranche and 259 shares in riskiest tranche of structured funds, mobilising a total of 42 billion in total private finance mobilisation (USD) from 2016-2023.

Source: [OECD DAC statistics on Private Finance Mobilisation](#)

The data highlights the overwhelming concentration of private finance mobilisation and CIV donor commitments in a few core sectors, most notably banking and financial services and energy, which together account for nearly USD 28 billion over the 2016–2023 period. Banking and financial services dominate the picture, with mobilisation of more than USD 22.3 billion, making it by far the single largest channel for leveraging donor commitments. Its growth has been particularly pronounced since 2020, with annual mobilisation consistently above USD 1.9 billion and peaking at more than USD 5 billion in 2023. While common shares in flat CIVs represent the bulk of commitments (USD 15.1 billion), it is notable that riskiest tranches also play a significant role, contributing USD 5.9 billion — far higher than senior/mezzanine tranches (USD 1.3 billion).

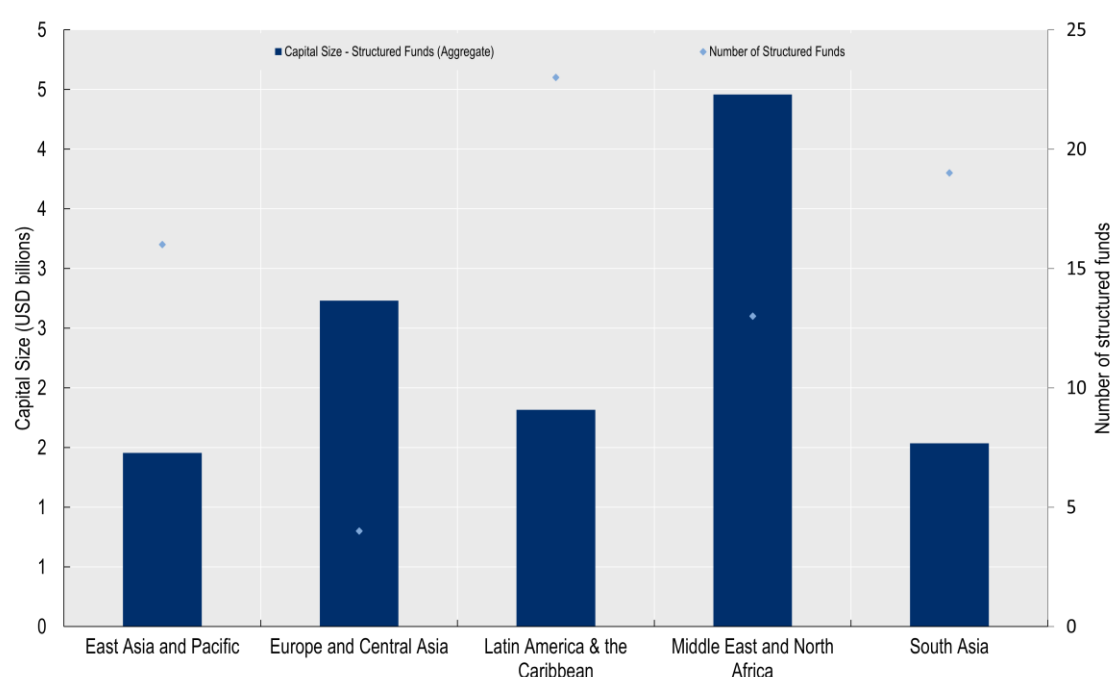
Energy is the next largest mobilisation sector, attracting nearly USD 6 billion. Here, the tranche distribution is more balanced: common shares contributed USD 1.5 billion, riskiest tranches mobilised USD 2.7 billion, and mezzanine/senior tranches also mobilised USD 1.8 billion. This pattern reflects the capital-intensive and risk-tiered nature of the sector, where layered financing structures are frequently used to crowd in private investors across the risk spectrum. Similarly, Industry, Mining & Construction (USD 3.6 billion) and Transport & Storage (USD 2.0 billion) also show significant mobilisation volumes, with riskiest tranches again contributing a material share alongside flat common equity.

Climate-related sectors such as Agriculture (USD 1.1 billion) and General Environment Protection (USD 1.1 billion) and Water & Sanitation (USD 0.85 billion) are smaller in overall mobilisation but reveal an outsized reliance on riskiest tranches. For instance, Water & Sanitation mobilised nearly USD 666 million through junior tranches compared to just USD 177 million through flat CIVs. This suggests that in higher-

risk, lower-return sectors with significant upfront costs - concessional junior tranches are critical for unlocking private finance.

Social sectors such as Health (USD 0.8 billion) and Government & Civil Society (USD 0.19 billion) also reveal relatively low mobilisation numbers. This falls in line with more general blended finance trends, where over the years of 2020-23, only 6% of all private finance mobilised by official development finance interventions went to social sectors (OECD, 2025^[33]). With some arguing that ODA should be ring-fenced for social protection programs (ODI, 2021^[34]), this finding also supports the notion that the focus of private finance mobilisation efforts should not be concentrated in social sectors, but in large-scale sectors with high upfront capital costs. In smaller sectors like Tourism, Trade, and Communications, mobilisation remains marginal, generally concentrated in flat structures with little to no evidence of tranche layering.

Figure 9. Breakdown of Funds by Region, (Convergence)



Source: Proprietary data from Convergence's Historical Deals Database

Table 4. Breakdown of Funds by Region, Leveraging Ratio, (Convergence)

Regions	Average Leverage Ratio (Structured Funds)	Average Mobilization Ratio (Structured Funds)	Average Leverage Ratio (Flat Funds)	Average Mobilization Ratio (Flat Funds)
East Asia and Pacific	2.72	1.92	-	-
Europe and Central Asia	2.88	1.18	-	-
Latin America & the Caribbean	3.03	1.28	5.65	2.39
Middle East and North Africa	3.26	1.00	0.98	0.63
South Asia	3.56	2.69	5.36	1.48
Sub-Saharan Africa	4.35	2.55	1.53	0.37

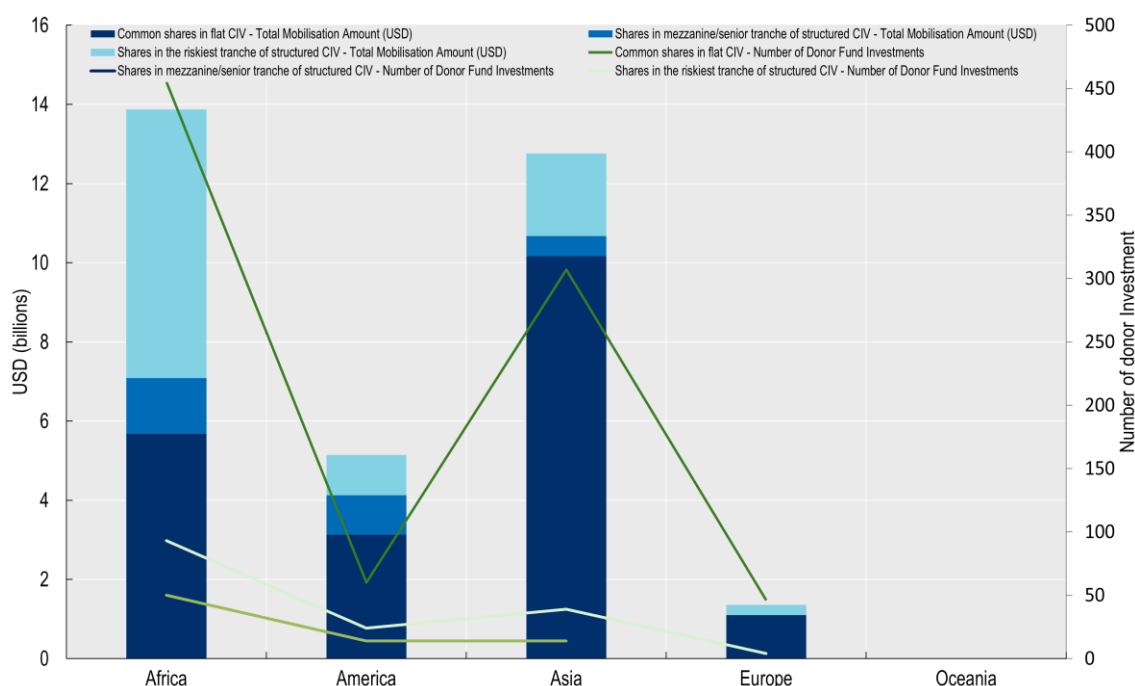
Source: Proprietary data from Convergence's Historical Deals Database

The data underscores how the design of blended finance vehicles is shaped by market maturity and risk environments. Sub-Saharan Africa stands out as the most active region for structured funds, with 58 vehicles with an aggregate capital size of USD 7.3 billion. High average leverage (4.35) and mobilisation (2.55) ratios illustrate the importance of layered structures in overcoming investor risk perceptions and unlocking private finance in frontier markets. Flat funds in the region, by contrast, remain modest in scale and weak in efficiency, highlighting their limited ability to mobilise without concessional risk-sharing.

In Asia, the picture is more balanced. South Asia and East Asia & Pacific both demonstrate effective mobilisation through structured funds, but also show stronger performance of flat funds compared to Africa. South Asia, in particular, records high average ratios across both flat and structured funds, reflecting deeper markets where concessional and non-concessional vehicles alike can crowd in private finance. The same general trend can be observed in Latin America and the Caribbean.

The data shows how in riskier markets such as Africa, structuring becomes an essential tool for mobilising private finance, as layered funds are specifically designed to compensate for weak investor confidence, limited liquidity, and the absence of deep domestic capital markets. These vehicles deliberately layer concessional and commercial tranches to absorb higher perceived risks, provide downside protection, and create investable opportunities where none previously existed. By contrast, in more established markets such as South Asia and East Asia & Pacific, where domestic financial systems are deeper, risk-adjusted returns are more predictable, and institutional investor bases are more strong, simpler flat fund structures can mobilise relatively more private capital per donor dollar deployed. In short, layered funds emerge where markets are thinner and riskier, requiring targeted, structured solutions to attract private investors and build the foundations for market maturity over time.

Figure 10. Breakdown of Funds by Region, (OECD)



Data captures 1341 donor commitments to CIVs, 971 common shares in flat CIV, 111 shares in mezzanine /senior tranche and 259 shares in riskiest tranche of structured funds, mobilising a total of 42 billion in total private finance mobilisation (USD) from 2016-2023.

Note: America here represents all LAC.

Source: [OECD DAC statistics on Private Finance Mobilisation](#)

Across the observable regions, the data reveals distinct patterns in how different tranche structures are deployed and how effective they are at mobilising private finance.

Africa recorded the largest number of donor fund commitments (598), corresponding to nearly half of all observed investments, which mobilised a total of USD 13.9 billion. A closer inspection of tranche type will reveal however that mobilisation numbers are driven by shares in the riskiest tranche. While only 93 donor commitments were made to this tranche, these generated more than USD 6.8 billion - the largest mobilisation contribution in the region. By contrast, investments in common shares of flat funds were the most frequent donor investments (455 commitments) but mobilised a more modest USD 5.7 billion, while mezzanine/senior tranches received only 50 commitments and mobilised USD 1.4 billion. This pattern confirms the catalytic role of junior tranches in high-risk markets: despite their limited use, they crowd in exceptionally higher levels of private finance.

Asia followed with 360 donor commitments, mobilising USD 12.8 billion, however the picture here is a little different. Here, although common shares in flat CIVs again dominate in terms of donor commitments, with 307 commitments, over USD 10 billion was mobilised – by far the highest mobilisation amounts observed. Junior tranches were deployed on 39 occasions, mobilising USD 2.1 billion, while mezzanine/senior tranches played a very limited role (14 commitments, USD 0.5 billion mobilised). This outcome most likely reflects Asia's stronger and more liquid market structures, where common shares in flat CIVs likely remain a sufficient enough instrument to mobilise private finance. This is consistent with how more liquid and mature markets typically require lower level of concessional finance to mobilise private finance.

Across the other regions, the distribution of donor commitments and mobilisation across CIV/tranche types is more evenly spread. Flat CIVs generally account for a steady share of both commitments and mobilisation, while investments in riskiest tranches play a less dominant but still important role. Senior and mezzanine tranches remain a smaller part of the overall picture, but they contribute more consistently in these regions than in Africa and Asia, highlighting a more balanced use of fund type investments in these regions.

Structuring Concessionality in Practice: Evidence from Three Funds

Blended finance CIVs are far from one-size-fits-all. Their effectiveness lies in the diversity of structures that cater to different investor appetites, political priorities, and development needs. At one end of the spectrum, some models aim to prioritise clarity, simplicity, and investor familiarity to help build investor confidence, allowing private investors to easily understand risk-return dynamics. In contrast, more complex models show, how when carefully designed, unlock capital for markets and sectors otherwise deemed unbankable. Catalytic tools such as technical assistance, FX hedging, ECA debt and reserve facilities for example can help to enhance the overall creditworthiness of CIVs to de-risk private investments at scale.

Differences can also lie in governance structures, with some CIVs managed by private fund managers to align closely with market practices, while others are anchored by DFIs or MDBs to ensure policy alignment and development impact. ILX for example represents an emerging model of privately managed flat funds that aggregate DFI-originated assets into investable structures for institutional capital. Independent GPs pool loans sourced from DFIs and MDBs, offering diversification and risk-adjusted exposure that no single DFI could construct alone (Center for Global Development, 2023^[35]). Anchored by Dutch pension fund commitments, the ILX Fund demonstrates how private fund managers can act as intermediaries between development finance institutions and institutional investors, mobilising long-term private finance at scale without using concessionary first-loss capital.

Together, these three case studies highlight different approaches to setting concessionality in structured funds and what these imply for setting subsidy levels. The ILX I fund, as seen in Box 8, represents a flat, non-concessional model that mobilises institutional capital by replicating familiar market structures,

showing that concessionality is not always required when strong DFI pipelines and credit quality can bridge perceived risk gaps. In contrast, PIDG's EAAIF, as seen in Box 9, demonstrates the effectiveness of the classic three-tier model, where a well-sized concessional junior tranche provides the necessary cushion to attract private investors into high-risk infrastructure markets. GAIA, as seen in Box 10, builds on this by layering in additional catalytic elements, including FX hedging, technical assistance, and guarantee facilities, that target specific risks and further de-risk investments. Together, the cases illustrate that concessionality in structured funds should not be seen as a fixed formula, but rather calibrated to the context: in some cases unnecessary, in others essential to open markets, and in others still requiring a combination of subsidy and risk-mitigation tools to crowd in private capital effectively.

Box 8. ILX I Fund

ILX Fund I was established by ILX Management B.V in 2021 as an innovative investment vehicle designed to mobilise institutional capital with support from the Dutch development bank FMO and backed by Dutch pension funds ABP and BPF Bouw as anchor investors. The fund operates by investing in syndicated loan participations arranged by MDBS and DFIs, providing financing to private sector companies and projects across various key economic sectors in emerging markets. By focusing on floating-rate loan investments denominated in USD and EUR, ILX offers institutional investors an attractive risk-adjusted return profile comparable to market equivalents in traditional fixed-income and credit asset classes. The fund has been particularly successful in attracting major Dutch pension funds, which seek both diversification benefits and measurable SDG- and climate-related impact. Given that mobilizing private sector capital is a core mandate of MDBs and DFIs, the syndication of B-loans allows these institutions to extend their lending capacity, efficiently manage sector and country concentration risks, and increase their developmental reach. ILX's participation in these syndicated loans effectively channels large-scale institutional funding toward sustainable development and climate transition projects while ensuring risk-sharing with highly experienced development lenders.



As evidence, ILX's key strengths lies in its simplicity: a transparent, single-layered flat structure that mirrors traditional fixed-income products familiar to pension funds. This design choice emerged from the inception process, where access to the GEMS database⁷ gave fund managers at the firm a clearer picture of the

⁷ The GEMS (Global Emerging Markets Risk Database) is a joint MDB–DFI initiative that compiles historical default, recovery, and loss data on private and sovereign loan portfolios across emerging markets. Access to the database is

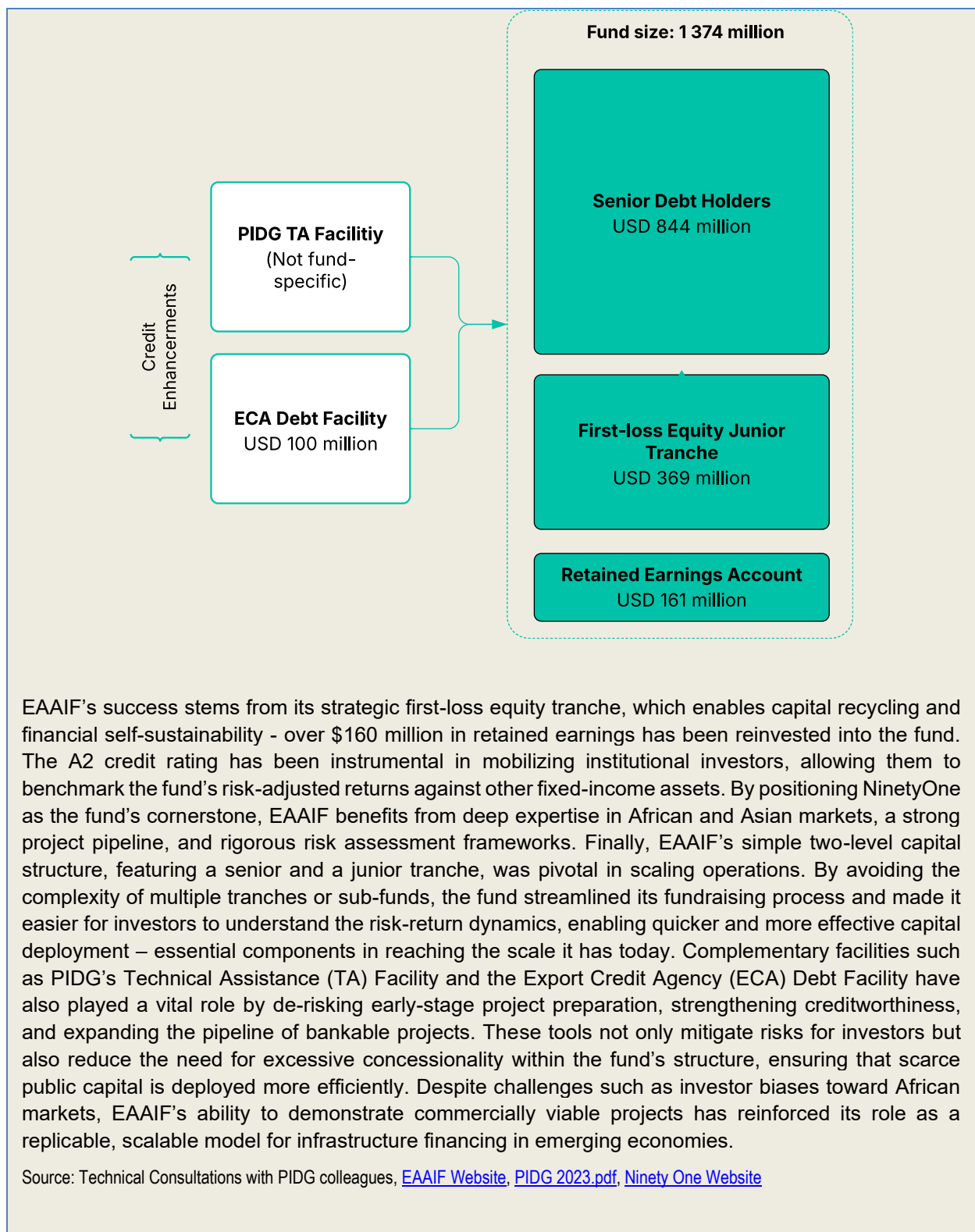
historical default and recovery rates of DFI/MDB portfolios. The data revealed that credit risks in EMDE syndicated loans were far lower than commonly perceived, allowing ILX to confidently structure a flat fund without concessional buffers. In this way, transparency on credit performance was a decisive factor in opting for a non-concessional model. This clarity makes it easier for institutional investors to assess and commit capital without needing concessional buffers. Yet, while ILX's flat structure proves effective for debt aggregation, other more structured models demonstrate how layering risk within a capital stack can further expand participation, an approach demonstrated by PIDG's Emerging Africa and Asia Infrastructure Fund (EAAIF).

PIDG's EAAIF represents the classic three-tier tranche model, where DFIs and donors provide anchor commitments and higher-risk positions in the capital stack and institutional investors can retain more senior positions. This model however is unique in the fact that investment execution is run independently by the private GP Ninety One, allowing MDBs and DFIs to invest, while leveraging the GP's experience in facilitating deal sourcing, screening and portfolio management (IFC, 2010^[36]). The implication for concessionality here is that, while donors and DFIs still provide first-loss protection, independent GP management ensures these concessional resources are deployed with market discipline, contributing to greater efficiency and reinforcing the "minimum concessionality" principle.

Box 9. PIDG's Emerging Africa and Asia Infrastructure Fund (EAAIF)

The Emerging Africa and Asia Infrastructure Fund (EAAIF), established in 2002, is a private debt fund focused on providing long-term commercial debt for infrastructure projects across nine key sectors in Africa and Asia. With a current loan book size of \$1.3 billion, EAAIF uses a simple blended finance structure model to leverage public and private capital, enabling climate-resilient, inclusive development. Managed by NinetyOne, the fund supports initiatives in sectors such as power, water, agriculture, and transportation, aiming to close funding gaps and enhance economic development. EAAIF's capital structure includes a senior debt tranche (844 USD million), with investors including Allianz, FMO, AfDB and KfW, along with a first-loss equity tranche (368 USD million), with key investors including donors such as The Foreign, Commonwealth & Development Office [UK], Dutch Ministry of Foreign Affairs, State Secretariat for Economic Affairs SECO [Switzerland], Australian Government Department of Foreign Affairs and Trade, Sweden Sverige, and Global Affairs Canada). The fund has supported 96 completed projects, created over 24,000 jobs, and benefited over 154.1 million people, showcasing its transformative impact on communities and economies where scarce finance resources are needed most.

restricted to contributing institutions, meaning its insights on credit performance are not publicly available to external investors or researchers.



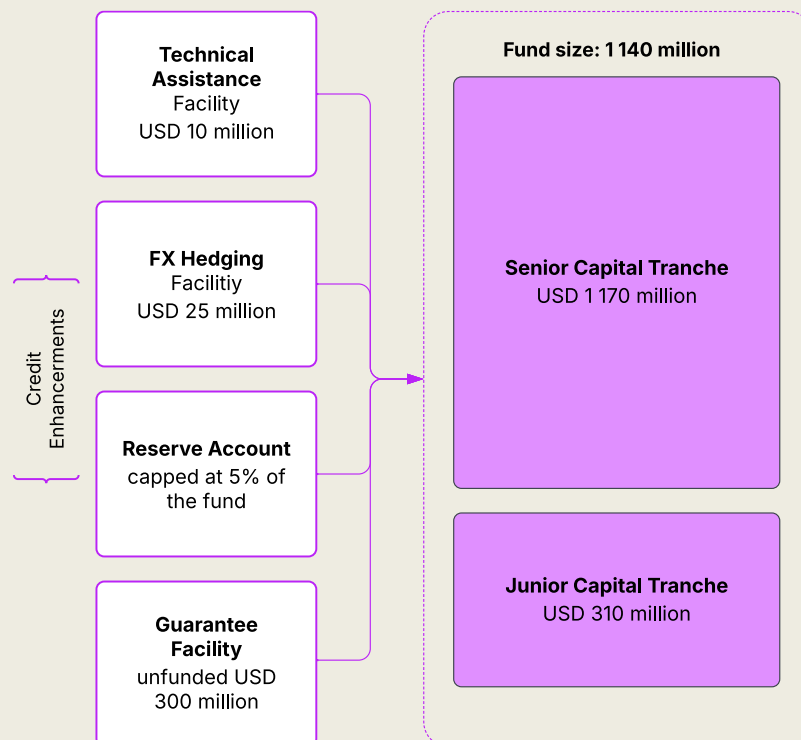
As seen above EAAIF's success rests on its simple and clear three-tier structure, anchored by a credible first-loss equity tranche that is key in attracting private institutional investors. The fund's independent execution under Ninety One also ensures professional market practice while drawing on PIDG's ability to

attract a wide variety of donor and DFI support in the junior tranche (Sustainable Markets Initiative, Investor Leadership Network, 2024^[37]).

Although both PIDG's EAAIF and ILX Fund I are examples of CIVs that leverage private GP expertise to manage and execute investment practices in blended finance funds, public actors such as DFIs can leverage their on the ground experience and innovative financial capacity to build and manage blended finance structures (Proparco, 2025^[38]). For example, GAIA is managed by the Canadian DFI FinDev, allowing it to sit at the center of its design, governance, and catalytic capital provision. Supported by partners including the Green Climate Fund and MUFG Bank who provide catalytic credit enhancement facilities, GAIA's concessional junior tranche helps to absorb early losses and allows for effective senior private investment into critical climate-related sectors (Sustainable Markets Initiative, Investor Leadership Network, 2024^[37]). This structure, albeit being more complex with a suite of catalytic credit enhancement facilities working together in unison, underscores the innovative role that DFIs can play, not only as junior tranche financiers, but also as conveners and managers of blended finance funds, guiding fund strategy and execution.

Box 10. GAIA

GAIA is a blended finance platform designed to mobilize large-scale private capital for high-impact climate projects in emerging markets (EM), Least Developed Countries (LDCs), and Small Island Developing States (SIDS). Launched last year, the fund has a target size of USD 1.48 billion and is structured to provide long-term debt financing for adaptation (70% of capital) and mitigation (30% of capital) initiatives in up to 25 developing countries across Latin America, Africa, and Asia. Adaptation efforts will focus on food and water security, resilient infrastructure, and ecosystem restoration, while mitigation financing will support renewable energy, low-carbon transport, and green buildings. GAIA is spearheaded by FinDev Canada, MUFG, and the Green Climate Fund (GCF), with Climate Fund Managers acting as the fund manager and Pollination providing advisory support. USAID is also a key strategic partner. The fund aligns with the Paris Agreement and the G7 Partnership for Infrastructure and Investment, positioning itself as a flagship initiative to bridge the climate finance gap. GAIA's tiered capital structure includes a senior tranche for institutional investors, a junior tranche backed by impact and concessional funders, and a USD 300 million guarantee facility that offers second-loss protection to de-risk private capital participation. Additional de-risking mechanisms include a reserve account that absorbs losses before junior capital is affected, a USD 10 million technical assistance facility to enhance project origination and impact measurement, and an FX hedging facility to subsidize local currency lending. The fund is expected to benefit 19.5 million people in climate-vulnerable regions and contribute to the reduction of 30.6 million tons of CO₂ equivalent emissions.



GAIA is driven by an innovative structural design, which effectively mitigates risks and enhances the commercial viability of climate projects in high-risk markets. Its catalytic approach attracts private capital by leveraging public-sector concessionality, ensuring that investments in adaptation and mitigation are

both financially sustainable and developmentally impactful. The GCF's role as an anchor investor is instrumental in providing first-loss capital, reducing perceived risk for commercial investors, and reinforcing climate additionality. Meanwhile, FinDev Canada's concessional finance facility, announced at the G7 in 2024, ensures that GAIA has the flexibility to finance projects that would otherwise struggle to secure funding. MUFG's senior leadership played a crucial role in securing early buy-in from institutional investors, underscoring the importance of mainstream financial institutions taking proactive roles in climate finance. Furthermore, GAIA's governance model, featuring both a Climate and ESG Committee and a Credit Committee, provides robust oversight and transparency, ensuring that investments align with sustainability goals while meeting investors' fiduciary requirements. By integrating these structural and governance elements, GAIA exemplifies how blended finance can be scaled to drive meaningful climate action, particularly in the world's most vulnerable regions. The fund sets a precedent for future climate finance initiatives by demonstrating how strategic public-private partnerships can mobilize capital at scale, enhance project bankability, and deliver measurable environmental and social impact.

Source: Technical consultations with GAIA colleagues, [GAIA awarded Best Blended Investment NDC Initiative at COP 28. \(2023\). FinDev Canada.](#)

GAIA demonstrates how more complex models, which deploy tailored and context-specific risk-mitigation tools can unlock large-scale private capital. Its FX facility helps investors manage currency volatility, the technical assistance facility strengthens project origination and impact measurement, and the guarantee provides second-loss protection to absorb downside risk together, this shows how concessionality need not simply be in junior tranche size, but also utilised in catalysing support services and risk sharing tools that reduce dependency on over-sized concessional layers. These elements demonstrate that with well-sized junior protection and smart catalytic mechanisms, concessional capital can be used more efficiently in protecting investors, improving bankability, and targeting subsidy where it's most needed.

3. Challenges to getting concessionality right in structuring funds

This section will delve into the key challenges identified from literature, data and interviews in the funds structuring process, with a focus on setting concessionality levels, which include e.g. standardisation, additionality, lack of common frameworks on private finance mobilisation, lack of data to price risk, as well as specific development actor side-issues such as coordination and fragmentation issues, private sector side issues.

Lack of Historical Data and Concessionality Benchmarks

As highlighted in the mapping exercise, while aggregate data from sources such as the OECD and Convergence provide useful insights into overall concessionality trends, tranche-level performance and subsidy data remain largely unavailable, limiting the ability of donors and fund managers to establish reliable benchmarks. This absence of historical evidence as such is a key obstacle to effectively getting concessionality right in blended finance funds. An inadequate history of performance information and uncertainties surrounding liquidity, transparency, and the nature of underlying investments contribute to this.

In most cases, blended finance funds are structured without clear precedent or market tests to assess how much concessionality is necessary, inhibiting effective replication and mutual learning and in getting new investors involved (WRI, 2024^[39]). Without reliable data on default probabilities, loss-given-default (LGD) estimates, or recovery metrics, blended finance fund managers are forced to make assumptions on the necessary concessionality rates for a given fund. This leads to two recurrent risks (i) Under-subsidisation, where the first-loss tranche may be too small to absorb actual losses, threatening fund sustainability, and (ii) Over-subsidisation, where conversely, a conservative over-sizing of the first-loss tranche due to limited benchmarks signals high risk to private investors, discouraging their participation and inefficiently allocating subsidy capital. In such situations where risk cannot be accurately modelled, many investors will not be prepared to invest in any case no matter the price point, reflecting the broader challenge of “Radical Uncertainty” in frontier market investments (King & Kay, 2020^[40]).

Although not strictly a blended finance fund, a key example of how a lack of historical evidence and benchmarking can lead to overly conservative subsidy setting practices is that of the IFC’s IDA’s Private

Sector Window (PSW), and how it remains largely underleveraged. When the PSW was launched, there was no track record to indicate the likely scale of losses, so the facility was designed to assume a worst-case scenario - that *all* concessional capital could be lost. In practice, this meant setting aside capital equal to 100% of potential exposure: USD 1.2 billion in 2023 and USD 638 million in 2022 (Independent Expert Group, 2024^[41]). While this approach may have been reasonable at the pilot stage, six years of operations now show that actual losses have been minimal, just \$1 million in payouts under guarantees, less than 1% of total exposure (Independent Expert Group, 2024^[41]). This suggests the subsidy was far larger than needed to cover real risks, indicating a largely underleveraged facility and missed opportunity to extend more funding support to PSW-eligible countries. Without historical data to model default probabilities, recovery rates, or foreign exchange impacts, the PSW could not calibrate a more efficient level of subsidy required.

Limited transparency around tranche-level performance data, such as return targets, realised loss rates, or senior tranche behaviour as such prevents fund designers from testing whether the size of first-loss layers in past transactions has been adequate, excessive, or suboptimal. Likewise, this undermines the ability of private investors to assess whether the available risk cushion is sufficient, and makes it difficult for donors to understand if concessionality subsidies deployed in previous funds were economically justified.

Risk Perceptions: Real or Perceived?

Blended finance funds in high-risk geographies or sectors not only face the challenge of attracting private finance at scale, but in ensuring subsidy levels are precisely aligned to the real risks and market barriers, avoiding both over- and under-subsidisation.

Distribution Imbalances across Sectors

Empirically, finance within CIVs has been heavily skewed toward less risky environments, investing USD 5.2 billion (10% of total investment) in 2020 (Faty Dembele, 2022^[9]), down from USD 7.3 billion (12%) in 2018 (Basile, Bellesi and Singh, 2020^[8]) - a decline largely driven by reduced investment in Africa, where most LDCs are located (OECD & UNCDF, 2020^[42]). The sectoral data analysis in Chapter 2 also shows the mobilisation imbalances across sectors, where a strong concentration of mobilisation can only be found in a few sectors, notably banking and financial services, which alone mobilised USD 22.3 billion between 2016–2023, and where flat/common shares account for roughly USD 15.1 billion of commitments. By contrast, climate-sensitive and social sectors (e.g. Water & Sanitation) mobilise far less overall but depend disproportionately on junior/riskiest tranches (e.g. USD 666 million mobilised via junior tranches vs USD 177 million via flat CIVs in Water & Sanitation). Aggregate financing data also reinforces this, where financial services dominate structured-fund activity (about USD 9.6 billion in aggregate capital sizes across 41 funds), whereas agriculture and energy (approx. USD 3.8 billion in aggregate capital sizes and USD 7.2 billion in aggregate capital sizes respectively) are much smaller in comparison.

These patterns reinforce the challenge where without tranche-level benchmarks, donors risk allocating scarce subsidy to low-impact flat positions in mature sectors instead of targeting junior support where it is most catalytic. Whilst concessionality may not even be required in some mature segments (e.g. utility-scale renewables in low-risk markets), in sectors such as agriculture, characterized by high upfront capital costs and highly seasonal or climate-sensitive default patterns (IFC, 2009^[43]), setting concessionality levels can be complex. Coupled with operational hurdles faced by DFIs when beginning the structuring process, ranging from political exposure, elite capture, and donor reluctance (IFC, 2023^[14]), successful blended finance funds hinge on understanding the appropriate risk trade-offs.

Sovereign Risks

Many investors often overestimate the risks of investing in EMDE's, often relying on country credit ratings rather than assessing project-level risk, which may be significantly lower. This can result in the mispricing of risk, leading to situations where fund managers are forced to design concessional structures around inflated perceptions of risk rather than actual exposure, where this phenomena can be found for geographies such as Sub Saharan Africa for example.

The data analysis in chapter 3 directly evidences this misperception. Sub-Saharan Africa records the highest average leverage (4.35) and mobilisation ratio (2.55) among structured funds, demonstrating their effectiveness in unlocking private capital in riskier markets. By contrast, flat funds in the region perform poorly, with average leverage and mobilisation ratios of just 1.53 and 0.37 respectively, highlighting their limited ability to mobilise without concessional risk-sharing. Mobilisation data show Africa's 598 donor commitments mobilised USD 13.9 billion overall, with just 93 riskiest-tranche commitments generating >USD 6.8 billion versus 455 flat-share commitments mobilising USD 5.7 billion. These institutional and behavioural barriers, rooted in legacy risk models, fiduciary rules and persistent data gaps at project level, create a 'perception gap' that keeps concessional capital oversized and funds under scaled, even where the empirical evidence points to stronger mobilisation potential. In terms of sectoral risk perceptions, recent data from Moody's provide further evidence: infrastructure securities in EMDEs remain predominantly investment grade (92%) and have exhibited default rates below 1% over five years (around twenty times lower than those of non-financial corporates) (Moody's, 2025^[44]). The study also finds that infrastructure debts not only default less frequently but experience markedly lower credit losses, averaging just 0.3% of face value over five years compared to 6% for corporate issuers (Moody's, 2025^[44]). These findings underscore how actual project-level credit risks are often far lower than sovereign or corporate ratings suggest.

This can mean that concessional levels may not be set appropriate to the region or sector, where in some excessive subsidies are used to de-risk otherwise viable investments (Sanoussi Bilal, 2022^[45]). Without accurate, granular risk assessments, and greater scrutiny of the methodologies behind them, the calibration of concessional capital runs the risk of being misaligned with the actual distortions they are meant to address, potentially diverting scarce subsidy away from more impactful uses (Emelly Mutambatsere and Philip Schellekens, 2020^[17]).

Lack of a robust Enabling Environment

Risky markets also tend to have weaker enabling environments, characterised by inadequate market infrastructure, ineffective regulations and limited institutional capacity, where these conditions directly influence how concessional capital is set, often pushing subsidy requirements upward even when underlying project risk is moderate. In weak regulatory and institutional settings, fund managers struggle to determine whether higher concessional capital is truly needed to offset investment barriers, or whether they are addressing for systemic issues beyond the scope of the fund. Although blended finance cannot compensate for an unfavourable enabling environment; it often must compensate for its absence in the short term by taking on more risk or offering higher concessional capital to crowd in private investment in challenging contexts (OECD, 2019^[46]). This uncertainty forces managers to build in wider concessional cushions, making the negotiation of tranche structures, pricing, and risk-sharing mechanisms significantly more complex.

Foreign Exchange Exposure Risks

Foreign exchange volatility also presents a critical challenge in calibrating concessional capital in blended finance funds. For example in a debt fund, where returns or repayments are denominated in local currencies subject to sharp depreciation, concessional support must compensate not just for credit risk but also for currency devaluation risk, exacerbating uncertainty in first-loss structuring (OECD, 2025^[47]). This helps explain why, in IFC's blended concessional finance portfolio (FY2010–2020), projects involving local

currency support carried an average concessionality level of 10.1%, more than two and a half times higher than the overall portfolio average of 3.8%.

Co-ordination and Fragmented Priorities

The proliferation of actors potentially involved in one particular blended finance fund, along with each one's differing strategic priorities can also create significant coordination costs that undermine effective concessionality design. Each actor typically brings distinct budget cycles, policy mandates, approval processes, and reporting standards. This fragmentation slows decision-making and deal structuring, as fund managers must navigate varying guidelines on development impact, procurement rules, and subsidy usage. This is particularly relevant when small recipient countries face overlapping donor efforts in the same sector, which further drives transaction costs and weakens accountability measures (World Bank, 2022^[48]).

Misaligned Role of DFIs

DFIs are constantly facing what some call a “dumbbell stretch,” pulled between the dual mandates of scaling private mobilisation and stepping up in low-income and fragile contexts - mandates constantly in tension (Kapoor, 2019^[49]). It is perhaps this policy trade off tension that helps explain why DFIs especially frequently end up in senior, protective positions in blended fund structures rather than occupying junior first-loss layers. Although it is important to note that private investors take comfort in the fact that DFIs maintain their position within the fund for reputational and balance-sheet reasons, if they remain in the senior tranche, they are not maximising the catalytic effect of concessionary capital (Center for Global Development, 2023^[35]). When DFIs favour seniority they (i) reduce the capacity of concessional junior layers to absorb early losses, (ii) weaken market signals that would encourage private follow-on finance, and (iii) make it harder to define and apply minimum concessionality in practice (OECD, 2018^[1]), (Center for Global Development, 2023^[35]).

Empirical evidence also suggests that DFIs often leverage their “own-account” capital more than private capital. An analysis by Convergence of 467 DFI transactions involving blended finance found that for every USD 1 of concessional finance DFIs invested roughly USD 3 on average while private investors put in about USD 1, leaving only about 25% of total capital from private sources in many blended deals. When DFIs come in below the Weighted Average Cost of Capital (WACC), they effectively subsidize the cost for another public actor, leading to what's called “subsidy stacking”, rather than creating genuine risk-adjusted returns attractive to private investors. Although this may help build more markets, this is not aligned with the OECD definition of blended finance and not an effective use of scarce concessionary finance.

Additionally, banks and private investors often cite that it is costly and slow to co-invest with DFIs because of their complex organisational structures, unclear lines of responsibility, and protracted governance processes that slow down decision-making (McHugh, 2021^[50]). Unlike the more streamlined inter-bank market, DFIs can simultaneously act as both clients and competitors, creating multiple and sometimes conflicting touchpoints across a single institution (McHugh, 2021^[50]).

Finally, technical consultations revealed that each DFI also brings its own institutional “personality”, namely distinct investment preferences, internal procedures, and strategic priorities that can complicate fund structuring. Some DFIs insist on investing through senior notes rather than equity, others impose narrow sectoral or geographic mandates, while many maintain demanding governance, documentation, and participation requirements. While DFIs are often as rigorous and return-sensitive as private investors, their divergent mandates and operational constraints mean that coordination across multiple DFIs can be complex, with each entailing a different level of negotiation and due diligence processes.

Fragmentation of donor priorities

While complexity in blended finance structures is often attributed to diverse investor needs or market constraints, in reality, it is frequently driven by donors themselves. Donor capital is rarely pooled, and each donor typically pursues narrow policy objectives - whether they be sectoral or geographic (OECD, 2022^[51]). At the same time, donors seek portfolio diversification to reduce their own risk exposure, creating inherent tension during the fund design, often resulting in rigid and fragmented capital allocations that reflect shifting political priorities and not necessarily market needs. Additionally, it may arise that sectoral allocations, where donor parliaments allocate their aid budgets on an annual basis) may result in disbursement of funds that reflect the priorities of global public goods - rather than those of the recipient themselves (Carlsson, 2009^[52]). Furthermore, long fund design and approval cycles - driven by the need to align multiple donor requirements - can take several years, by which time market conditions and policy priorities may have shifted. These long lead times reduce responsiveness to market needs and increase the risk of donor or investor priorities shifting mid-process. More broadly, research also points to the fact that fragmented donor portfolios and proliferating initiatives increase transaction costs not only for the actors involved in blended finance structures, but also for recipients and implementing entities – highlighting the negative spillover effects of such competing political priorities within blended finance structure design (OECD, 2020^[53]).

Misunderstanding of what counts as mobilisation

A key challenge within this is also inconsistencies across methodologies for what actually constitutes as private capital mobilisation. The lack of a common framework between OECD and MDB private capital mobilisation methodologies can make it difficult to learn which level of concessionality was optimal in achieving the greatest private capital mobilisation numbers. For example, MDBs often count co-investments by bilateral development finance institutions on commercial terms as private capital mobilised, which can overstate the true scale of private sector mobilisation. These methodological inconsistencies not only reduces transparency and accountability (Publish What You Fund, 2024^[54]), but also prevents actors from drawing lessons and mutual understand across blended finance funds, reinforcing fragmentation and reducing the ability of concessional finance to be more effective.

Fund Structure Complexity

Finally, the sheer variety of different blended finance fund structures available on the market can make it difficult to 'pick the *right* fund type' and standardise concessionality approaches. The Investment Mobilisation Collaboration Alliance (IMCA) estimates there are over 200 different types of blended finance structures on offer (IMCA, n.d.^[55]). Although this highlights the scale of interest and risk appetite that exists, it also indicates that as an asset class, blended finance structures remain bespoke, complex, and highly varied.

For example, understanding whether to utilise a debt or equity-based fund structure will offer different outcomes regarding longevity, concessionality levels and commercial sustainability. Debt-based funds typically offer more predictable returns and appeal to risk-averse investors but may struggle to address the needs of early-stage projects or high-risk sectors. Conversely, equity-based funds can drive transformative impact by absorbing higher risks, yet they often require higher concessionality to improve risk-adjusted returns in nascent markets (Green Climate Fund, 2021^[56]), (Climate Policy Initiative, 2023^[57]). As such, most blended operations are still structured transaction-by-transaction, with limited common metrics and evidence to guide instrument choice and concessionality sizing (OECD, 2022^[51]). In practice, every new blended finance fund therefore often requires fresh legal engineering and investor negotiations, which

raises transaction costs and pulls donors toward “one-off” solutions rather than standardised templates that would enable learning curves and clearer subsidy norms.

Structuring Fatigue

Many asset managers and general partners (GPs) can experience structuring fatigue given the bespoke and complex nature of funds. This is particularly the case when working across multiple funds with different legal terms, due diligence procedures, waterfall structures, regulatory processes, governance frameworks and disclosure requirements – requiring substantive financial engineering and in structuring and defining legal terms and conditions for each lender (PwC, 2024^[58]). This structural complexity means that setting the right concessional tranche can be painstaking: every adjustment must be modelled against many interlocking covenants and investor returns. Although institutions with large portfolios can leverage past deal structures for efficiency, smaller institutions and first-time fund managers will likely struggle.

4. Practical considerations for structuring funds

This section will highlight some of the key practical considerations for donors to setting concessionality levels in the structuring fund process, which may include enhancing transparency and market data accessibility, standardising fund structures and legal documentation that are replicable, mobilising domestic actors and building local fund manager capacity, an increasing focus on monitoring, evaluation, and market building metrics.

Enhancing transparency and market data accessibility

Greater data transparency and improved disclosure practices will be foundational to the success of structuring blended finance funds, paving the way for a future where concessionality levels can be better compared and replicated. Transparent credit performance, concessionality disclosure, and impact reporting allow investors and donors to move from perceived to real risk, benchmark subsidy levels more consistently, and link concessionality to measurable development outcomes. This is very much aligned with broader efforts to enhance data transparency, where the OECD's engagement in the Hamburg Data Alliance (HDA) a joint UK–Germany initiative launched in is helping to move the needle on improving access to granular, standardised data for pricing risk in EMDEs and overcoming confidentiality barriers (Environmental Finance, 2025^[59]). By strengthening coordination through initiatives such as the HDA, development actors can begin to address the key constraints to data transparency on concessionality, credit performance, and mobilisation outcomes. As it currently stands, without a strong evidence base, subsidy calibration risks remaining ad-hoc, undermining both market confidence and the mobilisation potential of structured funds.

Concessionality Disclosure

The mapping exercise clearly highlights gaps in donors, DFIs and MDBs disclosing concessionality levels across their projects. IFC is currently the only DFI systematically reporting concessionality levels, including a justification for why it is necessary to best ensure only “minimum concessionality needed” is applied (IFC, 2025^[18]). Although a number of blended finance fund projects are prohibited from sharing this because of confidentiality constraints, expanding this practice across all donors, DFIs and MDBs would create a genuine evidence base, allowing donors to benchmark subsidy levels and standardize concessionality across transactions. Additionally, greater disclosure would also make it clearer how subsidy is distributed within the capital stack e.g. bilateral agencies often supplying junior tranches while

DFIs and MDBs hold senior tranches and help ensure that concessional capital is not oversized relative to private participation. By making tranche-level subsidies visible, disclosure strengthens accountability, reduces the risk of crowding out commercial investors, and provides market signals to right-size future concessionality allocations.

Market-level data transparency

Public availability of market-level data such as default and recovery rates not only helps investors move from perceived to real risk, but would help in calibrating appropriate concessionality levels. For example, the Global Emerging Markets (GEMs) database now reports that MDB/DFI private loans have historically only ~3.6% default rates with ~72% recovery rates, highlighting the relative stability of the development finance asset class (EIB, 2024^[60]). Making such data easily accessible helps not only build trust, but also allows actors involved in blended finance funds to quantify expected losses, run portfolio simulations, and calibrate concessionality more accurately. In other words, concessionality can be tied to demonstrated risk parameters rather than conservative assumptions, ensuring that subsidies are no higher than necessary to make senior tranches investable. Technical consultations with ILX cited that access to the GEMs database was instrumental in demonstrating the historically strong recovery and default rates of MDB/DFI loans, providing the evidence base that helped secure investor confidence and establish the fund. As such, donors should further push for the release of project-level data, including loan terms, collateral, recovery histories and outcomes, to expand the evidence base for concessionality modelling. Until MDBs and DFIs fully disclose project-level subsidy data and such transparency measures are widespread, these gaps will continue to hinder public trust and accountability, impede mutual learning, and constrain the scaling of efficient blended finance solutions (Center for Global Development, 2020^[61]).

Impact Level data reporting

Ensuring the rigorous impact reporting of blended finance funds, and blended finance structures more broadly, remains transparent will be key to justifying concessionality is directed towards projects that deliver the highest development outcomes. A research paper from the National Bureau of Economic Research last year cited shows that DFIs provide higher concessionality to projects with greater sustainability outcomes per dollar invested. It found that a one-standard deviation higher sustainability impact corresponds to a blending subsidy that is higher by 1.4 to 1.7 percentage points (NBER, 2024^[62]).

The OECD's blended finance principles (OECD, 2018^[11]), along with their Guidance update (OECD, 2025^[2]), also emphasise a similar logic, where concessionality should be strictly reserved for cases of genuine market inefficiency, such as information gaps, high first-mover risk, or lack of affordable credit, only where a subsidy demonstrably unlocks investment (OECD, 2018^[5]). This reinforces the need for blended funds to calibrate subsidy levels explicitly tied to demonstrable outcomes. In this way, concessionality is not only minimised but also justified where development returns are greatest, ensuring scarce public resources are used most effectively. Greater consistency in reporting such metrics across DFIs and funds would also create an evidence base to benchmark and standardise subsidy allocation.

Greater Standardisation

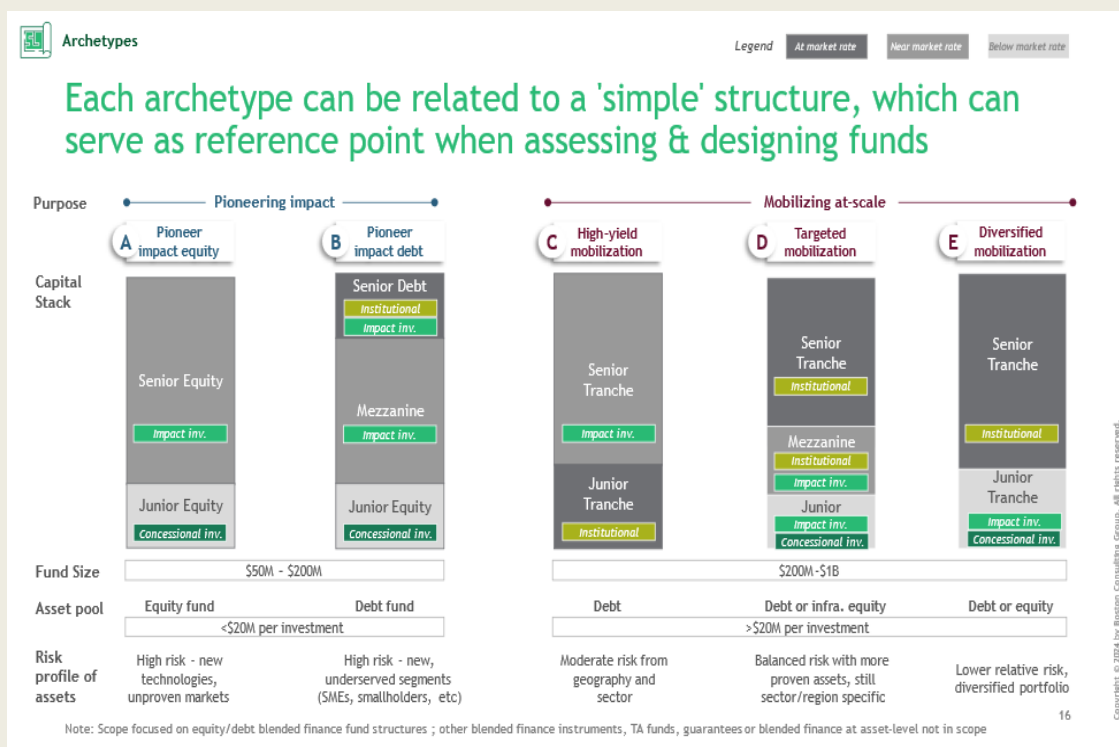
Without standardisation, blended finance funds and calibrating their required concessionality levels will remain fragmented, bespoke, costly to replicate, and difficult to benchmark. Consistent fund structures, harmonised legal documentation, and mutual reliance frameworks reduce transaction costs and create replicability, enabling these blended finance vehicles to truly scale.

Standardisation of blended finance fund structures

One of the most practical steps donors, DFIs, and fund managers can take is to standardise blended finance fund structures themselves. The current landscape is highly fragmented, with bespoke fund designs that create long structuring timelines, high transaction costs, and a lack of replicability (Center for Global Development, 2023^[35]). This makes it difficult for policymakers and practitioners to know how to set concessionality at the right level, or even to identify which fund type best fits their impact goals.

A recent paper by BII & BCG provides a useful reference point by mapping “archetypes” of blended funds to different objectives. For example, “pioneering impact” funds, which are designed to channel concessional capital into high-risk, early-stage markets, versus “mobilisation at scale” funds, which aim to crowd in large volumes of institutional capital in more mature markets (BII & BCG, 2024^[63]). By using simple archetypes as reference structures, fund designers can more easily align purpose, risk appetite, and asset profiles with concessionality levels that are defensible and targeted. These archetypes can be found below in Box 11.

Box 11. BII ‘Archetypes’ of Blended Finance Funds



The chart illustrates that funds targeting early-stage or frontier markets (left side) require deeper concessionality through junior equity or first-loss tranches, to help absorb oversized risks and make projects bankable. In contrast, funds seeking to mobilise at scale (right side) rely on senior-rated tranches and thinner layers of concessionality to attract institutional investors such as pension funds.

While recognising that no single structure fits all market contexts, adopting standardised archetypes offers a practical way to bring greater coherence and comparability to blended fund design, helping ensure that concessionality levels are appropriately aligned with each fund’s specific purpose and risk profile.

Source: (BII & BCG, 2024^[63]).

Standardising these fund structures into a handful of “reference models” helps donors avoid reinventing the wheel for each fund and provides private investors with a clear understanding of how risks and subsidies are allocated (BII & BCG, 2024^[63]). Crucially, it also makes concessionality easier to benchmark, ensuring subsidies are neither excessive nor insufficient, helping to create a streamlined process during the structuring decision making phase of fund creation.

Standardisation of fund structuring processes

Beyond the structures themselves, standardising fund structuring frameworks, including legal documentation, due diligence processes and project terms will be essential in better pooling scarce resources and in ensuring concessionality levels are applied consistently and efficiently. For example, despite greater calls to pool funds, a World Bank study found that during 2012–19 only 17% of official finance to governments was provided through pooled funds (World Bank, 2022^[64]).

With blended finance funds already often being too delayed by bespoke negotiations and duplicative processes, with each donor, DFI or private investor requiring its own set of risk-sharing contracts, reporting templates, and legal terms, streamlining this process will be essential. Harmonising these elements would not only reduce transaction costs, but would also create clearer benchmarks for how and when concessionality is deployed. For example, pre-defined risk-sharing agreements will help to speed up structuring while clarifying each party’s risk-return profile (Sustainable Markets Initiative, Investor Leadership Network, 2024^[37]). Moving away from this project-by-project style, to more consolidated approaches, including multi-donor blending platforms or joint subsidy pools, would reduce the need for fragmented, one-off negotiations and allow concessional resources to be deployed at scale (One Planet Lab, 2021^[65]).

Finally, mutual reliance frameworks between larger DFIs and MDBs offer a promising model to streamline and optimise concessionality levels across blended finance structures. Earlier this year, the IFC and EBRD signed a mutual reliance framework – an agreement to rely on one another’s due diligence and project documentation to help reduce duplication, accelerates timelines, and makes subsidy allocation more transparent. The EBRD has also recently signed similar mutual reliance frameworks with the European Investment Bank (EIB & EBRD, 2025^[66]) and the Council of Europe Development Bank CEB to better streamline processes for development projects outside of the EU (CEB & EBRD, 2025^[67]), in a more concrete step to delivering system wide cooperation amongst MDBs under the G20 Roadmap towards Better, Bigger and More Effective Multilateral Development Banks (G20, 2024^[68]).

When DFIs and MDBs trust and adopt each other’s frameworks, they lower the burden on private investors, who are otherwise faced with complex, sometimes conflicting requirements, creating a more predictable environment for concessional capital deployment. In this way, standardisation not only reduces friction and costs but also ensures concessionality is consistently tied to market failures and development outcomes, rather than dissipated through inefficiencies in process.

Aligning public and private actors in fund design and in concessionality structuring

Structured funds are typically deemed to be more complex than conventional private market vehicles due to more complex and detailed partnership agreements between GPs and Limited Partners, driven by the diverse and sometimes conflicting objectives of investors. As such, blended finance funds work best when

public and private actors are aligned, combining donor risk appetite with private sector structuring expertise.

Although private sector actors have long-standing complaints that co-investing with DFIs is costly and slow (McHugh, 2021^[50]), involving private managers more early in fund design allows market pricing, pipeline development, and streamlining. This can reduce costly renegotiations later in the process, ensure tranche sizes are aligned with investor demand, and help donors calibrate concessionality at the “minimum necessary” level rather than overshooting. In blended funds, the GP’s expertise plays a critical role as they must possess the structuring knowledge to design the fund, accurately assess perceived risks, and implement appropriate risk mitigation strategies. Beyond this, GPs are responsible for conducting thorough due diligence and demonstrating the technical expertise necessary to identify viable opportunities. Bringing GPs in at the outset also allows funds to draw on their deep market knowledge, quantitative modelling expertise and established relationships with commercial investors, capabilities that donors often lack. Evidence from Amundi, for example, highlights how sophisticated risk-modelling and portfolio construction by private managers can optimise fund design while keeping concessionality tightly aligned with market realities (Amundi, 2025^[27]). Ensuring that GPs not only co-design but also execute investment management can therefore make blended funds more efficient, credible, and attractive to commercial investors.

At the same time, DFIs and MDBs must adapt their operating models and better recognise the institutional differences in size and capacity shape how concessionality can be deployed in practice. Smaller DFIs, for example, may lack the internal resources to structure and manage complex tiered vehicles, while larger institutions are better positioned to absorb early losses or anchor junior tranches. Recognising this asymmetry is essential to avoid one-size-fits-all expectations and to ensure concessionality is applied proportionately to institutional capacity. For example, DAC development agencies, which provide grant-based or soft-loan concessional finance rather than investing their own balance sheets, face a different set of constraints and mandates than DFIs and MDBs, who can provide non-concessional finance sourced generated from their balance sheets. This means their role in structuring concessional layers, setting subsidy levels, and partnering with private fund managers must be calibrated differently to reflect their fiduciary rules, political accountability, and limited risk-bearing capacity.

Additionally, DFIs and MDBs should move away from an “originate-to-hold” to an “originate-to-share” model, allowing them to focus on their core strengths, such as early-stage origination, risk assessment, and ESG due diligence, while freeing up balance sheets for new projects (Center for Global Development, 2023^[35]). In practice, this means originating deals, sharing them with private co-investors (via funds or bond issues), and then exiting. Doing so multiplies the number of projects DFIs and MDBs can support, while also further building an evidence base for concessionality levels across blended finance funds. Evidence suggests that this shift not only reduces co-investment transaction costs among DFIs and MDBs, but also lowers information costs for private investors (Center for Global Development, 2023^[35]). Larger institutions may continue to pioneer in-house fund management, while smaller DFIs can pool assets into regional or multi-DFI funds, or outsource fund management to private actors, thereby reaching scale more efficiently. In both cases, concessionality can be applied more strategically at the portfolio level, where its leverage is greatest. More collaborative design between donors, DFIs, and private investors from the beginning would not only help reduce costs and delays but also ensure that concessionality is deployed where it is most catalytic, including through creating demonstration effects, crowding in private capital, and ultimately maximising mobilisation.

Matching credit enhancements and risk mitigation tools to fund design context and flexibility

Matching supporting credit enhancement facilities and risk-mitigation tools to the context of fund design is critical to ensuring that concessionality is deployed effectively. In practice, this means tailoring risk-sharing instruments, including guarantees, FX facilities, and securitisation strategies, to the development objective, sector, and geography of the fund (OECD, 2018^[1]). For example, funds operating in high-risk markets with significant currency volatility require more than just first-loss protection: they depend on foreign-exchange hedging facilities to ensure predictable returns for senior investors (OECD, 2025^[25]). By encompassing such tools, blended finance funds can reduce the level of concessional capital needed to compensate for macroeconomic risks, thereby preventing over-subsidisation while still ensuring private sector participation.

At the same time, flexibility and adaptability in fund design are vital. The GAIA fund illustrates how multiple catalytic facilities, each tailored to a specific risk context, can minimise the need for excessive subsidisation of junior tranches. Instead of relying solely on a large first-loss cushion, GAIA deploys a portfolio of risk-mitigation tools: a USD 300 million second-loss guarantee facility, a reserve account to absorb early losses, an FX hedging mechanism to facilitate local currency lending, and a technical assistance window to strengthen project origination. This layered approach provides flexibility to address diverse risks - currency volatility, origination challenges, or climate-specific uncertainties - while ensuring that concessionality is applied only where it delivers the greatest leverage. By spreading catalytic instruments across governance, financial, and operational levels, GAIA reduces over-subsidisation of the capital stack and creates a more efficient structure that can help ensure concessionality is sized correctly.

Seeking investment-grade senior tranches

Credit ratings play a critical role in enabling institutional investor participation in blended finance funds. With institutional investors holding vast pools of largely untapped private capital, they remain critical actors to mobilise in order to help fill the USD 4 trillion annual financing gap for the UN Sustainable Development Goals in EMDEs (OECD, 2025^[69]). Although the process of securing a rating is often costly and time-intensive, evidence shows it is a decisive step in mobilising large-scale private capital. Obtaining a Moody's A2 credit rating for the senior tranche of its EAAIF was central to attracting pension funds and insurers, whose investment mandates are bound by regulatory requirements. This enabled the fund to access a broader pool of investors who otherwise would have been excluded due to prudential regulation. Although rating agencies are often criticised for being overly conservative in their assessments of blended structures, a stronger and more consistent engagement with them is essential for expanding flows of private finance to emerging markets ((Environmental Finance, 2025^[70]).

From a concessionality perspective, securing a fund rating does more than mobilise capital - it ensures that scarce subsidies are targeted efficiently. Without a recognised rating, blended finance funds face higher hurdles to attract commercial investors, raising the risk that concessional tranches must be oversized to compensate for perceived uncertainty. Ratings can help right-size concessionality by providing an independent validation of risk and recovery potential, reducing the need for excessive first-loss or return-enhancement provisions. In this way, ratings not only unlock institutional participation but also calibrate the level of subsidy required, ensuring concessional capital is used where it is most catalytic rather than where it is merely filling information gaps.

Achieving Minimum Efficient Scale in Fund Size

Finally, the capital size of the fund plays an important role in whether or not institutional investors can get involved. Evidence from Convergence and OECD datasets indicates that larger blended finance funds, particularly those exceeding USD 500 million, consistently achieve higher leverage ratios and stronger mobilisation outcomes, due to their ability to diversify risk, attract institutional investors, and reduce transaction costs per dollar deployed. Conversely, the current abundance of small sub-scale vehicles (<USD 100 million) often results in weaker mobilisation and leverage ratios where concessional resources are spread too thinly to deliver meaningful impact at scale. Donors and DFIs should therefore prioritise consolidation and scaling of existing vehicles rather than creating numerous small funds, aiming to achieve a “minimum efficient scale” threshold above USD 500 million wherever feasible. This would enhance market visibility, standardise fund governance, and ensure that concessionality is applied in a way that maximises mobilisation potential, crowding in institutional investors who require size and liquidity before committing capital.

5. Future Outlook and Steps Moving Forward

Understanding the “right” level of concessionality for structured funds is vital to scaling blended finance to the necessary level. The analysis in this report points out that there remains limited quantitative benchmarks to setting the appropriate concessionality level – both by geography and sector – but also by the specific tranche-level. Without an evidence-base, donors and fund managers must rely on conservative assumptions. That can produce two painful ‘errors’: under-subsidisation that renders funds unbankable, and over-subsidisation that wastes scarce public resources and discourages private participation. The remainder of this chapter sets out a pragmatic path to build the evidence base and operational tools needed to calibrate concessionality across contexts.

Short-term

Developing a Reference Framework for Concessionality Setting

A critical priority is to move beyond ad hoc judgement and towards a shared, evidence-based framework for calibrating concessionality across different markets, sectors and risk contexts. One promising pathway is the development of a reference table for concessionality in structured funds, using data based on a CRS sample of official development finance interventions in structured CIVs. While such a table would not be prescriptive, it could provide an important point of reference for donors, DFIs, MDBs and fund managers when sizing first-loss tranches and other concessional features.

A dedicated research project, led through the DAC Community of Practice on Private Finance for Sustainable Development (CoP-PF4SD) and the DAC Working Party on Development Finance Statistics (WP-STAT) could be proposed to systematically document and analyse observed levels of concessionality in structured collective investment vehicles. The project would focus on concessionality deployed by official development finance providers, including the size and role of junior or first-loss tranches, the terms and conditions of official finance across different tranches, and the overall share of public capital within fund structures.

Building on existing OECD DAC Creditor Reporting System data, the project would construct a representative sample of official development finance interventions in structured CIVs. Using this sample, it would develop a disaggregated reference table showing observed ranges of concessionality by geography and sector, and where feasible, by fund type and risk profile. Rather than defining “required” subsidy levels, the table would document what has been deployed in practice, helping policymakers and practitioners benchmark new transactions against historical experience and identify outliers that may signal under- or over-subsidisation. This would include an assessment of parameters already captured, such as grant equivalents, financial terms, and the role of concessional tranches.

Over time, such a reference framework could serve as a common analytical anchor for concessionality decisions, much as country risk classifications have done in other areas of official development finance. While it would not necessarily eliminate uncertainty or replace judgement, it would significantly reduce reliance on worst-case assumptions, support more proportionate risk-sharing, and enable concessional capital to be deployed more strategically and efficiently across frontier markets.

Common concessionality reporting template

Building on the reference framework for concessionality setting, a next step could be the establishment of a Concessionality Benchmarking Taskforce. This Taskforce could convene bilateral donors, MDBs, DFIs, fund managers, rating agencies, and selected private data providers, including Convergence for example, to agree on a minimum common concessionality reporting template and disclosure protocol for tranche-level concessionality information. Reporting template efforts are currently pursued by the Hamburg Data Alliance, and alignment should be sought on the reflection of concessioanlit. The objective would not be to impose uniform structures, but to ensure that core information relevant to subsidy sizing is collected and defined consistently across providers.

A key early output would be agreement on a limited and feasible set of tranche-level data fields that could be shared immediately, using anonymised or aggregated reporting where necessary to protect commercial confidentiality. These could include, for example: tranche name and seniority, tranche size, type and notional amount of concessional support, currency denomination, expected loss or stress assumptions used during structuring, senior tranche return targets, and realised loss data where available. Over time, this dataset could be expanded as reporting practices mature and confidence in disclosure increases.

Long-term

Build a 'Concessionality Observatory'

In the longer term, insights generated through benchmarking could be more easily institutionalised through the creation of a Concessionality Observatory. Hosted or coordinated by the OECD, the Observatory would serve as a central platform for analysing, synthesising and disseminating evidence on how concessionality is deployed in structured funds (amongst other blended finance vehicles and leveraging mechanisms) across different geographies, sectors and risk contexts.

The Observatory could publish annual anonymised benchmark tables showing observed concessionality ranges by country group, sector and fund type, alongside case studies illustrating subsidy per mobilised USD, leverage ratios and risk-sharing outcomes under standardised scenarios. These case studies would help demonstrate how different sizes of first-loss tranches have performed in comparable infrastructure or SME finance funds across regions for example, helping practitioners assess whether subsidies are proportionate to the risks addressed. Over time, this would help shift concessionality decisions from being primarily judgement-based to being informed by a more robust evidence base.

Institutionalise benchmarking and transparency incentives

To ensure sustained participation and data quality, concessionality benchmarking should be supported by clear institutional incentives. For example, donors and development finance providers could progressively link concessionality disclosure to eligibility for certain pooled donor facilities, co-investment platforms or structured fund support programmes. More robust disclosure could also be made a condition for accessing technical assistance for fund structuring or design.

Such incentives would signal that transparency on concessionality is not an optional add-on, but a core component of responsible use of scarce public finance. Over time, this could help normalise disclosure

expectations across the blended finance ecosystem, reduce information asymmetries between public and private actors, and improve accountability for how subsidies are deployed.

Conclusion

Blended finance funds are a critical instrument for crowding in private capital and maximising development outcomes, particularly as traditional ODA budgets face mounting pressure and are being reimagined in the face of fiscal tightening. In this environment, every concessional dollar counts. This report demonstrates that when concessionality is carefully calibrated and funds are well-structured, blended finance can transform scarce public resources into powerful levers for mobilising private investment at scale. At the same time, models such as ILX demonstrate that when risks are clearly understood and data is transparently shared, it is possible to mobilise private investors without drawing on concessional first-loss capital at all.

Yet significant challenges remain. Data gaps, risk misperceptions, fragmented donor priorities, and complex structuring continue to undermine the efficiency of concessionality in many funds. This report has outlined several policy priorities to address these barriers: enhancing transparency and data accessibility, standardising fund structures and legal documentation, aligning public and private actors more closely in fund design, matching risk mitigation tools to context, and achieving minimum efficient fund sizes to ensure scale and liquidity. Together, these measures offer a coherent roadmap for donors to strengthen the effectiveness, replicability, and mobilisation impact of structured funds. Pursuing these steps will help ensure concessionality is sized correctly and in ensuring public finance remains a scarce and strategic tool rather than a default requirement. Aligned with calls from the 4th International Conference on Financing for Development, the G20, and ongoing MDB reform efforts, advancing mobilisation at scale through instruments such as structured funds is not only a critical policy objective, but a global necessity for financing sustainable development.

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