ODI Global

Working Paper

Concessional but catalytic? Insights on DFI blended concessional finance practice

Samantha Attridge and Frederique Dahan, with Bianca Getzel

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Key messages

With aid budgets under strain, it is essential that concessional finance deployed by Development Finance Institutions (DFIs) as part of their operations is used well. In depth case studies offer practical insights on current practices and policy implications to strengthen blended concessional finance (BCF) deployment and deliver the highest possible value for development through greater transparency, better targeting, and closer alignment with sectoral and institutional realities.

DFIs demonstrate financial additionality in their own account investment, but the rationale for subsidy is often weakly evidenced. Clearer justifications and robust assessments of concessionality are needed to judge if subsidies are being optimised.

Often BCF focuses on individual transactions. Greater emphasis on comparative advantage, system-level coordination and

demonstration effects could facilitate sustainable private investment and support market transformation.

Transparency would unlock learning, inform strategy and promote better practice across the BCF ecosystem. Yet limited disclosure and reluctance to share project-level information ex ante and ex post continue to constrain accountability, coordination and evidence-based improvement. This must change.

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About the authors

Samantha Attridge is Director of the Centre for Private Finance in Development and a Principal Research Fellow at ODI Global. She specialises in blended finance, public development bank (PDB) and development finance institution (DFI) investment. She has deep understanding and knowledge of the use of development funds to de-risk private investment to mobilise private finance, and of the strategies, operations and impact measurement and management of PDB and DFI investment. Between 2009 and 2016, Samantha was Head of Development Finance at the Commonwealth. Prior to that, she was the Deputy Director of Sovereign Debt Management and Capital Market Development consultancy at Crown Agents. She holds a Master's degree in Development Economics from the School of Oriental and African Studies. She is also a Chartered Accountant with the Institute of Chartered Accountants in England and Wales and qualified with PricewaterhouseCoopers.

Frederique Dahan is Director of the Development and Public Finance programme at ODI Global. Her research interests include blended finance and private sector mobilisation, local currency lending and borrowing, and sovereign debt restructuring. Prior to joining ODI Global, Frederique spent two decades at the European Bank for Reconstruction and Development, working first on policy engagements in the financial sector (with a focus on law, regulation and institutions) and subsequently in the Financial Institutions Banking

Department. There, she led the Grant Management Team in charge of mobilising, deploying and reporting on concessional finance, specially blended finance programmes, and engaged with donors such as the European Union (EU), Swedish International Development Agency (Sida) and the United States Treasury. Frederique holds a PhD in Comparative Law from the University of Paris Pantheon-Sorbonne and is a qualified lawyer in France.

Bianca Getzel was formerly a Senior Research Officer at ODI Global and currently works at The Currency Exchange Fund (TCX).

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Abbreviations and acronyms

BCF	blended concessional finance
C&I	commercial and industrial
DFI	development finance institution
EU	European Union
FI	financial institution
FX	foreign exchange
GDP	gross domestic product
IPP	independent power producer
IRR	internal rate of return
kWh	per kilowatt hour
KYC	know your customer
LCY	local currency
LMIC	low- and middle-income country
MDB	multilateral development bank
NDB	national development bank
ODA	official development assistance
PPA	power purchase agreement
PV	photovoltaic
SME	small and medium-sized enterprise
SPV	special purpose vehicle
SSA	sub-Saharan Africa
SWF	sovereign wealth fund
TA	technical assistance

Executive summary

Official development assistance (ODA) fell by 9% in 2024, with a further 9%–17% decline projected for 2025 (OECD, 2025). With global aid budgets under pressure, development finance institutions (DFIs) and donors must do more with less.

This heightens the urgency of ensuring that blended concessional finance (BCF) is used strategically, transparently and with maximum catalytic impact – a concern that precedes the current aid crisis. While BCF has long been seen as critical to unlock private investment in high-risk markets, questions have persisted about whether it is being deployed in ways that truly maximise additionality and reinforce markets.

A substantial body of literature outlines the conceptual foundations, guiding principles and theoretical potential of BCF. In theory, BCF can help overcome market failures, unlock capital for underinvested sectors and accelerate the development of nascent markets. Yet, in practice, there is limited systematic evidence on how BCF is being deployed, under what conditions it delivers financial additionality, and how it supports broader market transformation. Further, this study reveals differing interpretations of the purpose and guiding principles of BCF, particularly the principle of market reinforcement. One interpretation focuses on enabling individual transactions without distorting markets, but does not necessarily aim to reduce subsidy dependence over time. A broader interpretation sees BCF as a transitional tool to support market development, with the expectation that concessionality should become unnecessary in the long term.

This working paper fills a knowledge gap between high-level frameworks and operational practice. It draws on nine anonymised case studies from sub-Saharan Africa (SSA) across three sectors: renewable energy, financial institutions (FIs) and agricultural value chains. The paper focuses not on evaluating project impact, but rather on analysing how and why BCF was deployed, the structure of the investment, and whether its use aligned with core principles such as financial additionality, minimum concessionality, commercial sustainability and reinforcing markets. While not necessarily representative, the findings provide valuable insights into current practices, highlighting where BCF seems effective and where practice could be improved.

Across these case studies, DFIs demonstrated an ex-ante focus on development impacts at the project level. With the exception of one

case, there is evidence that the DFI's participation was financially additional – that is, the DFI provided financing that was not available from commercial sources on terms that met the client's needs. However, the picture is less clear for the concessional component. While BCF often appears to have been instrumental in getting deals across the line, it has not been possible in all case studies to verify how the level of subsidy was determined or whether alternative structures were considered. No stakeholders raised concerns about DFIs crowding out commercial finance through BCF, but the unique justification for concessionality is rarely documented as a distinct decision layer.

These findings underscore the importance of separating development rationale and DFI financial additionality from the specific need for subsidy, and they call for more robust scrutiny of subsidy decisions, particularly in comparison to other subsidised public programmes. More importantly, DFIs appeared to give limited attention to the market context in which the transaction took place, and how such a transaction was expected to reinforce that market over time, together with the interventions of governments and other development partners.

Drawing on the case studies, this working paper highlights several operational insights:

1. **Transparency remains a foundational challenge.** Persistent data gaps and limited disclosure from DFIs ex ante and ex post of a transaction undermine accountability, make it difficult to assess additionality and benchmark subsidy levels, and constrain shared learning. Greater transparency on BCF transactions would enable DFIs to benchmark, coordinate and adapt. Enhanced transparency should be viewed as a strategic enabler for both market development and institutional credibility.

2. **Concessional finance is too often bespoke, ad hoc and isolated.** Most deployments are tied to individual investments rather than embedded within longer-term market-shaping strategies. This limits the potential for systemic change. In some sectors, BCF is frequently used to address project-level risks rooted in deeper policy or institutional shortcomings. While BCF can be a useful bridging tool, its systemic impact will remain limited without parallel efforts to advance structural reforms led by national governments. One overlooked dimension of systemic impact is coordination between DFIs and bilateral donors, who often run parallel efforts to support policy reform and improve investment climates in fragile or underdeveloped markets. While not all DFIs have the mandate or tools to drive systemic change alone, stronger collaboration across the DFI ecosystem can help ensure that transaction-level support contributes to broader market development.

Encouragingly, some smaller DFIs, such as the Dutch DFI (FMO), are now adopting this perspective within their strategic frameworks.

3. **Demonstration effects are often assumed rather than evidenced.** DFIs frequently present BCF as a tool to catalyse market development. Yet, in practice, success is typically framed around the firm- or project-level impacts of getting the investment 'done'. Among the case studies, few investments included mechanisms to track or enable replication. Without intentional efforts to support market-wide learning, there is a risk that demonstration effects remain rhetorical.

4. **BCF could make greater use of market-based mechanisms.** Expanding the use of competitive allocation mechanisms (such as tenders, auctions or open calls) can, in a transparent manner, reveal the minimum subsidy needed to crowd in private capital, and enhance value for money. Greater standardisation of instruments and terms would further support transparency, enable comparability across transactions, and make it easier for the private sector to engage. While not suitable for all contexts, such approaches are particularly relevant in sectors amenable to standardisation and they can complement bespoke structuring in higher-risk markets.

5. **Targeting can be improved to better match market needs and gaps.** BCF is not always deployed where it is most catalytic. In renewables, it often subsidises projects through their entire lifecycle, including low-risk operational phases, rather than targeting early-stage gaps. In financial sectors, products may fail to reach intended underserved segments due to poor alignment with bank capacity or market conditions.

6. **Risks to competitive neutrality persist.** In some markets, concessional support is concentrated among a handful of players or it is not disclosed transparently. This creates the potential for distortive competition and makes it harder for competitors to enter the market. Greater use of market-based mechanisms to allocate BCF can support the development of competitive and well-functioning markets.

The paper concludes with emerging policy implications. This includes the need to: strengthen transparency as a foundation for better practice; sharpen the rationale for subsidy; focus concessional finance where risks are highest; better link project concessional support with market development and reinforcement; and greater use of market-based mechanisms which can enhance the transparency and efficiency of concessional resource allocation.

While the sample size is modest, the case studies offer a rare window into how BCF is being operationalised, and they highlight important opportunities to improve effectiveness. These reflections are intended

to inform ongoing discussions on how to ensure that concessional resources are maximised to support sustainable development.

1 Introduction

> ‘If there is one silver lining [to the current development funding crisis] […]: it has focused the entire development community on: what are the highest priority interventions? What is the highest impact we can put our scarce resources to use against?’
>
> Mark Suzman, CEO, The Gates Foundation[1]

BCF is the use of concessional funds alongside DFIs’ own account finance to develop private markets and mobilise private capital.[2] It has emerged as a prominent tool to mobilise private capital into risky sectors and markets or where external factors discourage investment flows towards development goals. BCF generally means that financing is provided where usually it would not be available at all, or on terms more favourable than those available in the market, typically involving some form of subsidy.[3] It bears many promises: to make pioneering investments viable, to catalyse and reinforce markets, and to crowd in private investment where it would not otherwise flow. It is seen as a temporary (but potentially only in the medium term) solution, with commercial financing expected to ultimately flow directly.

Despite lofty ambitions, however, relatively little is known of BCF. In 2021, the most recent year for which data is available, multilateral development banks (MDBs) and DFIs[4] supported $13.4 billion in project investments using $1.9 billion in concessional finance. These projects mobilised $4.6 billion in private finance, and included $5.3 billion in DFI own account investments and $1.9 billion in concessional finance, with additional contributions from other concessional ($0.7 billion) and public commercial ($0.9 billion) sources (DFI Working Group, 2023). This translates to a leverage ratio of 64 cents on the dollar[5] (Appendix 2). It represents only a small fraction of the total volume of all DFI private sector projects financed

[1] ‘Development funding is in crisis. What now? With Mark Suzman, the FT Economics Show podcast, published August 4th, 2025.

[2] The DFI Working Group defines BCF as ‘combining concessional finance from donors or third parties alongside DFIs’ normal own account finance and/or commercial finance from other investors, to develop private sector markets, address the Sustainable Development Goals (SDGs), and mobilize private resources’ (DFI Working Group, 2023: 59).

[3] This may include below-market-rate loans, equity with softer terms, grants (e.g., for technical assistance) or more flexible conditions such as longer tenors, extended grace periods or reduced collateral requirements.

[4] Hereon in, ‘DFIs’ is used in this paper to also include the private sector operations of MDBs.

[5] Calculated as private capital mobilised, divided by the total amount of concessional finance and DFI own account investment. DFIs would normally calculate leverage differently and include themselves as being mobilised by the concessional finance. See Appendix 2 for the different leverage calculations. For further discussion on interpretative and calculation issues see Attridge and Engen (2019).

each year (13%),[6] highlighting the limited scale at which BCF is currently deployed relative to broader DFI operations.

Since 2017, DFIs have endorsed a shared set of enhanced BCF principles to govern the use of BCF in private sector operations (DFI Working Group, 2023). These principles stress the importance of additionality, crowding in and minimum concessionality, commercial sustainability, reinforcing markets and promoting high standards.

While these principles provide a strong normative anchor, far less is understood about how BCF is being operationalised in practice. The mechanisms by which BCF crowds in private capital, under what conditions it delivers financial additionality, and its contribution to broader market development are widely theorised and espoused, but they are not well evidenced. Particularly in the context of declining overseas development assistance (ODA) budgets, it is essential to understand when BCF genuinely mobilises private capital and/or contributes to market development, when it simply subsidises investments that would have happened anyway or that are unlikely to take place in the future without subsidies, or when it simply provides a competitive advantage to the DFI.

This study addresses a critical gap in knowledge and evidence. It focuses on the financial additionality of BCF based on concrete, real cases, examining when BCF successfully crowds in private investment and when it is less effective. The working paper also explores, as much as the available data has enabled, the pathways to commercialisation: the extent to which blended interventions help reduce reliance on subsidy and build markets that can ultimately attract private capital at scale.

This study highlights important differences in how DFIs interpret the purpose and guiding principles of BCF, particularly the principle of market reinforcement. These differences have significant implications in a context of constrained aid budgets, where ensuring the catalytic and sustainable use of concessional resources is increasingly important. One interpretation focuses on enabling individual transactions without distorting markets, but does not necessarily aim to reduce subsidy dependency over time. A broader interpretation, adopted in this study sees BCF as a transitional tool to support market development, with the expectation that concessionality should become unnecessary in the long term.

The analysis is grounded in nine case studies from SSA in selected sectors (see Table 2 in Section 3 for a summary, and Appendix 3 for the full case studies):

[6] DFIs deploy over $60 billion annually across LMICS. When concessional finance, DFI own-account investments and other public contributions are included, the total project volume likely exceeds $100 billion (DFI Working Group, 2023).

- three in renewable energy focused on utility-scale independent power producers (IPP) and commercial and industrial (C&I) sub-sectors[7]
- four in financial institutions (FIs) to support small and medium-sized enterprises' (SME) access to finance, trade finance and agri-finance
- two in agri-value chains.

These sectors are at the heart of inclusive and climate-resilient growth strategies, yet they remain chronically underinvested due to high perceived risks, weak institutions and limited financial infrastructure. The choice of a case study approach comes from the fact that DFI reporting on BCF remains high level and aggregated, and it does not include the granularity necessary to understand the financial additionality of BCF. The cases offer granular insight on how BCF instruments have been deployed at the transaction level, what structuring choices have been made and how they interacted with the broader market context. They provide a rich empirical basis to explore both the potential and the limitations of BCF approaches as they are currently applied.

This study comes at a critical juncture. Aid budgets are under mounting pressure, with global ODA falling by 9% in 2024 and further reductions of 9%–17% projected for 2025 (OECD, 2025). There is a growing sense that aid may have reached its peak. The adopted outcome document of the Fourth Conference on Financing for Development in Sevilla in July 2025 refers to blended finance, in particular calling for 'effective and replicable, scalable blended finance structures and instruments for different country contexts, based on lessons learned, best practices and existing efforts towards harmonization, as appropriate' (UN, 2025: 14).

As DFIs and donors look to do more with less, there is a pressing need for evidence on what works, where and why. This study contributes to that conversation. It sheds light on the practical use of BCF and offers grounded insights into how BCF can be deployed more strategically in the years ahead.

Conducting this study surfaced important methodological and data-related challenges that reflect wider limitations in the BCF field. There is a persistent lack of transparency around concessional finance transactions, which makes it difficult to understand how the DFI principles have been operationalised and the ex-post impact of transactions. Key information such as subsidy amounts,[8] risk-sharing arrangements and DFIs' internal rationale for deploying concessional

[7] The case studies do not cover the off-grid sector, which tends to focus on energy access issues often targeting households or micro-enterprises.

[8] A notable exception is the International Finance Corporation (IFC) which, since 1 October 2019, publicly discloses transactions that benefit from BCF, the subsidy as a percentage of project cost, the rationale for concessionality and the expected development impact (see Box 2).

finance is often incomplete, inconsistently reported or not disclosed publicly. In many cases, publicly available documentation is limited to high-level summaries, which offer little insight into the use or justification of concessional elements.

These issues were compounded by a broader reluctance among some DFIs to speak with the study team about individual transactions. While many DFIs expressed broad support for the study's objectives, several declined to comment on specific cases or share documentation, citing confidentiality concerns or institutional sensitivities. As a result, the analysis relied heavily on triangulating limited public data, interpreting investment structures and inference. These limitations underscore the ongoing opacity in BCF and reinforce the case for improved transparency, disclosure standards and evaluative rigour across the BCF ecosystem.

Section 2 outlines the common structural challenges that BCF seeks to address across the three sectors and the theoretical role of DFIs in doing so. Section 3 distils key insights on how DFIs apply core blended finance principles, drawing on the nine case studies. Section 4 explores emerging policy implications and Section 5 concludes.

2 The rationale of BCF and sectoral challenges

Drawing from existing literature and the case study evidence, this section outlines the common structural challenges that BCF typically aims to address in renewable energy (utility-scale IPPs and C&I), FIs and agri-value chains, and the important role of DFIs in tackling these issues. In doing so, it sets out the rationale for BCF: to crowd in private investment where market failures, institutional gaps or risk perceptions otherwise deter private capital flows.

Each sector presents distinct investment constraints, but common themes exist around limited financial intermediation and weak enabling environments. Understanding these underlying issues is essential to evaluating how, and how well, BCF is being used in practice.

2.1 Rationale for deploying BCF

Most private investors and banks require risk-adjusted commercial returns. However, in many low and middle-income countries (LMICs) investments often carry higher risk (whether actual or perceived) or they do not offer returns that match that risk. DFIs use BCF to improve this risk-return profile, either by: 1) de-risking the investment (through risk mitigation or risk transfer), which enhances creditworthiness, or 2) enhancing returns for the investor. In some cases, BCF could be used to enhance consumer benefits with the view of increasing the development impact of the transaction and the future of the sector.

Table 1 briefly outlines the rationale for deploying BCF and gives examples for the three sectors examined in the case studies.

It is important to note that BCF can be used by DFIs to de-risk their investment and enable their own participation in a transaction, which may then mobilise additional private investment.[9] DFIs can also use BCF to derisk private investors, while DFI participation is ensured entirely under own accounts, based on a DFI's internal risk management criteria.

Table 1 Rationale for deploying BCF

Rationale	Examples
Political and regulatory risk	Political and regulatory risk refers to the uncertainty investors face due to changes in government policies, regulations, or institutional behaviour that can adversely affect project outcomes. In infrastructure sectors, such as renewable energy, this risk is particularly acute. Investors may be deterred by concerns over regulatory stability, shifting tariff frameworks, or inconsistent enforcement of government commitments, factors that can undermine project revenues and long-term viability.
Project risk	Project risk is the risk that the project will not generate enough revenue to repay investors resulting in credit risk. Renewable energy infrastructure projects in early development or construction phases carry heightened uncertainty, particularly in countries with limited track records.
Business risk	In 'first-of-its-kind' transactions, where technologies or business models are

[9] DFIs are diverse. Their governance, objectives, business models and funding have differing implications for risk appetite and portfolio construction (Attridge and Novak, 2022). For example, DFIs that issue bonds and must maintain credit ratings typically have a lower risk appetite than those that do not. To manage this, they may use off-balance sheet concessional funds to reduce the financial risk they would otherwise bear when investing in transactions that fall outside their internal risk-return thresholds or capital adequacy requirements – thresholds that are aligned with maintaining specific credit ratings.

	untested in the local context, BCF helps offset the uncertainty of operational and commercial performance.
Counterparty risk	BCF is often deployed to cover the risk of counterparties (such as SMEs or state utility energy off-takers) defaulting on obligations.
Rollover risk	Rollover risk arises when borrowers rely on short-term financing but face uncertainty about their ability to renew or replace these loans upon maturity. In markets with shallow domestic capital, long-term financing is often scarce or prohibitively expensive, forcing businesses to depend on short-tenor borrowing. This exposes them to significant refinancing risk, particularly during periods of market stress or when lenders withdraw. Blended finance can help extend maturities by de-risking longer-term capital, reducing rollover risk and supporting more stable investment planning.
Liquidity risk	Liquidity risk refers to the challenge firms or financial institutions (FIs) face in accessing sufficient cash or financing when needed, particularly during periods of volatility, initial expansion, or market entry. In many LMICs , shallow debt and equity markets mean that investors may struggle to exit investments or refinance positions at the desired time. BCF can help address these constraints by providing liquidity support during high-risk phases or by enhancing exit options, thereby reducing uncertainty and enabling continued operations or investment flow in otherwise illiquid markets.
Foreign exchange (FX) risk	In many LMICs, FX risk is a key barrier, as revenues are often in local currency (LCY) while debt is in hard currency. BCF can help mitigate this by subsidising hedging costs, by acting as a swap counterparty or by offering concessional hard currency loans.
Enhance return of private investor	In the FI sector, DFIs can use concessional finance to incentivise FIs to expand lending to underserved SME segments. When pre-agreed impact targets are achieved, performance-based incentive payments effectively top-up returns for FIs. In the renewables sector, concessional subordinated debt or equity can be provided, which boosts expected senior lender returns.

Enhance consumer benefits	BCF can be used to reduce end-user tariffs by subsidising the upfront capital costs of infrastructure projects, such as renewable energy, thereby lowering the overall cost of service provision. This allows providers to offer more affordable tariffs to consumers while maintaining financial viability and expanding access to essential services.

Note: The typology for the risk rationale is borrowed and adapted from Lankes (2021).

The sub-sections that follow consider how BCF is being deployed to address challenges typically associated with each of the three sectors.

2.2 Renewable energy

Access to reliable, affordable electricity is a fundamental enabler of economic growth, industrialisation and private sector development. Yet energy systems in many SSA countries remain underdeveloped, unreliable and prohibitively expensive. Chronic power shortages and frequent outages hamper productivity, deter investment and increase operating costs for businesses. In this context, accelerating renewable energy deployment is essential not just for meeting climate goals, but for unlocking broader development gains.

Despite growing demand, utility-scale IPP renewable energy markets in the study countries face deeply entrenched structural barriers that hinder private investment. Chief among these is off-taker risk, particularly in markets where state-owned utilities have weak credit ratings, payment arrears and limited operational capacity. This is further exacerbated by inadequate transmission and distribution infrastructure, which limits the ability to evacuate power from generation sites and undermines project bankability.

Projects also face a financing challenge due to the lack of affordable, long-tenor financing in LCY. Renewable energy assets require large upfront capital investment with long payback periods. However, local capital markets are rarely equipped to offer the kind of long-term financing needed at viable rates. In turn, foreign currency borrowing exposes projects to significant exchange rate risk, especially in volatile macroeconomic environments.

In the C&I solar segment, energy insecurity is a major driver of demand for decentralised solutions. In SSA countries like Nigeria, businesses face some of the highest energy costs in the world, largely due to their reliance on diesel generators to compensate for unreliable grid supply. Diesel fuel is expensive and subject to price volatility, and generators are costly to maintain and operate. Solar photovoltaic (PV) systems offer a cheaper and cleaner alternative over time, but high upfront capital costs, small deal sizes and limited access to working

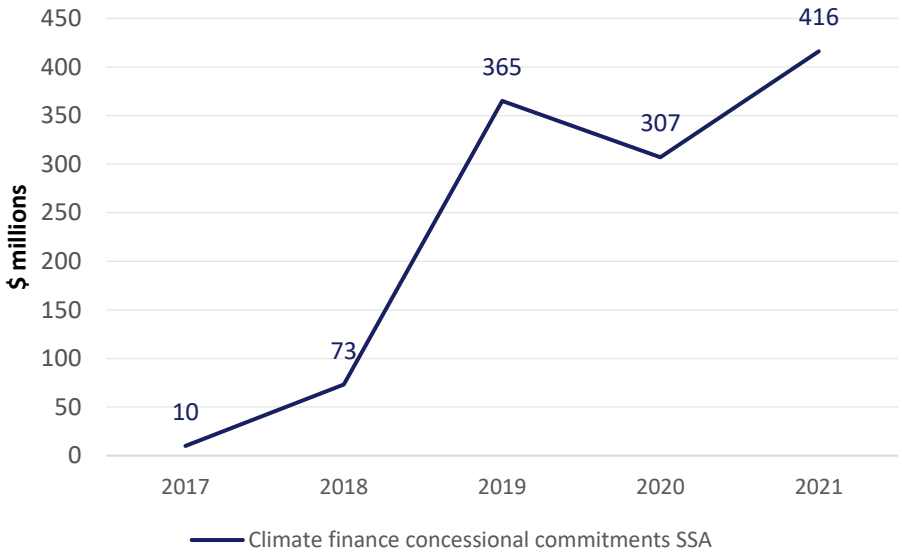
capital constrain the ability of firms to transition. Developers, in turn, face high transaction costs in aggregating small-scale systems into investable portfolios. Access to working capital and affordable debt is constrained by weak collateral frameworks, shallow local capital markets, and limited hedging instruments to manage FX risk.

Finally, the utility-scale solar market in Africa faces persistent barriers to growth, including limited institutional capacity, delays in approvals, non-bankable power purchase agreements (PPA) due to off-taker risk, and challenges securing grid access or capacity and land. While donor-backed subsidies can help build capacity and de-risk early projects, they may also introduce distortions, either by undercutting privately led initiatives or by setting price expectations that are not commercially replicable (BSW-Solar and Becquerel Institute, 2019).

Much BCF focuses on mitigating project-level risks, but many of these risks stem from broader policy or institutional weaknesses that constrain private investment over time**.** Here, the first-best solution would be structural reform supported by concessional support, rather than subsidy. However, building a reliable business climate and robust sector framework takes time. To address sector-specific risks in the interim, DFIs often deploy BCF to improve the risk-return profile of renewable energy investments. It can help get transactions ‘done’ and unlock investment by absorbing project risk (such as early-stage or construction risk), business risk (such as ‘first-in-kind’ investment) or even market and tenor risks through the provision of long-term LCY financing. Ideally, BCF should be part of a coordinated, programmatic approach to market-building, but in many cases it plays a transitional role while longer-term improvements to the business and regulatory environment are underway.

In line with the region’s needs, SSA has attracted the largest share of concessional commitments to climate finance in recent years (Figure 1). Between 2019 and 2021, an average of 39% of total climate finance concessional commitments were directed to SSA. In 2021 alone, SSA received $416 million in concessional commitments to climate finance (amounting to 41% of all climate finance concessional commitments).

Figure 1 DFI climate finance concessional commitments in SSA, 2017–2021



Source: *DFI Working Group on Blended Finance joint reports* (2017–2023, available at https://www.ifc.org/en/insights-reports/2020/bf-dfi-ifc-annual-reports).

Note: Disaggregated data on concessional commitments specific to renewable energy projects is not available. The closest proxy is data on climate finance concessional commitments, which encompasses investments supporting both mitigation and adaptation to climate change impacts. There is no data available beyond 2021.

2.3 FIs and SME lending

Access to finance for SMEs remains one of the most pressing development challenges in SSA. SMEs are widely recognised as the backbone of most economies, providing most employment opportunities and contributing significantly to gross domestic product (GDP). Yet in many countries, they continue to face limited access to formal finance due to a combination of real and perceived risks and high costs-to-serve.

The SME sector spans a spectrum rather than being a homogenous sector. At one end are start-ups with strong business ideas and often innovative prospects but fragile financial standing that require equity and venture capital injections. Serving these companies requires a strong risk appetite to be comfortable with early stage/first mover risks. Equity funds and venture capital companies are best placed to address this segment but unfortunately these are scarce, even in advanced economies (Botsari et al., 2024). At the same end of the spectrum are micro and informal enterprises. These represent the majority of enterprises in SSA but they can be challenging to finance because of their informality, and their lack of assets or credit history (AfPI and SMEFWG, 2020). At the other end of the spectrum are the most established SMEs that may feel comfortable applying for a loan.

Even for these, however, access to finance can be challenging, given high interest rates and fixed collateral requirements.

FIs, in particular banks, are well placed to serve the more established SME market: they have access to liquidity through deposits and operate networks of branches that allow wide outreach. But FIs often view SME lending as high-risk and high-cost. Borrowers can lack fixed collateral and have limited credit histories (particularly in SSA where most SMEs are micro in size, i.e., with fewer than 10 employees). As a result, banks impose stringent lending conditions, including high collateral requirements and high interest rates, which effectively exclude many SMEs from accessing finance. Even where demand for finance is strong, these lending conditions serve as a structural barrier, particularly for women-owned or small agricultural enterprises.

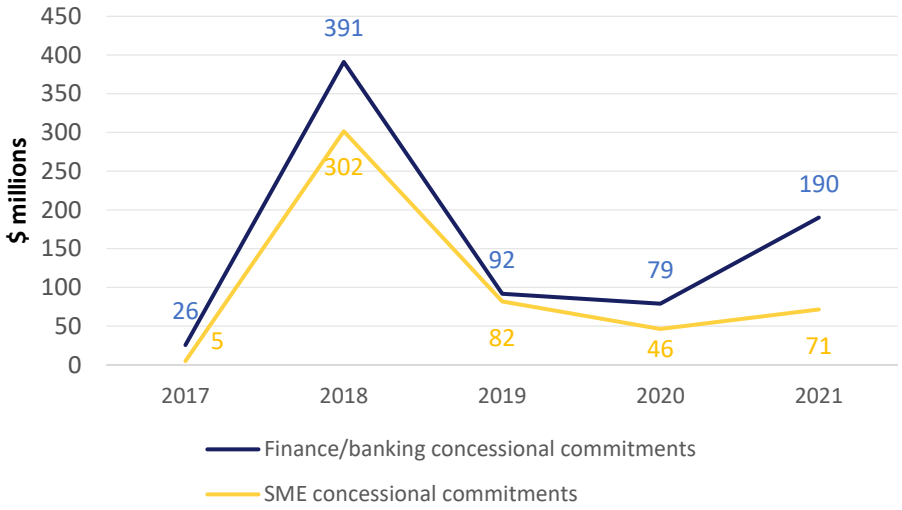
In many markets, these disincentives are exacerbated by broader macro-financial dynamics. Government borrowing often crowds out private sector credit, particularly where treasury bills and other sovereign instruments offer attractive returns with minimal risk. This leads banks to allocate capital towards safer assets rather than lending to SMEs, which further deepens the credit gap and constrains private sector investment and growth. Over the 2007–2022 period, private sector credit in SSA as a share of GDP fell from 56% to 37% (EIB, 2024).

DFI BCF is often used to incentivise commercial banks to expand their SME lending by addressing the credit risk of SMEs or by reducing the costs of SME lending, thereby enhancing the banks' returns. It seeks to incentivise FIs to lend to these risky market segments by providing long-term finance, unfunded guarantees, or technical assistance (TA) and incentive payments. Risk-sharing guarantee instruments are typically intended to reduce the perceived or actual risk of SME lending, with the goal of encouraging banks to lower collateral thresholds and, in some cases, reduce interest rates. In effect, this is expected to crowd in the private sector in two ways: one, through local commercial banks that now devote more of their capital resources to financing the SME sector, and two through the SMEs themselves that are able to engage their own resources together with the loan they have received towards the investment projects. DFIs' SME investments are also expected to create market demonstration and to build the skills for local banks to continue engaging in SME lending without subsidies or even DFI direct engagement over time. However, the effectiveness of these instruments depends on the design of the risk-sharing mechanism, the incentive structure for the banks for strategically engaging in SME lending, and the local regulatory environment.

Figure 2 shows that DFI operations in the banking sector are mostly SME-related. There was a significant but unexplained peak of DFI investments in 2018, which seems to have been an anomaly, probably driven by one or more unusually large transaction(s). Since that time,

the level has remained relatively constant at about 15% of DFI BCF operations in SSA (when excluding 2018).

Figure 2 DFI SME and finance/banking concessional commitments in SSA, 2017–2021



Source: *DFI Working Group on Blended Finance joint reports* (2017–2023, available at: www.ifc.org/en/insights-reports/2020/bf-dfi-ifc-annual-reports).

Note: Disaggregated data on concessional commitments specific to financial institutions and SME lending is unavailable. However, relevant data exists under two categories: the finance/banking sector and the SME theme. Finance/banking data encompasses financial markets, funds and trade finance activities and is broader than SME-specific initiatives. SME theme data includes projects targeting SMEs, such as credit lines and related investments. It includes all commitments to SMEs, not only financial institutions and lending.

2.4 FIs and trade finance[10]

Access to trade finance represents a further structural constraint for enterprises engaged in cross-border commerce. Local banks in many SSA countries struggle to establish relationships with international confirming banks, particularly when operating in jurisdictions viewed as high-risk. Concerns around country risk, counterparty exposure and Know Your Customer (KYC) compliance often deter global banks from accepting letters of credit or guarantees issued by local banks, as do the capital requirements from regulators for risk exposure to LMICs. The result is a persistent trade finance gap that limits import or export potential, even for otherwise creditworthy firms.

For many local banks it is prohibitively expensive to build relationships with international counterparties and maintain adequate compliance systems. This leaves enterprises including SMEs in LMICS underserved, particularly in high-potential sectors like agribusiness and light manufacturing.

[10] No trade finance-specific data exists to assess concessional commitment trends in SSA through the years. Trade finance is included within Figure 2 on finance/banking commitments.

DFIs play an increasingly important role in trade finance facilitation by offering guarantees or cash advances to the local issuing banks, thereby overcoming the structural barriers for the confirming banks to engage in a transaction. In some situations where the risk is deemed too high for the DFI, BCF has been deployed to reduce the risk and allow transactions to take place, although the rationale for BCF has been questioned by some (Mathiasen et al., 2024).

In trade finance, BCF is used to overcome counterparty risk, particularly where global banks have withdrawn due to regulatory pressures or perceived sovereign risk. BCF will typically be used in the form of a guarantee at the portfolio level (region, country) to allow the DFI to take more risk than its normal risk management tools allow. Because of the lack of granularity in the reports of the DFI Working Group on BCF, it is not possible to assess the prevalence of these structures.

2.5 Agriculture and agri-value chains

Agriculture plays a central role in the economies of many SSA countries, where it contributes significantly to employment, livelihoods and exports. In the case study countries, agriculture remains a major pillar of GDP, and it is essential to rural development and food security. Yet the sector's potential to drive broad-based economic growth is constrained by low levels of productivity, limited mechanisation and fragmented value chains**.**

The commercialisation of agriculture, including the integration of smallholders into structured value chains and the growth of agri-SMEs, is widely seen as a necessary step to unlock this potential. However, commercialisation requires investment in inputs, processing, logistics and aggregation – areas where access to finance is limited. Agri-SMEs, in particular, face persistent barriers to credit despite their crucial role in connecting producers to markets and scaling rural enterprise.

In SSA, agri-SMEs struggle to access even short-term working capital, let alone longer-tenor investment finance. Their financial exclusion stems from several structural factors: seasonal and volatile cash flows, limited collateral, informal business models, and high exposure to climate and market risks. Commercial banks, often urban-based, have limited incentives and limited technical capacity to serve these clients, and risk assessment frameworks are rarely adapted to the realities of agricultural lending. Small-ticket investment needs further compound the challenge, as banks face disproportionately high transaction costs for due diligence, monitoring and servicing remote borrowers, which makes this kind of lending unattractive without support.

This exclusion is compounded by underdeveloped agri-finance ecosystems. Many countries lack specialist financial intermediaries, warehouse receipt systems and value chain-based risk mitigation tools. Additionally, public agricultural credit schemes often suffer from weak governance or poor alignment with private sector actors. Meanwhile, donor and DFI-led initiatives frequently operate outside of or parallel to national agri-finance strategies, thus reducing opportunities for coordination and institutional strengthening.

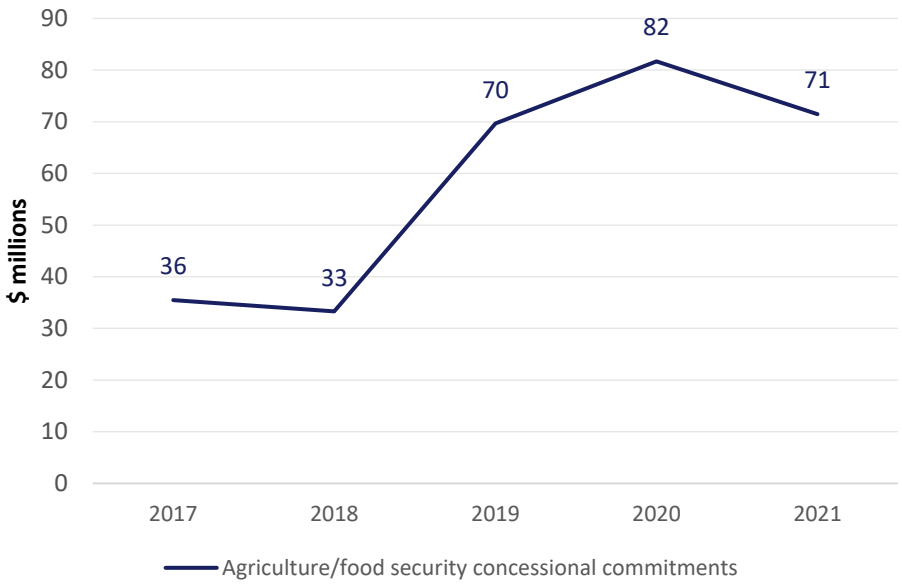
Moreover, policy and regulatory unpredictability – such as ad hoc export bans, shifting subsidy regimes or uncertain land tenure – contribute to an environment of high perceived risk, which further deters commercial investment. These issues are especially acute in politically sensitive sectors such as food staples and export crops, where pricing, trade and procurement policies are frequently influenced by short-term considerations.

The rationale for the use of BCF in agriculture is well established (Apampa et al., 2021). Investments in agriculture and agri-value chains, especially SMEs, are often perceived as high-risk and low-return due to a combination of factors. These include agronomic and climate-related risks, fragmented value chains, small ticket sizes, limited data availability and weak investment readiness among agribusinesses. These supply- and demand-side challenges frequently result in uncompetitive, risk-adjusted returns relative to other sectors. To overcome these obstacles, DFIs deploy BCF to reduce transaction costs, share risk and improve bankability. By helping to absorb risk and improve viability, BCF can play a role in expanding investment in the agricultural sector, particularly in underserved markets. It is also critical that BCF is supported by a combination of TA and capacity-building, especially with regards to SMEs in the sector (Husar, 2022).

Figure 3 confirms that DFIs invested to a relatively large degree in agriculture/food security in SSA using BCF from 2017 to 2021. The region captured the largest investment in agriculture using BCF, receiving, on average, 42% of all BCF commitments to agriculture and food security. In 2021 alone, of $185 million of concessional commitments to the agriculture industry, SSA received $71.5 million (39%), followed by Latin America and the Caribbean with $46 million (25%).

However, not all risks can be addressed by BCF. The development of agricultural finance markets must be supported by complementary and targeted government support, including appropriate agricultural and trade policy (Havemann, 2019; Millan et al., 2019; ISF, 2022).

Figure 3 DFI Agriculture/food security concessional commitments in SSA, 2017–2021



Source: *DFI Working Group on Blended Finance joint reports* (2017–2023, available at: www.ifc.org/en/insights-reports/2020/bf-dfi-ifc-annual-reports).

Note: There is no disaggregated data available on concessional commitments specific to agriculture and agri-value chains. The closest available proxy is concessional commitments under the agriculture/food security theme, which includes investments in the financing and development of production, processing and handling of agricultural and food products.

3 Case study insights

To better understand how BCF is being operationalised in practice, this working paper draws on nine case studies across renewable energy, FIs, and agri- value chains in SSA. While the sample is small, the objective is to begin to fill a critical knowledge gap between high-level guiding principles and their real-world application, and to offer granular insights into current practice and challenges. Each case study explores how concessional finance was structured, what role DFIs played, and how closely the interventions aligned with key principles such as financial additionality, minimum concessionality, commercial sustainability and market reinforcement.

The analysis is primarily ex-ante in nature, drawing on project documentation and market conditions at the time of investment approval. Where possible, post-investment developments have also been considered to assess signals of commercial sustainability within the sector.

Table 2 summarises the nine case studies. See Appendix 3 for a write-up of each. The cases have been anonymised to avoid placing undue focus on specific institutions.[11]

[11] To maintain case anonymity, specific references to public documentation have been omitted.

Table 2 Case study overview

		Sector and focus	BCF risk rationale	DFI own account financing instrument	Concessional instrument deployed*	Degree of subsidy	De-risking private investor	Enabling DFI participation	Enhancing returns for private investor	Enhancing consumer benefit
Renewable energy	1	Solar IPP	Tariff reduction	Senior A loan in hard currency	Senior loan in hard currency	Not disclosed				✓
	2	Solar C&I	Business risk – early stage business model FX risk – hedge FX risk & enable competitive tariffs	C loan in LCY	(1) Subordinated hard currency loan (2) DFI own account C LCY loan of US$ equivalent, supported by an open FX swap with a DFI group-wide LCY blended finance facility	11% of total project cost ($4.4 million)	✓	✓	✓	
	3	Onshore wind IPP	Business risk – early stage model Project risk – development & construction risk		Equity	Not disclosed	✓	✓		
Financial institutions	4	Agri-SME	Counterparty risk – transfer SME risk	Senior loan (credit line)	First loss guarantee	40% of the credit line	✓			
	5	SME	Counterparty risk – transfer SME risk	Portfolio guarantee	Second loss guarantee	Up to 15% of the total portfolio		✓		
	6	Trade finance	Counterparty risk – transfer counterparty risk	Guarantee facility	First loss guarantee	Only available at the regional initiative portfolio level (25% of DFI exposure)	✓	✓		
	7	SME	Counterparty – transfer SME risk	Portfolio risk sharing	First loss guarantee	Only available at the regional programme level (15% of the entire portfolio, including DFI and FI exposure)		✓		
Agri-value	8	Agri-value	Business risk – accelerate market entry	Syndicated loan	*2 concessional loans	1.2% of total project cost (€1.2 million)	✓			
	9	Agri-value	Rollover risk – offer longer LCY loan FX risk – hedge currency risk	LCY loan	DFI own account local currency loan of US$ equivalent, supported by an open FX swap with a DFI group-wide LCY blended finance facility	18% of total project cost	✓			

Notes: *The concessional instrument deployed by the DFI that has been studied in the transaction.

Before presenting the insights, it is important to acknowledge several challenges. In a number of cases, DFIs were hesitant to participate in interviews, or they chose to engage only through high-level written responses. No internal investment documentation was shared, even on a confidential basis.[12] This limited the depth of insight available. As such, the analysis is based on publicly available information, supplemented by third-party sources and stakeholder interviews where possible (see Appendix 1 for the methodology).

The insights reflect the research team's best interpretation of the evidence, but fuller access to information may have yielded additional nuance or different conclusions. A full evaluation of project-level impact was beyond the scope of this study. Instead, the focus was to examine the investment decisions taken by DFIs at the time of transaction approval – specifically the structure of the deal, the rationale for engaging BCF and the prevailing market conditions in which the investment took place.

3.1 Overarching observations

Across the nine case studies reviewed, DFIs demonstrated an ex-ante focus on project-level development impacts. In the FI cases, all transactions were part of a programmatic approach with a country – or even regional-wide application. Impact rationales are articulated well in public documents, but at a high level, with hardly any specification of concrete metrics such as expansion by the local bank of its SME lending, decrease in interest rate or collateral requirement that the transaction would allow, or increase in corresponding banks' engagement in trade finance, etc. This poses challenges for meaningful ex-post assessment. In contrast, the renewable cases all feature defined ex-ante impact metrics, while the agri-value cases show more variation (case study nine includes specific metrics but case study eight relies on a broader narrative).

In all cases, the relevance of DFI investment is supported by evidence of a sectoral financing gap in the country context at that particular time. However, in the renewable and agri-value sectors, BCF was frequently deployed to mitigate project-level risks that stemmed from deeper structural or institutional weaknesses (see Section 2.2). This raises important questions about whether such project-level support can deliver lasting systemic impact in the absence of broader reform efforts led by national government (see Section 3.3).

In most cases, there is evidence of financial additionality of the DFI investment itself. That is, a credible case that the participation of the DFI was necessary to enable the transaction, with the possible exception of case study eight. In this case, the company had a strong track record of securing commercial funding having repeatedly

[12] Supported by a non-disclosure agreement.

renewed its revolving credit facilities both before and after the DFI's investment. Notably, prior to the DFI's involvement, it successfully refinanced the facility into a sustainability-linked loan, which was significantly oversubscribed at the time.

The picture is less clear for the use of concessional finance specifically. The rationale for deploying a subsidy, as well as the assessment of minimum concessionality, are in some cases not clearly articulated or verifiable from available sources (case studies four, seven and eight).

In several cases, it is apparent that BCF played a decisive role in unlocking the investment. But it is difficult to assess the extent to which different structuring options were considered, or whether the subsidy was calibrated to the least amount required. This does not imply that DFIs are misusing concessional capital or undermining markets. On the contrary, the general feedback from stakeholders reinforces the value of DFI participation. However, the unique need for the concessional component was rarely tested[13] or documented publicly as a distinct dimension.

This raises important questions about how subsidy decisions are made and evaluated internally. In particular, one would want to see an assessment of why DFI own account finance alone is not viable, which is an inherently difficult judgement that is often shaped by internal risk appetite and red lines drawn by credit committees. This highlights the importance of assessing financial additionality with reference to the concessional element itself, ensuring it remains robust, especially with regard to other sources of blended finance, such as subsidised programmes from other DFIs or governments.

Some experts have argued that DFIs should more clearly articulate the rationale for using BCF by distinguishing explicitly between development impact, DFI additionality and the specific need for concessionality. While existing frameworks tend to focus on the first two, the third is often implicit. A more structured assessment of the distinct case for concessionality would help reinforce the sense that, while impact and additionality are necessary conditions, they are not, on their own, sufficient to justify subsidy (Mutambatsere and Schellekens, 2020).

These overarching observations echo concerns raised in previous evaluations. This includes the assessment of the MASSIF Fund that the FMO manages, which flags similar concerns about how concessionality decisions are evidenced and challenged (Omes et al., 2021).

In addition to the above concerns, five key observations emerged from the case studies. Each raises pertinent policy and operational questions for strengthening the effectiveness, transparency and

[13] One DFI involved in several case studies prepares separate project documents that justify the need for BCF. However, these documents were not shared with the study team.

accountability of how DFIs use BCF, particularly in an era of reduced ODA budgets:

1. BCF can achieve impact, but it is often bespoke and fragmented.
2. Market demonstration and systemic impact remain elusive.
3. Better instrument choice is needed to address obstacles.
4. Risks exist to competitive neutrality.
5. Transparency and learning are weak.

3.2 BCF can achieve impact, but it is often bespoke and fragmented

The case studies provide clear evidence that BCF has helped fill real financing gaps by enabling long-term LCY debt (case studies two and nine), derisking early-stage renewable energy projects (case studies one, two and three), supporting SME and trade finance through risk-sharing guarantees (case studies four, five, six and seven), and strengthening agri-value chains (case studies eight and nine). In other words, BCF has enabled developmentally impactful investments that would not have materialised to the same value and form under fully commercial conditions.

While BCF is inherently a transaction-level tool designed to address specific risks, its deployment across the cases appears highly bespoke and fragmented. Even when the transaction was part of a broader programme, most interventions appear to have been designed around the specific needs of individual projects or sponsor relationships, with limited attention to building replicable models or integrating investments into broader market-building strategies.[14]

This level of customisation may be warranted in sectors where risks are complex and do not lend themselves to standardised approaches. However, the scope for greater standardisation is stronger in areas such as renewable energy IPPs or SME portfolio risk sharing, where auction-type approaches or more uniform structures are feasible. Even in the FI sector, where the case studies stem from existing programmes, these programmes were themselves bespoke, with no visible attempt to build on previous, similar programmes which had been deployed in the country. A ‘coordinated’ approach would have significant benefits: higher financing volumes in the country and potentially with the same banks, sharing of risks, division of labour for TA and shared intelligence on bottlenecks.

[14] The enhanced DFI principles state that concessional finance ‘… should, to the extent possible, help develop a market that responds to appropriate incentive structures to provide the desired goods or services. While this is a desirable goal, it is however recognised that reaching a sustainable market outcome can sometimes only be envisaged over time’ (DFI Working Group, 2017: 7).

Too often, the rationale for concessionality focuses narrowly on the project in question, without sufficient reference to wider market dynamics, policy frameworks or the activity of other DFIs. As a result, the cumulative effect of these interventions risks falling short of their full systemic potential.

DFIs tend to design and structure transactions independently of one another (and possibly even in competition), operating in parallel rather than in concert, with limited integration across institutions or alignment with national policy frameworks or institutions. This fragmented approach is evident in several of the case studies and can result in inconsistent pricing and varying levels of concessionality for similar transactions within the same market or sector.

In the FI sector, for example, multiple DFIs deployed similar SME-focused guarantee schemes in the same country, but with differing concessional structures, target sub-groups, risk-sharing ratios and operational terms (case studies four, five, six and seven). These schemes were in addition to the 'classic' SME-funded credit lines that many DFIs provide to local FIs under the conditions that the proceeds are on-lent to SMEs. While this practice is explained by a DFI's intention to extend their reach to specific sub-groups (e.g., rural women-led businesses) or offer a new product structure in the market, this lack of coordination risks straining the capacity of local FIs with multiple underwriting and system reporting requirements and undermining the goal of demonstrating scalable, commercially viable models.

It is impossible to determine with full confidence the complete list of DFI investments with FIs supporting SMEs in a given country at a given time, due to lack of transparency and granularity. However, this case study research shows that many DFIs finance the same group of FIs towards SME lending with funded and unfunded products, which suggests significant overlap. In case studies four and seven, a DFI's concessional guarantee facility was introduced in parallel to newly established risk-sharing schemes from national development banks (NDB) (often themselves supported by DFIs and MDBs). This raises possible issues (at least over time) around duplication, financial undercutting (if the NDB aims to operate without access to subsidies) and missed opportunities for synergy.

In case studies five and seven various risk-sharing structures were made available to local FIs. Detailed information was not always fully available, and some products operated at the portfolio level (which makes comparison hard if not impossible). But it remains clear that the structures are vastly different both in terms of the risk-sharing guarantee they offer to FIs (which should, in theory, allow them to test new lending practices or new SME borrowers' segments) and also in terms of the level of concessionality attached to these structures. The benefits for the FIs entering into risk-sharing arrangements also seem to differ considerably depending on whether the local regulator is

willing to recognise capital relief for the guaranteed part of the portfolio.

Likewise, in the utility-scale IPP renewable energy sector, off-taker and transmission risks are identified by solar developers as key barriers that drive up the cost of capital and limit investment.[15] This underscores the importance of embedding BCF within broader, long-term strategies that tackle deeper policy and institutional shortcomings. In case study one, for instance, some external market observers have noted that limited progress on developing transmission infrastructure was accompanied by a marked slowdown in utility-scale solar IPPs following widespread DFI-backed investment in that country. This reinforces the importance of strategic, sector-wide engagement rather than isolated, project-level fixes. However, the DFI concerned noted that COVID-19 would have negatively impacted the development of this market post-investment.

This raises a broader policy concern: the transactional deployment of BCF may generate one-off successes without moving the needle on deeper capital market development or sector transformation. A more strategic approach would harmonise instruments, share risk analytics and coordinate across DFIs, with a view to scaling impact and reducing reliance on subsidies over time. Doing so would enhance the efficiency and catalytic potential of BCF.

3.3 Market demonstration and systemic impact remain elusive

This second observation closely relates to and builds on the first. While ex-ante development impacts are generally articulated in the case studies at the project level, explicit consideration of broader market demonstration or reinforcement effects of individual investments often remain limited or, when available, have been assumed without a clearly articulated pathway. DFIs frequently present BCF as a tool to catalyse market development yet, in practice, success is typically framed around firm- or project-level impacts. In several case studies (notably one, seven and eight) potential market-wide effects are referenced in public project documentation, but these are high-level and lack a structured theory of change.

This highlights two distinct challenges: first, the limited articulation of market demonstration effects at the level of individual transactions; and second, the absence of published portfolio-level frameworks to assess broader systemic impact. Existing DFI impact tools are designed primarily for transaction-level assessment and only recently have begun to consider cumulative effects across portfolios. Without well-structured theories of change, intentional design and metrics at

[15] As noted in the International Energy Association's (IEA) *Cost of capital observatory* and an IEA report in the country case study. Full reference withheld to maintain anonymity.

both levels, ex-post learning and evaluation of market development and reinforcement remain difficult, especially for external parties.

There appears to be little publicly available ex-post follow-through to understand whether and how a given intervention has altered behaviour across a sector, influenced norms or encouraged new entrants. In fact, it is not even possible to know whether the transaction has proceeded as planned – only direct inquiries with the team in case study seven revealed that the project had been cancelled. Furthermore, there is no evidence from the time of the transactions showing that market transformation was embedded into the deal structures, beyond general expectations of market effects in cases one, seven and eight.

In renewable energy, BCF was used to address key project pain points, such as currency risk or lack of long-tenor debt. While this enabled several pioneering projects, the solutions remained largely transactional, with limited evidence of replication or broader market reinforcement. As noted in Section 3.2, many of the risks BCF sought to mitigate stemmed from structural policy or institutional weaknesses. Here, the first-best solution would perhaps be structural reform supported by concessional support; however, such transitions take time. In practice, BCF often serves as a bridging tool, enabling investment while longer-term market and regulatory improvements are pursued.

Similarly, in the FI sector cases, it is unclear how support to individual banks could shift credit allocation norms or improve the enabling environment for SME lending. This is particularly true in cases five and seven, where transactions occurred in markets already saturated with DFIs.

It may be that improving SME access to credit in SSA cannot generate sustainable improvement over time because SMEs are so vulnerable to shocks. Engaging banks in the SME sector may require infrastructure in the form of credit guarantee companies that are able to take part of the SME risk off the banks' balance sheets, possibly with a level of subsidies applied to the costs of the products (since cost of credit is in itself a barrier for SME borrowing). This is well recognised by international financial institutions (such as the World Bank and the African Development Bank, etc.) and others that have contributed to the creation and operations of such institutions in SSA. DFIs engaged in case studies four, five and six did not seem to consider how these local or regional organisations could, over time, complement their interventions as part of market sustainability. This begs the question of what the enhanced principle of 'reinforcing markets' means in practice.

Taken together, these patterns suggest a disconnect between the market-building ambitions articulated in the DFI enhanced blended finance principles and the reality of siloed, firm- and project-level execution. So far, the emphasis seems to have been on the minimum

concessionality test, perhaps as a means to discipline DFIs against using BCF as a competitive advantage. But that focus may have diverted attention away from articulating a vision of how the market is expected to evolve. Without clearer expression of what market transformation looks like, and more systematic evaluation of demonstration effects, DFIs risk defaulting to deal-making. There will be no deliberate and sustained engagement to change the fundamentals of the market.

This observation reflects one interpretation of the enhanced DFI principles for BCF, particularly the principle of market reinforcement. One reading emphasises doing no harm, structuring a transaction so that it does not distort the market, but does not necessarily envisage a future where concessional support becomes redundant. A broader interpretation, by contrast, sees BCF (and/or parallel interventions) as a transitional tool that helps shift market dynamics over time, with the expectation that commercial finance could eventually flow without subsidy. Without this forward-looking orientation, BCF risks becoming a permanent subsidy rather than a bridge to market sustainability.

Finally, one dimension of systemic impact that warrants greater attention is coordination between DFIs and other stakeholders (which can be bilateral donors). In many markets, particularly those characterised by institutional fragility or sectoral underdevelopment, DFIs face constraints that limit their ability to influence broader market conditions. Yet these same environments are often the focus of parallel initiatives (often donor-funded) aimed at policy reform and investment climate strengthening. The case studies suggest limited awareness or integration of these complementary efforts. Strengthening collaboration, through shared diagnostics, coordinated programmatic approaches and articulation of respective roles, could align transactional interventions and upstream reforms. In the context of constrained aid budgets, realising such synergies is both a strategic and a practical imperative.

At the same time, it is important to recognise the diversity of DFI mandates and business models. Not all DFIs are structured like large MDBs or International Financial Institutions with extensive policy engagement tools. Many smaller DFIs operate with more limited instruments and resourcing. In such cases, market reinforcement may not be achievable by one institution alone, but coordinated investment across the DFI system, especially when complemented by institutions with stronger policy levers, can cumulatively contribute to systemic impact. Encouragingly, some smaller DFIs are increasingly embracing this perspective. FMO, for example, has placed market creation and systemic change at the centre of its 2030 strategy. This suggests growing alignment around a shared ambition: that concessional finance should not only enable individual transactions, but also help lay the groundwork for lasting market transformation.

3.4 Better instrument choice is needed to address obstacles

In the renewable energy sector, the case studies suggest that the way concessional finance is currently deployed (particularly as long-term debt) may not always be catalytic or efficient. In the IPP renewable energy sector, where project finance structures typically rely on 75%–80% debt and only 20%–25% equity, BCF used as concessional debt can subsidise projects over their full lifecycle, including during the operational phase when project risks are significantly reduced and commercial capital is more accessible. This approach risks locking in concessional support where it may no longer be needed, rather than directing support to stages where it can have the greatest impact.

This raises important questions about the targeting of concessional resources. Early-stage phases, particularly project development and construction, are where financing gaps are the widest and where private capital is least likely to engage. Redirecting BCF to these high-risk phases, with the aim of refinancing projects commercially once operational, could increase financial additionality and strengthen the pipeline of investable projects.

Evidence from case study three, which relied entirely on sponsor equity, reinforces this point. Here, the equity-led approach enabled a significantly faster financial close and construction timeline than debt-heavy models, allowing the project to become operational within two years compared to the typical three to five years. This suggests that front-loading support through equity or quasi-equity may improve project bankability, accelerate delivery and also offer more flexible subsidy dynamics. Unlike debt, equity-based instruments do not require subsidy levels to be fixed ex ante; instead, they allow for upside participation, enabling partial subsidy recovery if project performance is strong. Convertible debt or subordinated loans with income-sharing features could further align incentives while managing subsidy exposure. Despite this potential, however, equity-led and lifecycle financing models remain underutilised (see Box 1 for one example).

Box 1 Climate Investor One

One promising example of an equity-led and lifecycle funding model is Climate Investor One, a $1 billion renewable energy infrastructure blended finance facility managed by Climate Fund Managers.

The facility comprises three funds, each targeting a different project stage: (1) a fully donor-funded Development Fund supports early-stage project preparation; (2) a Construction Equity Fund, financed through blended concessional and commercial equity, covers up to 75% of construction costs; and (3) a Refinancing Fund, capitalised with commercial funding, provides post-construction refinancing. This approach de-risks projects where it matters most, avoids unnecessary

long-term subsidies, and facilitates a smooth transition to commercial finance. In this way, it provides a useful model for more strategic deployment of concessional capital. Given that Climate Investor One is not only a theoretical construct but it has been deployed effectively, it is surprising that the model has not been replicated more widely.

Source: https://climatefundmanagers.com/funds/#CIO

In the FI sector, the impact of BCF depends on how well products align with local bank capacity and the needs of underserved borrowers. In case study four, concessional funding was channelled through two small commercial banks with limited market share and branch networks, thus constraining outreach. One bank only partially disbursed the credit line and used the risk-sharing instrument sparingly; the other did not disburse the credit line at all. This suggests the instruments were not tailored to the banks' capabilities or the realities of agri-SME financing in the country. Better targeting, based on institutional capacity and market fit, is needed to ensure concessional finance reaches those most in need.

In case study seven, BCF was well-targeted as a first loss donor-funded guarantee to support a portfolio-level SME loan guarantee provided by the DFI. Donor funds were necessary to lower the risk over the portion of the SME loan portfolio borne by the DFI's own account, allowing the DFI to price the guarantee at an appropriate level for the local bank. A performance incentive was also intended to be paid ex post to the local bank against a pre-established target for women-led SME lending but no details were provided on how it was calculated. Given the very low value, it would have been all the more important to share the positive results of such an instrument so it can be replicated. In any event, the transaction did not go forward.

3.5 Risks exist to competitive neutrality

While BCF can have impact at the firm level, its use in supporting individual companies (particularly large, well-capitalised firms with access to commercial finance) raises important questions about competitive neutrality.

Across several case studies, BCF was deployed to support large firms that already had access to commercial finance. This dynamic is evident in the agricultural and commodity sectors. In case study eight, BCF was used to support a large multinational cocoa trader's expansion into sustainable cocoa and compliance with new EU deforestation regulations – objectives that are broadly shared across the industry. The subsidy was modest relative to the scale of the business, but it helped reinforce an existing sustainable cocoa strategy by marginally strengthening the business case for investing in compliance-related activities that generate additional costs. Even low-

value BCF raises questions about competitive neutrality, particularly when directed to one firm operating in a highly concentrated sector. Transparency around the rationale for such support is critical to avoid perceptions of preferential treatment and to assess whether a subsidy is truly necessary to influence behaviour.

Likewise, in case study nine, concessional finance was extended to a listed agribusiness with repeated prior access to DFI support. The significant increase in the size of the LCY loan requested by the client ruled out a market-based solution. This required the DFI to enter into an open FX swap with a concessional finance facility. Though the intervention may have accelerated the continued expansion of the client, the apparent absence of similar support across the sector calls into question whether concessional resources are being used in a way that truly reinforces market development or merely benefits the best-positioned firms.

This issue is not limited to agribusiness. In the FI sector, case study six illustrates that one DFI provided trade finance guarantees on concessional terms (at the programme portfolio level), while another reportedly delivered similar support to local banks without the need to engage BCF. Without full transparency on the terms of the respective DFIs and rationale for concessionality, it is difficult to assess whether public subsidy is justifiable, and if so whether it is being deployed in the most efficient and, in some cases, equitable way.

Moreover, the repeated use of BCF with the same clients, without clear exit strategies or conditions, risks entrenching dependency and limiting broader market impact. It also contravenes the DFI blended finance principles. This is noted in agri-value chain cases, where investees had long-standing DFI relationships and had already benefited from sustained technical and financial support.[16] For instance, in case study nine, BCF supported the company's capital expansion programme, although the firm had previously received multiple rounds of DFI debt and equity investment over the preceding 12 years to finance the firm's capital expansion. Concessional finance was still used despite this track record, which highlights the need for DFIs to consider how and when clients can transition to fully commercial terms.[17]

These examples suggest that while firm-level impacts may be strong, there is a potential risk that BCF reinforces advantages for a small set of established players rather than levelling the playing field or catalysing broader market development. Greater attention is needed to ensure that BCF is targeted based on clearly defined additionality, time-bound support and sector-wide equity. One approach to address

[16] It is unclear whether this support was concessional or not.

[17] At the market level, exit strategies should incorporate a gradual reduction in concessionality for repeat transactions, alongside clear time-bound plans to phase out concessional finance – based on the maturity of the client relationship and progress towards a fully commercial market (OECD, 2020).

these concerns is to make greater use of market-based mechanisms to allocate subsidies (see Section 4.5).

3.6 Transparency and learning are weak

A central finding from this study is the persistent and systemic lack of transparency surrounding the use of BCF. This significantly impedes the ability to assess effectiveness, understand financial additionality, and compare outcomes with other potential uses of scarce public resources. It also limits the ability of DFIs to benchmark subsidy levels across similar transactions by other DFIs – an important tool to ensure minimum concessionality, to replicate successful structures to reinforce markets (and abandon those with lukewarm results), and to avoid the risk of unduly advantaging one firm over another.

Despite the growing prominence of BCF in development finance, public disclosure on individual transactions remains highly limited across most DFIs, especially for non-sovereign operations (Publish What You Fund, 2025). Among DFIs, IFC stands out as a leader on transparency in BCF (See Box 2). That said, it remains the exception. Most DFIs and MDBs have not yet adopted similar disclosure standards.

While a step in the right direction, the DFI joint BCF reports are far too aggregated to provide the necessary information, and they are published irregularly, with the most recent report released in 2023 covering 2021 data.

Across the nine case studies, the research team repeatedly encountered challenges in accessing project-level information – such as the rationale for using concessional finance, the structuring of instruments and levels of concessionality, and assessments of development impact or financial additionality. In many cases, this information is not publicly available and it was difficult to obtain even through interviews. Notably, in some instances, DFIs appeared reluctant to engage in discussion even when relevant data was obtained from other public or third-party sources. When DFIs do publish information, there is still a tendency to provide information at the highest level possible, making analysis at the transaction level more tentative. While confidentiality concerns were often cited by stakeholders, the hesitancy to discuss details extended beyond sensitive commercial information, highlighting a broad culture of caution that limits transparency and open learning.

This lack of transparency has several important consequences. First, it prevents a credible assessment of whether specific uses of BCF are optimal. Naturally, such assessment would in itself be a complex exercise, requiring counterfactual examination or controlling for externalities when comparing different scenarios. However, without clear data on the use and impact of concessional finance, it is simply

impossible to determine whether BCF is being deployed in the most effective and efficient way.

Second, lack of transparency undermines accountability. When the rationale for subsidy and the assessment of minimum concessionality are not documented or disclosed, external stakeholders (including donors, governments, civil society, and indeed boards and shareholders) cannot hold institutions to account or assess alignment with core blended finance principles.

Third, the lack of transparency weakens opportunities for institutional learning and adaptive practice. Without shared evidence of what has worked and why, there is a risk that BCF remains locked in theoretical frameworks, with insufficient real-world feedback to improve design and implementation. Greater visibility would facilitate better-informed policy and operational choices, especially as donors and DFIs consider how to deploy limited concessional resources strategically.

Fourth, insufficient transparency can distort market signals. In many cases, private investors, competitors and even host-country governments are unaware that particular transactions have benefited from concessional support. This can set artificial pricing benchmarks, such as tariffs or financing terms, that do not reflect true market conditions. As a result, future investors may be deterred or misled, and governments may misjudge the commercial viability of similar projects. Over time, this risks crowding out rather than crowding in private investment, and it undermines the market reinforcement objectives that BCF aims to achieve.

Box 2 BCF transparency: the case of IFC

Since 2019, the International Finance Corporation (IFC) has disclosed basic information on its BCF transactions in public project documents – including the planned use of concessional finance, the instruments employed, financing amounts and a general rationale for using subsidy. It also includes expected development impact and financial additionality assessments. IFC has gone a step further by publishing estimated subsidy levels for each transaction, expressed as a percentage of total project cost or value.

While this represents meaningful progress compared to peers, it is important to note that the public explanations of the concessionality rationale are often fairly high-level and generic. This limits the ability to independently assess whether a subsidy was truly necessary or calibrated appropriately. In some cases, the information can be incomplete or out of date. Nonetheless, IFC’s approach offers a useful benchmark and demonstrates that greater transparency is both feasible and institutionally manageable, even in complex, commercially sensitive transactions.

Improving transparency is not just a technical necessity: it is fundamental to the credibility, effectiveness and long-term viability of concessional finance. At a time when aid budgets are under pressure and calls for accountability are growing, a stronger commitment to transparency – modelled on emerging good practice – would help ensure that concessional finance is not only well-intentioned but demonstrably effective too. Without it, the sector risks operating in a black box, falling short of its transformative potential.

4 Emerging policy implications

The case studies show that BCF mobilises investment in challenging markets. However, there is significant scope to strengthen its effectiveness through better alignment with core principles and stronger coordination across institutions. While systemic reform is complex and gradual, the case studies point to several practical areas where action is needed, and where targeted improvements could yield significant benefits.

The first improvement – on transparency – offers a foundational opportunity to unlock learning, inform strategy and promote better practice across the BCF ecosystem. This could affect the four other recommendations over time. It is also where consensus could be built relatively quickly among DFIs.

4.1 Elevate transparency as a strategic enabler

Transparency is a foundational requirement – to enhance accountability and to enable more effective collaboration, learning and strategic deployment of BCF. At present, information is often limited or difficult to access at the project level on whether concessional finance is used and the rationale, amount, structuring considerations, results and impact of its use. At the system level, the DFI Working Group on BCF report is the only data source (last published in 2023 with data from 2021 – see DFI Working Group, 2023). And that analysis lacks the granularity needed for meaningful policy insights or institutional learning. In its current form, this lack of timely and detailed information limits the ability of DFIs, donors and other stakeholders to benchmark practice, draw lessons or coordinate effectively.

Poor transparency contributes to a fragmented landscape, where different DFIs within the same sector or market may apply varying pricing and concessionality levels, and pull the market in different directions. Without access to comparable data, it is difficult to ensure consistency or to prevent a race to the bottom by providing the most generous terms.

In addition, greater transparency would support a clearer understanding of risk and subsidy allocation, enabling commercial

investors to understand pricing and participation decisions more accurately.

Improved transparency is also foundational for addressing the broader policy implications outlined below. Without it, DFIs remain siloed in their operations and unable to benefit from the learning, experimentation and insights of peers. This limits opportunities to scale, to reduce concessionality over time and to respond to evolving market needs.

As a first step, the DFI Working Group on BCF should consider developing a shared project-level dataset containing both ex-ante and ex-post data. This could pave the way for more structured public disclosure, following a similar trajectory to the evolution of the MDB/DFI Global Emerging Markets (GEMs) dataset.[18]

A shared commitment to transparency is an operational necessity, particularly in an era of tightening aid budgets. Transparency will be a powerful catalyst for change, laying the groundwork for more effective and more coherent use of BCF. DFI shareholders and other donors such as philanthropies will likely need to drive this agenda, recognising transparency as a prerequisite for learning, accountability and catalytic use of public funds.

4.2 Strengthen the justification and use of concessionality

There is a clear opportunity to enhance the discipline and clarity around the use of concessional finance. While the DFI investments considered in the case studies demonstrate financial additionality, the rationale for the concessional element is not always articulated fully. Greater use of theories of change would strengthen alignment with established principles, by showing how BCF addresses specific gaps or barriers, how minimum concessionality is ensured, and what is expected to change over time as a result of BCF and other market strengthening measures.

Improving internal processes and increasing public communication around these decisions could support more consistent practice across institutions. This would help ensure that concessional resources are deployed where they are needed most and are likely to catalyse further investment.

[18] See https://www.gemsriskdatabase.org/

4.3 Target instruments better to match market needs and gaps

To maximise impact, concessional finance and the choice of instrument should be targeted intentionally to solve specific market failures.

In the renewable energy sector, concessional finance has often been deployed through long-term debt that supports projects well into their operational phase, when risks are lower and commercial capital is more readily available. Targeting concessional support to earlier and riskier stages, such as project preparation and construction, could help overcome the most acute financing gaps and accelerate the development of viable pipelines. This would be particularly effective when paired with efforts to address systemic constraints such as off-taker or transmission risk.

In FIs, concessional credit lines and risk-sharing facilities are not always matched by sufficient demand. In some agricultural value chain cases, support channelled through commercial banks failed due to product design. In these contexts, supply-side instruments must be complemented by efforts to stimulate demand, such as TA, value chain development and policy engagement. This would better connect underserved borrowers with finance. These demand-side efforts will likely need to continue well beyond the lifespan of individual DFI projects, underscoring the importance of coordination among all development partners active in a country. Over time, there should also be a deliberate effort to integrate DFI financing products within the permanent local financial infrastructure. Aligning the structure and delivery of concessional instruments with local institutional capacity and broader sectoral initiatives would improve uptake and ensure support reaches the intended beneficiaries.

4.4 Link project-level support with market reinforcement

BCF can enable specific transactions and, at times, strengthen individual clients, but its potential to contribute to broader market development may not always be fully realised. While some projects play a valuable demonstration role, opportunities are sometimes missed to embed these efforts within wider sectoral strategies. This particularly relevant where the barriers being addressed stem less from inherent project risk and more from deeper policy failures or institutional weaknesses. In such cases, the first-best response would be structural reform rather than ongoing subsidy. Ideally, BCF should be deployed as part of a coordinated, programmatic approach that supports market-building alongside policy and institutional strengthening.

There are broadly two types of market creation situations:

1) The impact that the transaction itself might have (demonstration effects, competitive effects, first-mover/transformative investments).

2) The impact that a programmatic approach by the DFI and/or others in the sector itself might have (upstream investment, policy dialogue or TA).

While DFIs can contribute to the first, many are less-well equipped to engage in the second case and have to rely on partners, often policy-lending arms of MDBs or bilateral donors. Better coordination with government-led reforms, donor programmes or DFI activities could amplify the systemic impact of BCF.[19] This would also help challenge a presumption that sole interventions can shift the market. As it takes a village to raise a child, it often takes the work of multiple stakeholders, local and external, to reinforce markets. Improved transparency would help DFIs and their partners to identify where their interventions could complement others and collectively address structural barriers to market development.

4.5 Support competitive and well-functioning markets

Finally, maintaining a level playing field and avoiding market distortion remains an important consideration. While the case studies provide no clear evidence that DFIs crowded out commercial actors, some instances raise questions about: (1) the need for BCF for some large companies that have access to commercial finance; and (2) how concessionality is balanced with the need to support new entrants and promote competition.

By clearly disclosing subsidy levels, eligibility criteria and selection processes, DFIs could reinforce confidence that support is well-targeted and does not undermine market dynamics. This would also help investors and governments interpret pricing and risk more accurately.

One area for consideration is the expanded use of market-based mechanisms to allocate concessional finance. Approaches such as competitive tenders, embedded subsidies in auctions and open calls for guaranteed access can reduce the risk of subsidy allocation being driven by sponsor relationships or opaque criteria. By introducing a degree of price discovery, these mechanisms help reveal the minimum level of concessionality needed to close transactions, thus enhancing discipline, transparency and value for money.

Importantly, many BCF transactions are first-of-their-kind in a given sector or country, making it difficult to assess ex ante the appropriate level of concessionality. These interventions often involve a high degree of uncertainty and learning-by-doing. Greater use of

[19] This is consistent with the guidance within the DFI enhanced principles, which states ‘Introduce, where feasible, market monitoring and coordination among DFIs to leverage experience, coordinate policy, and demonstrably take steps over time to reduce the root causes for requiring blended financing’ (DFI Working Group, 2017: 7).

competitive allocation mechanisms can help overcome this uncertainty by revealing the minimum subsidy required to crowd in commercial capital. While not universally applicable, such mechanisms may be particularly relevant in sectors with the potential for standardised offers, such as SME portfolio risk-sharing or utility-scale renewable energy. They could complement bespoke structuring approaches in higher-risk or less mature markets. Transparency is essential here: sharing lessons on actual risk-return outcomes can help the market adjust expectations and inform future transactions. Further experimentation and evaluation are needed, but competitive allocation mechanisms offer a promising route to more disciplined and accountable use of concessional resources.

But donors need to come on board with such an approach. They must be ready to reinforce previous interventions that require further BCF deployment for the market to shift. Too often, donors want to be associated with new, experimental structures. This pushes DFIs to bring a new product to the market, rather than double-down on an approach that shows early positive signs but has not yet reached the sector's 'tipping point'. Patient, consistent and ideally pooled concessional finance is also key to success.

5 Conclusion

BCF is a powerful tool in the development finance toolkit. It has the potential to unlock private capital for investments that deliver vital development outcomes in challenging markets. Through nine case studies, this working paper provides a window into the practical realities of BCF deployment in three sectors in SSA, offering insights into when and how it is most effective.

While BCF is often deployed with strong development intent, there is room to improve how concessionality is justified, targeted and disclosed. Several cases demonstrate the catalytic potential of BCF when applied in a well-targeted manner. Others highlight the need for greater alignment with market realities, institutional capacity and long-term reform efforts.

Crucially, BCF should not be viewed in isolation. In other words, success and impact should not be defined only by what the transaction achieves, but also by the chain reaction it triggers at the market level. Its effectiveness depends on the structuring of individual transactions and also on broader system-level coordination, transparency and learning. Many of the challenges identified in the case studies – whether related to competitive neutrality or market transformation – can be addressed through a genuine commitment to transparency as opposed to the lip service it often receives. This would allow more deliberate collaboration among DFIs and donors, and a shared commitment to learning and improving practice.

There is a clear opportunity to strengthen the BCF ecosystem through better data, clearer articulation of concessionality needs, and improved coordination across DFIs. In particular, more systematic collection and disclosure of subsidy levels, eligibility criteria and decision rationales would enhance benchmarking, peer learning and adherence to minimum concessionality standards.

Future research could play an important role in supporting these shifts. Priority areas might include evaluations of the market development effects of BCF, analysis of repeated transactions with the same clients, and the development of common metrics to assess subsidy efficiency and catalytic impact. Additionally, further inquiry into how DFI instruments interact with local financial systems and institutional capacity could help identify how BCF could be embedded within broader national development strategies. Without such evidence, there is a risk that BCF continues to operate in siloes and that it remains project-focused rather than system-oriented. The

blended finance community can take meaningful steps towards more effective, transparent and accountable practice by investing in shared learning.

As pressure mounts nationally and globally to ensure that scarce aid resources are used effectively, there is both a responsibility and an opportunity to strengthen how BCF is deployed. By building on what is already working, addressing persistent gaps and embedding concessional finance in coherent strategies for market development, DFIs can help ensure that BCF drives inclusive, sustainable growth.

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Appendix 1 Methodology

This study combined desk-based research with stakeholder interviews to examine how BCF is being deployed in practice. The research team conducted a series of semi-structured interviews with independent experts – academics, consultants, DFI staff and private investors – to explore market dynamics, particularly around financial additionality and the risk of crowding out. These conversations also informed the selection of potential case studies.

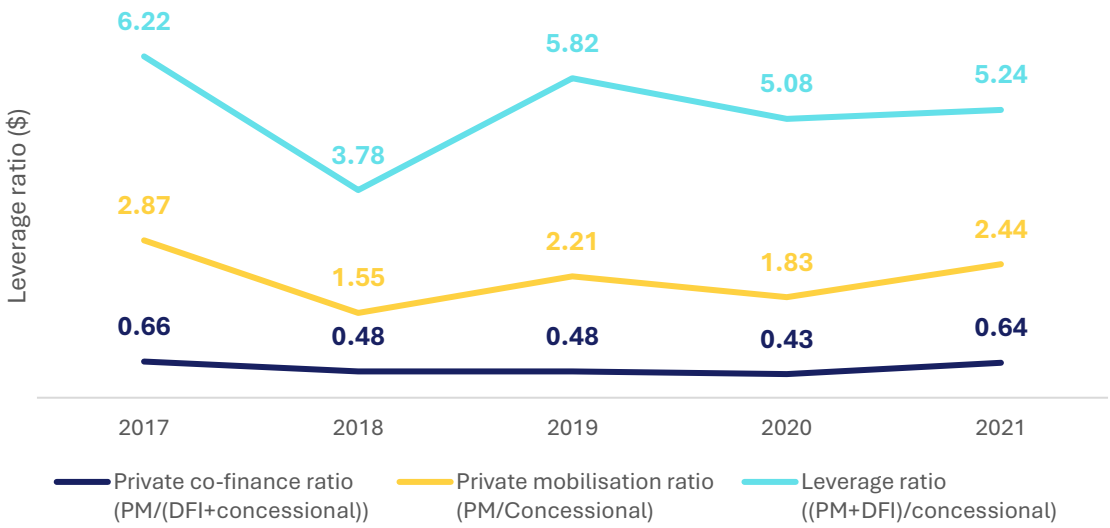
An initial longlist was compiled of 25 investments. After a screening process to assess data availability, 14 cases were shortlisted for further consideration, out of which nine case studies were selected for in-depth review.

A structured case study framework was developed to guide the analysis, focusing on the country, sector and client context; the investment structure; and the broader landscape of DFI activity in that market. The team undertook a thorough desk-based review of all available public documentation – both from DFIs and third-party sources – and sought to supplement this with targeted interviews with relevant stakeholders. In several cases, however, DFIs declined to participate in interviews and instead provided limited written responses. This constrained the team's ability to fully examine and validate the cases.

The case studies have been anonymised and summarised for the purposes of this working paper.

Appendix 2 BCF leverage ratios

Figure 4 Global trend analysis: blended finance leverage ratios, 2017–2021



Source: authors calculations based on data from *DFI Working Group on Blended Finance joint reports* (2017–2021, available at https://www.ifc.org/en/insights-reports/2020/bf-dfi-ifc-annual-reports).

Notes:

1. Private co-finance ratio: PM / (DFI + concessional) – the ratio measures private capital mobilised (PM) relative to total DFI commitments, including concessional finance. For example, in 2021, for every $1 invested by a DFI (concessional finance or not) $0.64 of private capital was mobilised.

2. Private mobilisation ratio: PM / concessional – the ratio assesses the amount of private capital mobilised per $1 of concessional finance used. For instance, in 2021, for every $1 of concessional finance deployed, $2.44 was mobilised by the private sector.

3. Leverage ratio: (PM + DFI) / concessional – the ratio evaluates the total capital mobilised (including both private capital and DFI contributions) per $1 of concessional finance. It is calculated by aggregating the private capital mobilised and the DFI commitments and then dividing this by the concessional finance used. In 2021, for every $1 of concessional finance invested, $5.24 was pooled in by private capital and DFI commitments.

Appendix 3 Nine case studies

Case study 1: Renewable energy I

Case study 1 – Solar PV IPP, 2018
Investment overview

This country's utility-scale solar market is dominated by DFIs, which have provided most of the financing – primarily as debt (75% of project financing) – for solar PV IPPs reaching financial close. The remainder is financed by equity, mainly from international private investors.[20] Prior to this investment, four solar IPPs had been commissioned; all but one relied on a mix of DFI-backed debt and private investor equity.

At the time of the investment, the country faced high electricity costs – $0.24/kWh in 2018, more than double the global benchmark – posing a major barrier to growth, largely due to reliance on imported heavy fuel oil. Aging infrastructure and high production costs had strained the state utility,[21] resulting in frequent outages, subsidies and arrears. Its weak financial position, marked by low profitability and limited capacity to invest in the grid, heightened off-taker risk for investors.

DFI 1 led this transaction which involved the development, financing, construction and operation of two greenfield solar PV power plants. The investment was part of DFI 1's wider programme of support to develop solar markets, including in SSA. This included concessional financing, support for project development, support to a competitive bidding process (a first in the country), support to develop a reliable legal and regulatory environment, and strong risk mitigation measures, including an off-taker guarantee.

The investor consortium was the successful bidder in a competitive IPP bidding process, the first of its kind in the country. Two other DFIs (2 and 3) and the Multilateral Investment Guarantee Agency (MIGA) (4) also participated in the transaction. The price achieved under the tender represented a record low for the region at $0.05 kWh, a 60% cut.

The low cost of power achieved was enabled by a combination of factors including the DFI concessional financing, competitive bidding, project development, a reliable legal and regulatory environment, and strong risk mitigation measures,

[20] The source of this information is a case study on this country undertaken by the IEA. As with all of the case studies, the reference has been withheld to maintain anonymity.
[21] The state utility company has exclusive control over transmission and distribution – except in some rural areas with private concessions – and serves as the primary off-taker for IPP PPAs.

including an off-taker guarantee. Large, well-established and strong project sponsors also played their part.

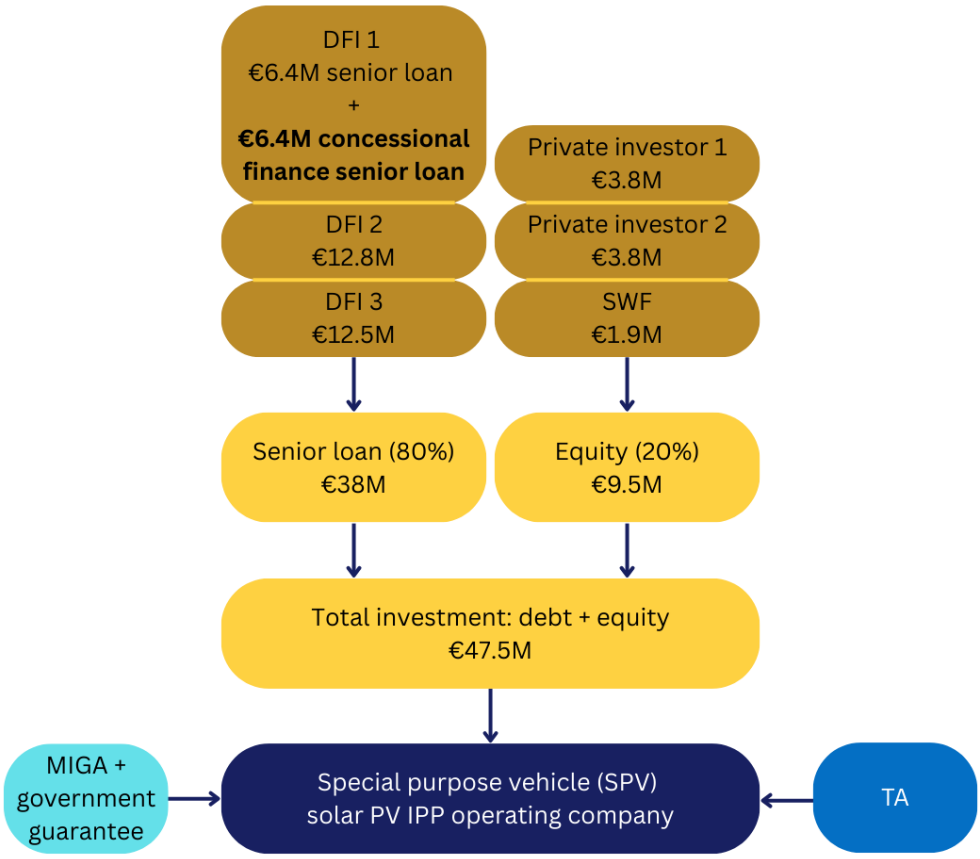
Ex-ante development impact

As per DFI press releases, the project was expected to deliver affordable, renewable electricity to 540,000 people in the country while supporting over 400 direct and indirect jobs.[22] By adding 79 MWp of competitively priced solar power, it displaces expensive, polluting thermal generation reliant on imported fuels, reducing carbon emissions by 89,000 tons annually.[23] As one of the first IPPs under the programme in the country, it sets a low-tariff benchmark, enhances energy reliability, and provides a scalable model for future solar investment in the region.[24]

Transaction overview

The project was funded using 20% equity and 80% debt. The total project cost of €47.5 million consisted of: (1) €9.5 million equity from two private investors and the State Sovereign Wealth Fund, and (2) €38 million in senior loans provided by three DFIs. DFI 1 deployed concessional finance. DFI 2 coordinated the DFIs. None of the other DFIs or MIGA used concessional finance. The project special purpose vehicle (SPV) benefited from a MIGA and government guarantee, as well as TA.

Case study 1 transaction structure



[22] DFI 2 press release.
[23] DFI 3 press release.
[24] DFI 1 impact analysis report.

	Total
Total project cost	€47.5 million
Equity investment €9.5 million	Private investor 1: €3.8 million Private investor 2: €3.8 million State Development Fund: €1.9 million
Debt investment €38 million[25]	DFI 1 €6.4 million senior A loan and €6.4 million concessional senior loan[26] DFI 2 €12.8 million DFI 3 €12.5 million All three DFI commercial loans were priced the same
Guarantee	MIGA €6.9 million 15-year guarantee against breach of contract and war and civil disturbance PPA with the state utility backed by a State Guarantee
Blended concessional finance	
DFI 1 reported that the subsidy was calculated comparing the pricing of the blended finance loan to the benchmark pricing of the commercial senior debt provided by DFI 1. DFI 1 did not disclose the subsidy amount. DFI 1 used concessional finance from a donor trust fund it managed, structured as a returnable capital model, to support a renewable energy investment.	
Private capital mobilised	
DFIs co-financed the transaction to the tune of $44.9 million[27] in debt. Private investors invested $7.6 million. DFI 1 could claim $7.6 million as direct mobilisation given its role in structuring the transaction.	
Observations	
Financial additionality: DFI 1 reported that its investment demonstrated financial additionality as it provided long-term financing on terms unavailable in the local market. At the time, DFI 1 reported that there were no commercial bank-led syndicated loans or private corporate bond issuances in the case study country, and solar IPPs had not attracted local bank financing. Third-party sources suggest that long-term commercial bank lending, beyond 10 years, accounted for just 3% of domestic commercial bank portfolios, highlighting the important role DFIs played in addressing this gap.	
BCF rationale: A review of the project documentation of the four prior solar IPPs supported by DFIs does not indicate that DFIs had previously used concessional	

[25] Tenor, interest rate and repayment terms of DFI loans not publicly disclosed. DFI 1 did not disclose tenor upon request.
[26] Up to amount approved.
[27] $38 million plus $6.9 million.

finance[28] beyond grants and technical assistance to get projects to financial close. DFI 1 noted that these IPPs had been bilaterally negotiated and carried relatively high tariffs compared to competitively priced solar IPP projects available at the time. To drive down costs and align tariffs with the anticipated future grid parity of thermal power from domestic gas (€0.08/kWh), concessional loans were offered to all bidders. DFI 1 estimated that the impact of the pricing discount on the tariff was likely to be a 2% reduction in tariff. The rest of the reduction was due to the combination of factors mentioned above under the investment background.

This raises two important policy questions:

The BCF was provided through a returnable capital model, which may limit instrument flexibility, concessionality and risk appetite compared to pure grant-based approaches.

Deploying concessional finance as long-term debt means it effectively subsidises projects throughout their lifecycle, including the operational phase, when risks are lower and commercial financing is more accessible. This raises important questions about targeting.

Commercial sustainability: The top-two risks identified by solar developers remain high off-taker and high transmission risk, which puts upward pressure on the cost of capital.[29] This underscores the need to situate BCF within broader, long-term strategies aimed at reducing systemic risks, particularly off-taker and transmission risks, which are critical to breaking reliance on BCF.[30] As noted in Section 3.3, BCF is used to mitigate risks that stem from structural policy or institutional weaknesses, which raises questions about effectiveness. Here, the first-best solution would be structural reform supported by concessional support. In reality, this takes time, so BCF has been used as a bridging tool.

This is significant, as these unresolved issues have contributed to a sharp slowdown in utility-scale solar IPP development since 2020 with no utility-scale tenders expected (Solar Power Europe, 2020). This highlights the importance of coordinated, strategic approaches to sector transformation.

[28] Though the study cannot be sure as not all DFIs disclose information about whether their investment uses concessional finance.
[29] IEA case study for this country and IEA Cost of Capital Observatory Dashboard.
[30] Ibid.

Case study 2: Renewable energy II

Case study 2 – C&I, 2021

Investment background

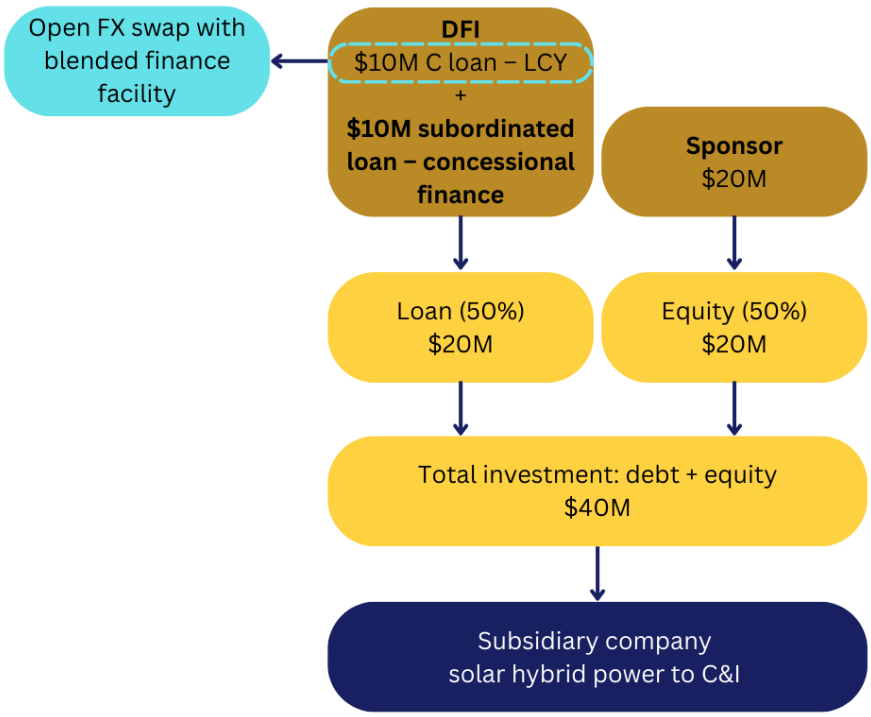
The DFI provided a loan to a subsidiary company set up by a regional off-grid energy service provider delivering reliable, cost-effective solar hybrid solar power to C&I customers facing unreliable grids or costly diesel use across Western Africa. The project aimed to boost electricity reliability and affordability. Prior to this, the wider group had received multiple rounds of DFI and private equity investment. In 2022, the group was acquired by a major multinational oil and gas firm.

Ex-ante development impact

The project was expected to reduce CO_2 per annum by 32,700 tons.[31] The provision of stable and reliable power was expected to increase the reliability and affordability of electricity for C&I customers facing an unstable supply.[32]

Transaction overview

Case study 2 transaction structure



Total project cost	$40 million
Sponsor equity	$20 million

[31] Global Infrastructure Hub case study on this project.
[32] Project case study.

DFI loan	DFI local currency loan of $10 million equivalent (own account C loan). Supported by an open FX swap with a concessional finance facility. DFI $10 million subordinated loan financed by concessional finance. Seven-year tenor.

Blended concessional finance

Subsidy is estimated at 11% of total project cost.

For the $10 million subordinated loan, the DFI used concessional finance from a donor trust fund to support the renewable energy investment. The subsidy was based on the difference between the blended loan rate and the DFI's standard commercial pricing. The goal was to raise the company's equity internal rate of return (IRR) to the minimum threshold needed for the project to proceed.

The LCY loan was priced at the highest rate the company could afford while keeping the project economically viable, using available market comparables. The concessional swap rate was set to meet the target all-in pricing and cover the DFI's breakeven spread.

Private capital mobilised

Direct mobilisation is zero. Sponsor equity of $20 million would be counted as indirect mobilisation, as per the MDB mobilisation methodology.

Observations

Financial additionality: Financial additionality stemmed from the DFI's provision of long-term LCY and dollar financing in a highly illiquid market to a leading company in a nascent market. At the time, the C&I solar sector lacked affordable LCY debt, with commercial banks largely disengaged and no viable project finance options. Developers relied heavily on equity, limiting scale. The DFI's subordinated debt, both hard and LCY, helped de-risk an early-stage business model and laid the foundation for the future mobilisation of senior debt.

BCF rationale: The concessionality was required to provide long-term financing at terms that were economically viable for the company, helping the shareholders achieve a reasonable equity IRR while meeting the minimum debt service coverage ratios needed by the DFI. It was also important for ensuring that the tariffs for the end C&I customers were sufficiently competitive. Without concessional finance, the business would not have been in a position to scale. This was due to the company's limited track record in the country and the high perception of risk from commercial banks, resulting in a limited availability of long-term financing for such projects in the country.

Commercial sustainability/market reinforcement: The DFI engaged swap counterparties, including TCX, but only one could offer the required tenor, at pricing too high for the project. As a result, the DFI opted for a non-market solution provided by its group.

Case study 3: Renewable energy III

Case study 3 – Onshore wind IPP, 2019

Investment background

In 2015, the country's energy sector was largely reliant on government funding and support from multilateral, bilateral and donor institutions. That year, a new law opened the market to IPPs, marking a shift towards greater private sector involvement and more diversified energy financing. However, implementation was slow. Complex regulatory procedures and limited institutional capacity hindered the timely deployment of new projects. MDBs, DFIs and bilateral donors have since played a larger role in developing and diversifying the country's abundant renewable energy resources.

At the time of investment, the country faced some of the highest electricity costs in Africa at $0.23/kWh and a highly unreliable supply. Energy constraints were a major barrier to private sector growth, with many businesses citing electricity as their biggest challenge.

This project marked the country's first onshore wind farm and first IPP, involving the development and operation of a 60MW facility selling electricity to the state utility under a 25-year take-or-pay PPA.

Ex-ante development impact

The project is expected to increase the country's energy generation capacity by 40%–50%,[33] supporting energy security by reducing dependence on energy provision from a neighbouring country, while also supporting economic development. It will avoid 252.5 tons of CO_2.[34] Additionally, the SPV will build a solar powered seawater desalination plant that will supply drinking water to two neighbouring villages, at around 35m^3 per day.[35]

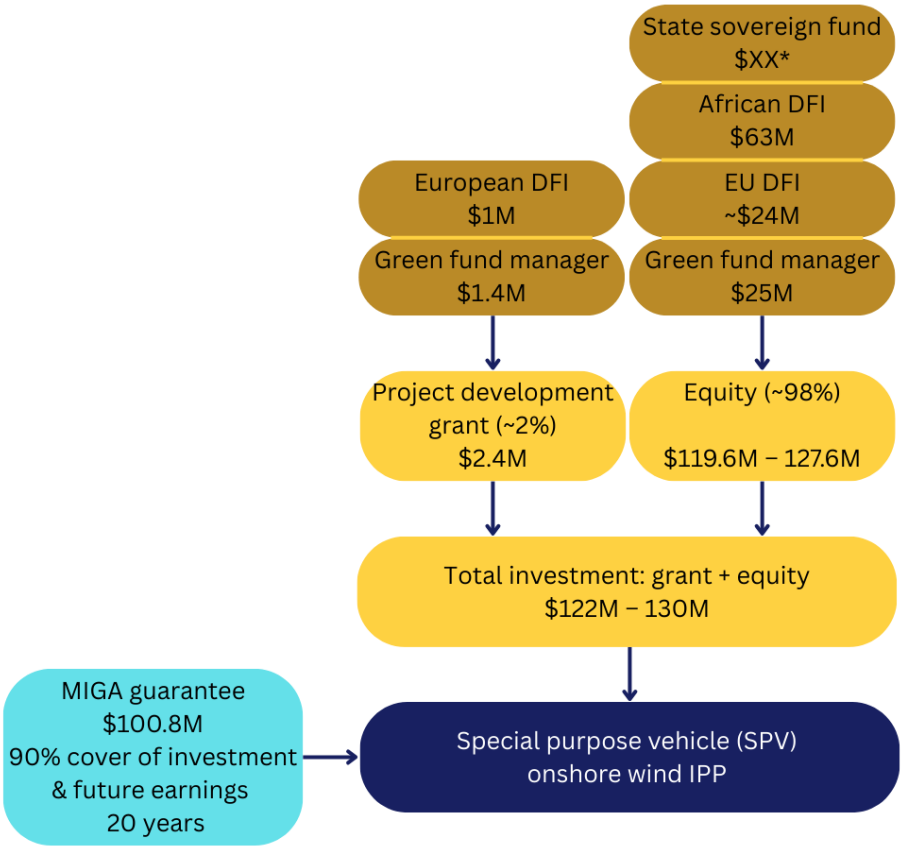
Transaction overview

The project was undertaken by an SPV owned by a consortium of investors including an African DFI, a European DFI, a green fund manager[36] and the state sovereign fund.

The project was financed in its entirety by sponsor equity. The European DFI and green fund manager deployed project development funding in the form of grant. Finally, MIGA provided a guarantee to the project SPV. The African DFI led the project development from the outset.

[33] Green fund manager's project disclosure.
[34] Press release.
[35] News article on the project.
[36] This green fund manager managed large, blended finance facilities.

Case study 3 transaction structure



*The state sovereign fund amount is unknown.

Total project cost	Approximate cost $122 million to $130 million
Sponsor equity	African DFI $63 million[37] European DFI approximately $24 million – from government managed funds[38] Green fund manager $25 million[39]
Project development	European DFI $1 million Green fund manager $1.4 million
MIGA guarantee	MIGA issued $100.81 million in guarantees The guarantees cover up to 90% of investment and future earnings for up to 20 years, protecting against breach of contract, transfer restrictions, inconvertibility, expropriation, and war or civil disturbance.
Blended concessional finance	

[37]African DFI press announcement, which states $63 million strategic investment.
[38] The European DFI made this investment from several public funds that it manages which are not part of its own account. The source of this data is the DFI project disclosure. These are approved amounts which may differ from actual.
[39]Green fund manager project disclosure.

The project benefited from concessional finance through three channels:

1. Investment by a green fund manager, which deployed development and construction-stage equity from a large lifecycle blended finance facility.
2. A MIGA guarantee to the project SPV, supported by the International Development Association's (IDA) Private Sector Window.[40]
3. Deployment of off-balance sheet concessional funds by a European DFI, using government-provided capital that it manages.

Private capital mobilised

The green fund manager deployed its construction equity fund which includes private capital. Amount of private capital mobilised is not known.

Observations

Financial additionality: MDB and DFI investment was likely highly additional from a financial perspective and, ex ante, intended to play a critical demonstration role in the market. Financing renewable energy in this country was particularly challenging, with local banks largely disengaged due to limited capacity to assess projects and low tolerance for technology risk. Renewables were widely perceived as expensive and unreliable, resulting in minimal private investment in renewable energy. At the time, the country's renewable energy market was in its infancy – classified as nascent by the IEA in 2015 – and this wind farm represented the first major international energy investment following regulatory reforms that opened the sector to private participation.

BCF rationale: Given the lack of track record of renewable energy projects in the country, a limited private financing track record and low sovereign credit rating, the project would have been extremely difficult to finance through a traditional debt-plus-equity structure. It likely would not have proceeded without a blended finance approach.

The project used all sponsor equity financing enabled by BCF. This facilitated a faster financial close. Construction started within two years of signing, significantly less than the typical development cycle of three to five years when debt is involved in the financing structure at financial close.

Commercial sustainability/market reinforcement: Ex-post the demonstration impact remains unclear. There have been no IPPs since the investment was made for renewable energy projects. While the consortium is pursuing replication, there is little evidence that commercial private investors are being drawn in. It may simply be too early to assess, as a single investment is unlikely to shift market dynamics on its own. Moreover, due to the small size of the country and the current wind farm already producing approximately half of the electricity in the country, there is no immediate need for additional renewable production capacity.

[40] DFI project disclosure which states that IDA's MIGA Guarantee Facility acts as a shared-first loss layer to MIGA's guarantee of the equity investment for a total amount of $48.4 million.

Case study 4: Financial institutions I

Case study 4: FIs/agribusiness, 2020/2021
Investment background
In 2020–2021, the DFI entered into a transaction with two local commercial banks in the country (Bank A and Bank B). Each transaction consisted of a credit line provided from the DFI's own account, and a risk-sharing guarantee funded by a donor via the DFI, serving as first loss risk cover for each bank over their portfolio of sub-loans generated from the proceeds of the credit line. TA was also provided. The DFI's objective was to contribute to financial sector development in the country and support the provision of longer-term finance to the agri-food sector, especially SMEs. The overarching objective is to enable smallholder farmers to increase their value chain integration by engaging in more commercial value-added processes. The agriculture sector mainly comprises of subsistence agriculture, with most smallholders not bankable and not banked. Strengthening agricultural commercialisation in the country was widely reported as critical for income growth and poverty reduction, all the more important as the sector is increasingly hit by climate disasters (floods and droughts). Commercial banks' financial intermediation is low, with a high degree of concentration in a few corporates. Other DFIs and MDBs were also present in this country in support of the SMEs, through sovereign and non-sovereign projects, with Bank B only. The same donor was supporting the agri-sector through a different DFI around the same time, with a different product structure.
Ex-ante development impact
There is no explicit public record outlining the expected development impact of this investment. The project objectives look to improve access to finance for SMEs in the agrifood value chain, as they have limited access in the country. However, there is no information on the number of eligible firms that could have benefited from the facility, and no outlined expectation of the impact from the loan to the farmers, hence no ex-ante development impact analysis.
Transaction overview
The transaction consisted of two credit lines: 1. With Bank A in December 2020 for €12.5 million, supported by a €5 million grant (equivalent to 40% of the credit line acting as a first loss risk cover for Bank A's lending). The credit line's tenor was seven years, much longer than available on the market. 2. With Bank B for €12.5 million in June 2021, also supported by a €5 million grant (also 40%), with the same tenor.

Case study 4 transaction structure

The risk-sharing facility (funded from concessional finance) is intended to reduce Bank A's and B's credit risk, thereby allowing the banks to reduce their very high collateral requirements when lending, and to create market knowledge (especially on lending with low or no collateral) in a risky sector (agriculture).

Private capital mobilised

For each transaction, the DFI assumes that the transaction will mobilise 100% of the credit line in private capital in the agri supply chain.

Observations

Financial additionality: The agri sector certainly needs to reform through the commercialisation of its main actors by enhancing information systems, agricultural research, and communication and transport infrastructure (including a more extensive feeder road network), and by supporting the formation of farmer groups and cooperatives, training farmers on profitable crop production and marketing, and ensuring mutually beneficial contract farming arrangements. The government and development partners had put in place programmes for such commercialisation, including through the availability of grants to SMEs to boost their businesses.

Access to finance was an issue but the existing literature suggests there is a demand issue as well as a supply issue, as the majority of agribusinesses are micro, unbanked and unbankable. Supporting the sector via banks may not have been the most suitable instrument.

BCF rationale: No information is available on how the DFI had established the concessionality level, which was in fact high (40% of the sub-loan portfolio). Publicly available documentation does not make explicit how the DFI established this as the level necessary to ensure that the banks would extend finance to the agribusinesses. The other concern is the concomitance of the transactions with a World Bank-supported, state-owned local NDB created in 2018 that was providing partial credit guarantees to local banks engaged in the agriculture sector. That NDB was intended (at least nominally) to operate on a financially sustainable basis. This contrasts with the DFI's risk guarantee which was offered at a very high level (40% of the entire sub-loan portfolio) at, as far as we were able to ascertain, no or minimal cost for the banks.

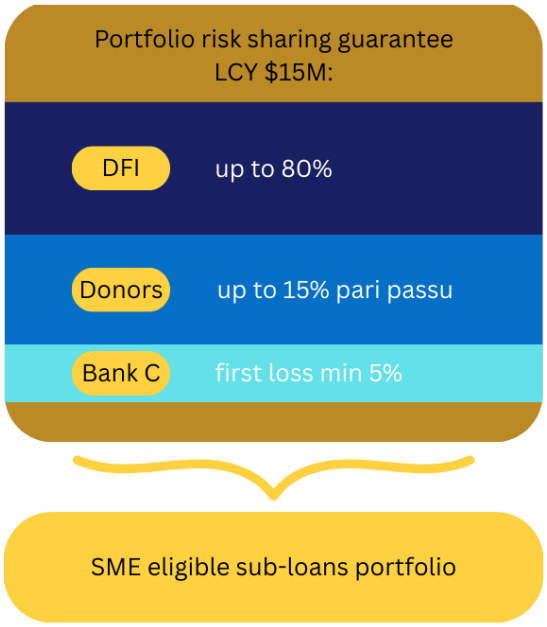
Commercial sustainability/market reinforcement: The two banks chosen by the DFI to implement the project had a relatively small market share and few branches at the time of project approval. This could have made the deployment of the DFI funding challenging. In fact, the DFI shared that Bank A has only partially disbursed the credit line and also partially used the risk sharing; whereas Bank B

has not disbursed the credit line at all and made only partial use of the risk sharing. However, Bank A's annual report shows an increase in its agriculture sector assets between 2020 and 2022, which could be attributed to the project. The DFI's own evaluation of the transactions concludes that: 1) the product was ill-adapted to the market (the funding was in FX, which agribusinesses were very reluctant to borrow in, given their revenue in LCY; and 2) the risk-sharing component was not able to shift the risk-aversion of the banks with regard to riskier businesses.

Case study 5: Financial institutions II

Case study 5 – FIs (SME lending), 2022
Investment background
This transaction took place in the country in 2022 to increase financial inclusion, especially SME access to credit, which was identified as an issue by various studies and surveys. High interest rates, collateral requirements and strict repayment timelines were key obstacles, and limited access was exacerbated by the COVID-19 pandemic. At that time, many DFIs/MDBs were active in the country to give SME access to credit via FIs, which perhaps suggests an over-crowded market. The transaction was the third for the DFI in the country using the same product. Other DFIs were also offering portfolio risk sharing to other banks around the same time, albeit with different structures. The DFI aimed to support SME access to finance, targeted at youth- and women-owned businesses. The intention was for Bank C to go beyond its existing lending processes/strategies and extend lending to underserved groups. The transaction was enabled by two donors that provided concessional finance as guarantees.
Ex-ante development impact
The expected development impact of this investment is not documented, other than the expectation that by offering both guarantees and TA to the lender and borrowers, financially excluded groups will be served by the financial system.
Transaction overview
The DFI's product was a $15 million equivalent LCY portfolio risk-sharing guarantee contracted with Bank C. The guarantee covered a maximum of 95% of a portfolio of SME eligible sub-loans, with Bank C maintaining a first loss exposure tranche of a minimum of 5%. The DFI itself benefited from donors' second loss guarantee applied to DFI exposure (at the level of 15% of the entire portfolio), which would have brought the risk profile of the guarantee within the DFI's acceptable risk level. The tenor of the guarantee is unknown, but it would have allowed Bank C to grow the portfolio of eligible sub-loans until the portfolio was seasoned and sufficient time had passed for credit risks to materialise.

Case study 5 transaction structure



Although the rationale is undisclosed, it can be assumed that BCF was deployed due to Bank C's perceived credit risk associated with lending to SMEs, especially sub-segments underserved by the financial sector. By taking most of the risk off Bank C, the DFI would enable Bank C to lend to these sub-groups, including with lower collateral requirements. For the DFI to respect its own risk management rules the BCF acted as a first loss, thereby reducing the loss given default that the DFI would have to bear.

As long as the portfolio's performance is closely monitored, the product should provide a feedback loop to Bank C for future lending, potentially creating market knowledge for future entrants.

Private capital mobilised

Private capital mobilisation is provided by Bank C's residual exposure on the SME portfolio. Ultimately, the DFI's intention was to transfer tranches of exposure over an entire programme of portfolio risk-sharing projects across multiple jurisdictions to commercial investors on a portfolio basis, but this has yet to happen.

Observations

Financial additionality: SME financial inclusion is an issue in the country, as evidenced by several surveys run by the Central Bank. Commercial banks are the main vector for SMEs to access finance – therefore the transaction's development impact and engagement via financial institutions is grounded in market realities.

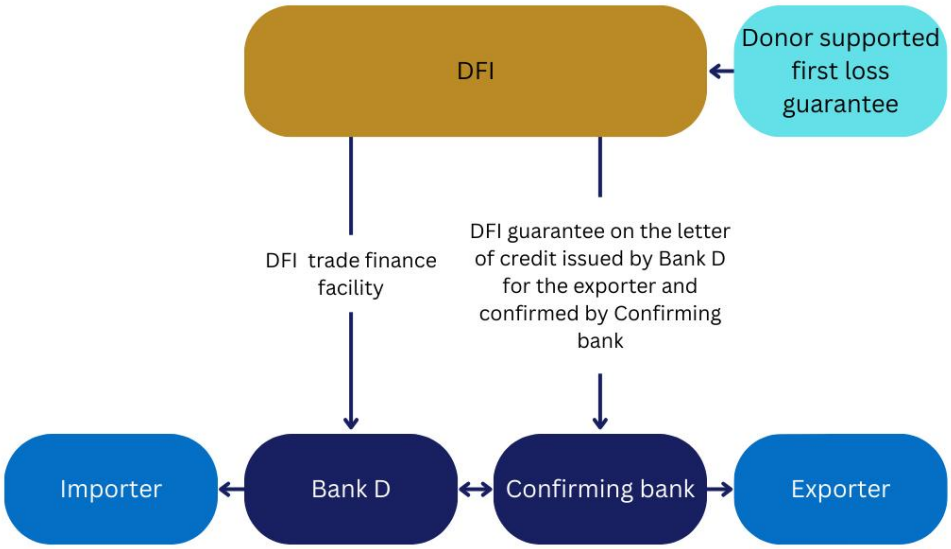
BCF rationale: As the product entails the DFI taking SME lending risk (which is typically high) on its balance sheet, engaging BCF seems to be justified. In fact, all other DFIs operating in the country and offering similar products also blended them with concessional finance. The product itself had an innovative structure, with Bank C taking the first loss on the portfolio. No information is disclosed on the level of concessionality at the transaction level (only at the level of the multi-jurisdictions programme), but the product seemed to engage less BCF (up to

15%) compared to other DFIs. The level of concessionality was also objective, grounded in financial models of the DFI.
Commercial sustainability/market reinforcement: There was a crowded market for intermediated lending to SMEs via DFIs at the time of the transaction, with each DFI providing its own product with different BCF structures and recipients (women-led SMEs, agri-SMEs, SMEs located in remote parts of the country, youth-led SMEs, etc.). This could make market demonstration hard to achieve and the 'first mover argument' to justify usage of BCF could be considered weak. The benefits of the transaction may in fact be limited to Bank C and its customers.

Case study 6: Financial institutions III

Case study 6 – FIs (trade finance), 2023
Investment background
The transaction was an unfunded trade facility of up to $10 million equivalent with Bank D in the country, signed in 2023 under a regional initiative to address the significant trade finance gap in Africa. The initiative had mobilised a pooled first loss of 25% of the initiative's overall volume, which was provided by donors. The transaction was also supported by an advisory service package to assist Bank D to enhance its existing risk management, IT system, corporate governance and trade finance operation. Following the global financial crisis in 2008–2009, international banks have become risk averse with regard to banks in frontier markets. These are considered too risky in terms of money laundering, Know Your Customer and sanction regime compliance. This has had a very negative impact on trade in these countries, which often depend on imports of essential goods and also commodity exports. Domestic banks in the country had not had any correspondent banking relationships with US banks for five years prior to signing of the facility. In a trade finance facility, a DFI assumes the trade-related payment risk of local issuing banks in frontier markets by providing guarantees to their correspondent confirming banks (and, in some countries, cash advances). A DFI will also help local issuing banks develop relationships with international counterparts, and it will enhance trade finance capabilities among local banks through training and TA. A few DFIs were active in trade finance in the country around the time of the transaction, including another DFI that had provided a $15 million trade finance facility with Bank D at the same time as the transaction in question.
Ex-ante development impact
The project is expected to strengthen Bank D's trade finance operations, including solutions and marketing materials. The DFI's disclosure documents only provide a broad overview of the expected impact of the trade finance facility, without specific projections on how the facility will concretely facilitate trade expansion and wider economic development.
Transaction overview
The facility was provided as an unfunded guarantee facility signed by Bank D for up to $10 million per transaction, which could not exceed six months. The guarantee is charged to the confirming bank, which passes the costs (which should reflect the reduced risk through that pricing) to Bank D. Should Bank D default on its obligation under the underlying documentation (e.g., letter of credit), then the DFI guarantee would be triggered by the confirming bank. At the portfolio level, the DFI would trigger the donor-funded first loss guarantee to compensate for the losses under the initiative.

Case study 6 transaction structure



The facility has been used by Bank D to support several trade transactions.

Private capital mobilised

The DFI reported to the research team that some level of private capital was mobilised as part of these transactions.

Observations

Financial additionality: Trade finance is vital for a number of countries in Africa. Given the lack of existing corresponding bank relationships held by local banks in the country, the financial additionality of the transaction is clear and well established.

BCF rationale: The DFI justifies the engagement of BCF at the initiative level on the credit downgrades of the country and its counterparts in Africa, and thus the increased risk. The level of concessionality is relatively low because of the portfolio structure of the first loss guarantee provided by donors (25% at the portfolio level). However, it seems that another DFI was able to provide trade finance to local banks, including Bank D, reportedly without concessionality (although no documentation exists to confirm this) and with a longer tenor (12 months), making the guarantee more risky.

Commercial sustainability/market reinforcement: The TA support to Bank D, as well as the DFI acting as a trusted facilitator among cross-border correspondent banks and Bank D, could strengthen Bank D's trade integration. Over time, these conditions could also encourage regular trade connections – although this is obviously a long-term ambition.

Case study 7: Financial institutions III

Case study 7 – FIs (SME finance), 2020

Investment background

In 2020, a DFI signed a $25 million LCY equivalent risk-sharing facility aimed at expanding Bank E's lending to SMEs in the country, particularly women-owned businesses in some particularly vulnerable regions. The facility was part of a multi-jurisdiction programme led by the DFI that benefits from donor support.

SME access to credit is a major issue in the country, despite several government-led structural reforms (e.g., credit bureaus) and Central Bank regulation that incentivises banks to lend to the real economy. Firms face limited availability of medium- and long-term credit, high collateral requirements and high interest rates.

At the time of the transaction, several DFIs/MDBs were providing SME finance through a range of liquidity and risk-mitigating products to a number of local FIs (though not Bank E). These involved BCF in some cases, Importantly, at around the same time, the local NDB (which had been sponsored by bilateral and multinational DFIs) had just launched a subsidiary dedicated to providing risk-sharing products to local banks on a commercial basis.

Ex-ante development impact

The project aims to boost financial access for underserved SMEs in the country by improving risk management, offering inclusive capacity-building and demonstrating commercial viability. This approach is expected to enhance competitiveness across the banking sector as other banks replicate Bank E's success and expand their own services to these segments. The development impact disclosure remains broad, lacking quantitative estimates of the anticipated number of firms and individuals that stand to benefit (it discloses only the percentage of women-led businesses expected to be reached by the project – a minimum of 35%).

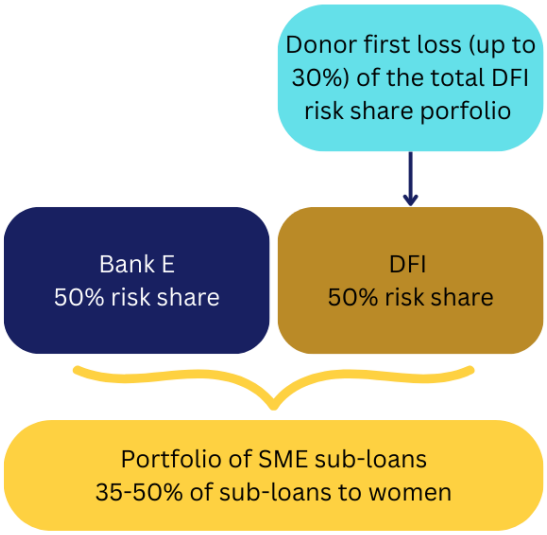
Transaction overview

The transaction between the DFI and Bank E took place under a programme structured as a mechanism pooling together a portfolio of the DFI's risk-sharing facilities with FIs covering a portfolio of SME sub-loans. The objective is to encourage local FIs to offer lower interests rates to the sub- borrowers, or indeed to extend loans to sub-groups that would not otherwise receive credit.

The programme benefits from a donor-provided first loss guarantee tranche of approximately 30% on the DFI share at the level of the portfolio of transactions (meaning that the donor first loss was bearing 15% of the risk of the entire portfolio of sub-loans at the programme level). Through pooling these transactions under a first loss guarantee, the DFI maintains a lower credit risk rating for the portfolio than what would be applied to each of the underlying facilities, making it possible to maintain a fixed price target across all risk-sharing facilities.

At the level of the transaction, the DFI committed to a maximum exposure amount for a three-year ramp up period during which Bank E would build the portfolio against eligibility criteria and pre-defined ratios. Bank E and the DFI would then share the losses on the defaulted sub-loans on a 50/50 basis. In addition, Bank E was offered a performance-based incentive paid upon achieving gender targets (35% of the lending to women-led SMEs).

Case study 7 transaction structure



Private capital mobilised

The structure of the transaction results in the mobilisation of Bank E's funding ($25 million).

Observations

Financial additionality: SME access to credit is an acute issue in the country. The transaction targeted the issue with a powerful instrument – risk-sharing, which incentivises Bank E to lend more and under better conditions to target groups. Although the product was offered by other DFIs at around the same time, and by the NDB, the market size suggests there was room for all of these products to coexist at the same time.

BCF rationale: Most risk-sharing products offered by DFIs entail the engagement of BCF. The BCF instrument used is that of a guarantee at the portfolio level which targets the obstacle correctly (although the level of BCF at the portfolio level of 30% could be higher than other similar products – see case study 5 – but comparison is difficult). Also, as the guarantee operates at the portfolio level, it makes efficient use of the donor resources. The performance incentive rationale is less clear: the DFI uses this to encourage lending to women-led SMEs, which are an underserved segment; and the payments are ex-post and results-based. However, it is not clear how the level is calculated (although the amounts seem to be small – about 1.14% of the DFI risk-sharing facility to Bank E).

Commercial sustainability/market reinforcement: Although the country is large, the multiplication of projects with different beneficiary groups and structures targeting the same banks may make implementation challenging at the level of the banks themselves. Yet the DFI's intention was, through the transaction, to demonstrate that this underserved segment can be commercially viable. The theory of change – that by competing for market share on this newly bankable segment, the banks in the country would progressively lower their pricing and introduce new, better suited projects – may be overly optimistic, especially given the small size of the transaction.

Case study 8: Agri-value chain I

Case study 8 – Agri-value chain, 2023

Investment background

Agriculture accounts for 23% of this country's GDP, nearly 45% of employment and approximately 66% of exports, with cocoa alone contributing 22% to GDP and representing around 40% of global supply. The sector faces four key challenges: (1) structural inequality, as most cocoa is exported unprocessed; (2) sourcing complexity and risk, since cocoa is grown by smallholders in remote areas; (3) environmental concerns, especially deforestation risks; and (4) widespread child labour, driven by low cocoa prices that prevent farmers from hiring adult workers.

The company is committed to sourcing cocoa sustainably, having established its Forest Protection Policy in 2019. This includes a commitment to prevent deforestation, achieve full traceability in the direct supply chain, and support the rehabilitation and conservation of degraded landscapes. In the same year, it also joined the International Cocoa Initiative, which works to address child and forced labour in the country's cocoa sector.

In 2023, DFI 1 provided a working capital loan to a major global commodity trader to support traceable, sustainable cocoa procurement and export. With nearly $1 billion in equity and a strong risk profile, the company plays a central role in the national cocoa supply chain and invests with a long-term horizon.

The company had benefited from MDB financing immediately before and after DFI 1's syndicated loan.

Ex-ante development impact

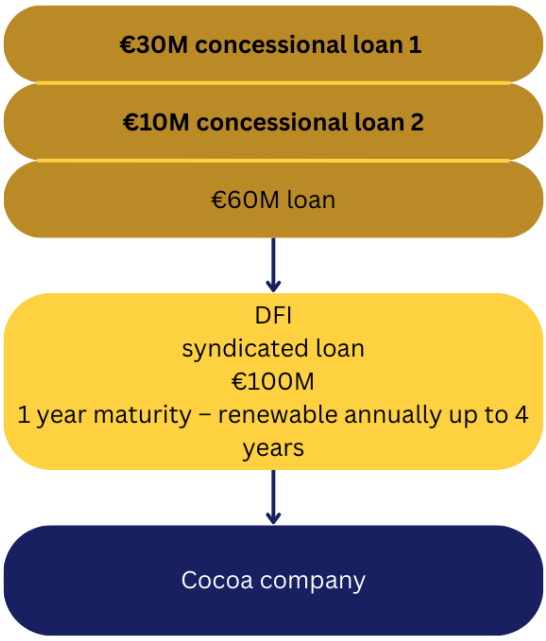
The project is expected to support the livelihoods of a significant number of smallholder farmers in the country who supply cocoa beans to the cocoa company. Cocoa farming is a critical sector for the country's economy, but many cocoa farmers are among the poorest population groups in the country. The cocoa company's pre-harvest finance provides farmer suppliers with access to funds for fertilizers, pruning and farm upkeep, and the DFI is considering providing advisory services to farmers through training on financial literacy, farm management and good agricultural practices.

Beyond the project, the cocoa company's sustainability programmes to cocoa farmers are expected to positively impact cocoa quality, the efficiency and effectiveness of cocoa production, and the supply of sustainable and traceable cocoa. These outcomes should contribute to promoting the competitiveness and sustainability of the country's cocoa sector.

Transaction overview

In 2023, DFI 1 led a €100 million syndicated loan of one-year maturity which was renewable annually for up to four years. Another DFI joined the syndication (DFI 2).

Case study 8 transaction structure



Blended concessional capital

DFI 1 made a total loan of €100 million. Of this, €40 million was financed by two concessional finance facilities managed by the DFI (€30 million funded by facility 1 and €10 million funded by facility 2).

The subsidy is estimated to be 1.2% of the total project cost (€100 million).

The subsidy estimate is based on the difference between: (i) a 'reference price' (either a market price if available; the price calculated using the DFI's pricing model, which comprises three main elements: risk, cost and profit; or a negotiated price), and (ii) the 'concessional price' being charged by the BCF co-investment.

Private capital mobilised

Zero

Observations

Financial additionality: The overall financial additionality of DFI 1's loan remains unclear. The company, a large commodity aggregator with close to $1 billion in equity, had a strong track record of securing commercial funding. Prior to and following the DFI loan, it regularly renewed revolving credit facilities with commercial banks. In June 2021, it secured an oversubscribed $420 million sustainability-linked loan arranged by Société Générale and Rabobank, tied to key performance indicators on child labour, reforestation and water use. By 2024, this facility was renewed and expanded to $600 million with 24 commercial banks. The strong access to commercial capital suggests that the concessional finance may not have been essential in financial terms.

BCF rationale: According to DFI 1, the company was entering the sustainable cocoa market for the first time, requiring significant upfront investment in certification systems and supply chain infrastructure. Limited working capital and heightened liquidity constraints in a volatile market made this difficult, so DFI 1 provided financing, restricted to supporting the green cocoa supply chain, blended

with concessional funding to make the initial €100 million investment viable. Only one other DFI joined the first syndication (DFI 2), prompting DFI 1 to take on greater risk. Once the model was established, additional DFIs participated in a second round of financing without the need for BCF.

While BCF helped de-risk the investee's expansion into sustainable cocoa and supported compliance with the EU Deforestation Regulation, its role is unclear in enabling entry into a new market. The investee had already begun developing its sustainable supply chain prior to DFI 1's involvement, including early investments in farm mapping and sustainability commitments. The DFI also stated that global banks were retreating from commodity trade finance. However, the company had been able to maintain its $420 million sustainability-linked revolving credit facility with a group of commercial banks in 2023, and it was able to extend this to $600 million in 2024 with a larger group of 24 commercial banks with certain KPIs on child labour, deforestation free sourcing and scope-3 greenhouse gas emission (GHG) reductions. Thus, BCF complemented and accelerated an existing strategy, rather than initiated a new strategy.

Commercial sustainability/market reinforcement: While BCF supported the investee's transition towards EU Deforestation Regulation compliance, similar requirements also apply to the investee's competitors, who do not appear to have received similar concessional support. This raises concerns about potential market distortion, as publicly backed concessional finance may unintentionally offer competitive advantage to select firms. This highlights the need for transparency and level-playing-field considerations in BCF deployment.

Case study 9: Agri-value chain II

Case study 9 – Agri-value chain, 2022

Investment background

Agriculture accounts for nearly half of employment in the country but contributes just 3% of GDP, reflecting its low value addition. Improving agricultural productivity and developing agri-processing capabilities in the country can create significant value, particularly through scaled investment along agribusiness value chains.

In 2022, a DFI loan was provided to a leading integrated agribusiness operating across cropping, animal husbandry, meat processing and food distribution. The company is the dominant player in the country's livestock processing sector and one of the largest agribusinesses in the region. Listed on both the country's Securities Exchange and London's AIM, the company had previously received DFI support and maintained multiple commercial bank facilities at the time of the loan.

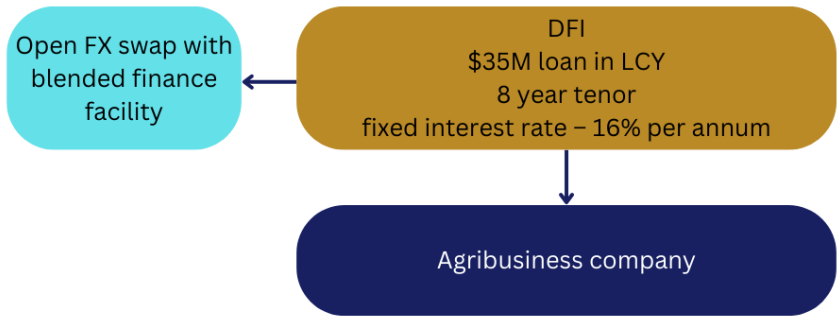
Ex-ante development impact

The investment is expected to improve the agribusiness's value chain, create almost 1,400 new jobs, expand government tax revenue, and support small-scale farmers and SMEs. It will also increase access to high-quality and affordable protein foods. Additionally, the investment is expected to contribute to climate mitigation by supporting efforts to improve the energy and fuel efficiency of the agribusiness, reducing annual GHG emissions by more than 14,000 metric tons.[41]

Transaction overview

The loan supported the investee company's three-year plan to expand its food production and processing capacities, and enabled it to source more key inputs such as wheat, dairy and animal feed ingredients from local suppliers.

Case study 9 transaction structure



Total project cost	$61.5 million
DFI loan	DFI own account LCY loan of $35 million equivalent, supported by an open FX swap with a DFI group-wide LCY blended finance facility.

[41] DFI news article on the project.

	Tenor of eight years and a fixed interest rate of 16% per annum.

Blended concessional finance

The subsidy is estimated as 18% of total project cost. It is calculated as the difference between: (i) a 'reference swap rate' and (ii) the 'concessional swap rate' being received by the LCY blended finance facility.

Private capital mobilised

Unknown, but total project cost amounts to $61.5 million.

Observations

Financial additionality: The DFI's provision of long-term, fixed-rate LCY financing offered meaningful financial additionality, aligning with the company's strategic focus on increased local sourcing and offering stability in a context of exchange rate volatility. Local banks faced structural constraints, such as single borrower limits and FX risk exposure, which limited their ability to offer similar financing. This reinforced the relevance of the DFI's role. The resulting loan terms were generally in line with prevailing market rates, particularly when considering the size and fixed-rate nature of the loan.

BCF rationale: While concessional finance can play a valuable role in enabling large, long-tenor LCY loans, its use in this case raises an important question.

The loan was of a slightly longer duration than the company's commercial bank loans and facilities on the balance sheet. This longer tenor was necessary given that it was to finance capital expenditure. However, it was also significantly larger than the company's commercial facilities and previous DFI investments. At the early review stage, the loan was initially proposed at $12 million, but by the time it reached Board approval, it had increased to $35 million to support the company's accelerated expansion plans.

There were limited alternatives for structuring long-term LCY finance of this size. While market actors like TCX were active in the country, they were unable to provide a viable solution for a loan of this size and structure at the time. The DFI explored multiple avenues, including partnerships with local banks and TCX, but ultimately had to provide the LCY financing directly. The DFI was able to enter into an open FX swap with a LCY blended finance facility.

The significant increase in the loan size to accelerate expansion plans meant that a market-based solution was not available.

This prompts reflection on whether concessional resources are best used to support the growth ambitions of listed companies with demonstrated access to commercial finance.

Commercial sustainability/market reinforcement: The DFI's support to the company, while impactful, remained unique within the country's agribusiness sector. The absence of similar support for other players invites reflection on competitive neutrality and market distortion. In this case, it is important to note that, prior to this BCF investment, the company had benefited from numerous rounds of DFI debt and equity investment (by different DFIs) to finance its capital expansion over a 12-year period. Although it is unknown whether this investment was concessional or not.

This highlights the importance of developing clear strategies for gradually transitioning listed firms away from DFI support, ensuring a level playing field and sustainable market development.