



# PROTOTYPE ACTION PLAN TO MOBILIZE PRIVATE INVESTMENT AT SCALE

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## NOTE:

This report targets blended finance practitioners. A briefer [Summary Report](#) is available for policy makers and executives. The data Convergence has full confidence on accuracy are (i) the Convergence Market Data and (ii) data reported from various sources and reports (e.g., the OECD private investment mobilization data). To derive the data for best insights in this report required informed interpretations. In the consultations completed in 2025-26, Convergence made best efforts to validate the amounts presented in this report.

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TERM	DEFINITIONS
<b>Big 3 Rating Agencies</b>	Fitch Ratings, Moody's Ratings, and Standard & Poor's (S&P).
<b>Bilateral DFI</b>	Development finance institution (DFI) owned by a high-income country, e.g., UK British International Investment.
<b>Blended finance</b>	This report adopts the OECD DAC definition: The strategic use of development finance for the mobilisation of additional finance towards sustainable development in developing countries.
<b>Catalytic &amp; Concessional Funders</b>	Public sector and philanthropic sector organizations prepared to allocate catalytic & concessional finance to mobilize private investors to impact investment in developing countries. For example, the Swedish International Development Cooperation Agency and the Gates Foundation.
<b>COP 29 NCQG</b>	The New Collective Quantified Goal for Climate Finance agreed by the participants at COP29.
<b>Country ceiling</b>	The maximum (best) level of foreign currency credit ratings for issuers in a country, reflecting the risk that the government could impose capital controls or foreign exchange restrictions that interfere with repayment to foreign creditors. It is not itself a credit rating, but rather a cap or constraint on ratings. The <b>country ceiling acts as a practical upper bound</b> on domestic issuers' foreign currency ratings in that country; effectively all governments, banks, financial institutions, companies, and projects would be rated at or below the country ceiling. For example, Fitch have published a Kenya country ceiling of "B" and a Kenya sovereign credit rating of "B-". For most developing countries, (i) the country ceiling is usually 1-2 notches above the sovereign credit rating and (ii) almost all private sector borrowers are rated below the sovereign credit rating.
<b>Country risk</b>	S&P defines country risk as the broad range of economic, institutional, financial, and legal risks arising from operating within a specific country that can affect a non-sovereign entity's credit quality. S&P analyzes four main sub-factors to determine country risk: <ul style="list-style-type: none"> <li>• <b>Economic Risk:</b> Evaluates the structure and stability of the economy, including economic growth, inflation, and external imbalances.</li> <li>• <b>Institutional Risk:</b> Assesses the effectiveness of the government, political stability, and the transparency of policymaking.</li> <li>• <b>Financial System Risk:</b> Measures the risks within the banking and financial sector, such as regulation, supervision, and access to capital.</li> <li>• <b>Payment Culture/Rule-of-Law Risk:</b> Evaluates the legal system, protection of property rights, and efficiency of contract enforcement.</li> </ul>
<b>Developed country</b>	A high-income country.
<b>Developing country</b>	A low or middle-income country eligible for Official Development Assistance (ODA) – as identified on the OECD Development Assistance Committee (DAC) list.
<b>Development finance institutions</b>	A multilateral development bank (MDB), Bilateral DFI, or National Development Bank (NDB).
<b>FFD4 Outcome Document</b>	Abbreviation for the Financing for Development 4 Outcome Document. Also known as the Sevilla Commitment and <i>Compromiso de Sevilla</i> . The final document agreed by UN member states at the 2025 Sevilla fourth international conference on financing for development.
<b>Fiduciary and regulatory investment obligations</b>	This expression is used throughout the report to characterize investment behaviour pursuant to regular, normal market practices.  Duties that govern how an investor, portfolio manager, fund manager, trustee or adviser must handle investments on behalf of themselves, their organization and others. Fiduciary duties focus on acting loyally and prudently for oneself, one's organization, or for clients, while regulatory obligations are the legal rules set by governments or regulators that must be followed.

<b>Institutional investor</b>	A large organization or entity that pools funds from multiple sources—such as clients, members, or employees—and invests them professionally in securities, real estate, or other assets, often on a massive scale. In this report, it primarily refers to pension companies, insurance companies, investment funds, and sovereign wealth funds.
<b>Investment grade</b>	Debt investment (e.g., loan, bond, note or debt security) that is considered to have relatively low default risk and a solid credit quality. In practice, it refers to ratings of “BBB-” and higher from S&P and Fitch, or “Baa3” and higher from Moody’s.
<b>Multilateral development bank (MDB)</b>	Development finance institution owned by multiple countries, e.g., International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), African Development Bank (AfDB).
<b>National Development Bank (NDB)</b>	Development finance institution owned by one developing country, e.g., Uganda Development Bank.
<b>Non-investment grade</b>	Debt investment (e.g., loan, bond, note or debt security) that is considered to have higher risk of default than investment grade securities. It is also commonly called speculative grade or high yield, and it applies to ratings “BB+” and below from S&P and Fitch, or “Ba1” and below from Moody’s.
<b>OECD DAC country</b>	High-income country that is a member of the OECD Development Assistance Committee.
<b>Official Development Assistance (ODA)</b>	Government aid from 33 OECD DAC countries designed to promote economic development and welfare in developing countries. It consists mainly of grants or highly concessional loans from official agencies. Flows must be: (i) from official providers like governments, (ii) aimed primarily at development in eligible recipient countries, and (iii) concessional.
<b>Official Development Finance (ODF)</b>	Public sector financial flows provided to support development in low- and middle-income countries. It is a broader category than ODA and can include concessional aid, multilateral development lending, and other official flows that support development but are not always soft enough to qualify as ODA.  In this report, ODF refers to the aggregate of ODA, MDB financing commitments, and Bilateral DFI financing commitments.
<b>Private Investment Mobilization Models (PIMMs)</b>	A blended finance solution to mobilize private investment to impact investment in developing countries to finance the SDGs and climate finance. See Part 2, Section 5.
<b>Sovereign credit rating</b>	Assessment of a government’s ability and willingness to meet its debt obligations, including both explicit and implicit ones. It is issued typically by rating agencies like S&P, Moody’s, and Fitch to gauge default risk on sovereign bonds or loans.  Think of it as a country’s “credit score”: higher ratings (like AAA) signal low risk and easier borrowing at lower rates, while lower ones (like CCC) indicate higher default potential and costlier debt.
<b>SDG investment gap</b>	Annual shortfall between (i) what developing countries need to invest to achieve the SDGs and (ii) what is actually being invested. UNCTAD estimates that gap at about \$4 trillion in 2024 (midpoint of the 2030 Agenda), up from \$2 trillion in 2015.
<b>SPA Mobilization Action Plan</b>	Joint initiative from 19 countries and organizations established at the July 2025 Sevilla Platform for Action (SPA) launch - to develop an action plan to mobilize private investment at scale to achieve the mobilization objectives of the FFD4 Outcome Document.



# EXECUTIVE SUMMARY

**T**his report focuses on good practice blended finance to mobilize private investment at scale to achieve the mobilization objectives of the FFD4 Outcome Document and the COP29 New Collective Quantified Goal (NCQG). The report identifies how developing and developed country governments can use some fiscal resources and govern development finance institutions (DFIs) to reduce risk and mobilize. But developing country governments will also require a strong blended finance enabling environment and framework to participate in good practice mobilization. The [Strategic Framework for Blended Finance](#) published by UNDP and Convergence describes how developing country governments can create that enabling environment.

- The [Fourth International Conference on Financing for Development \(FFD4\) Outcome Document \(Sevilla Commitment\)](#)<sup>1</sup> agreed by UN member states in 2025, prioritizes using blended finance to mobilize private investment to narrow the \$ 4 trillion SDG investment gap<sup>2</sup> in [low & middle-income countries](#).<sup>3</sup> The FFD4 Outcome Document is the first time developing and developed country governments agreed in a high-level strategic document to prioritize private investment mobilization with significant, detailed content. Box ES.1 provides a summary.
- At the 2025 Sevilla FFD4 conference, 19 countries and organizations launched a Sevilla Platform for Action (SPA) joint initiative to develop an action plan

to mobilize private investment at scale to achieve the mobilization objectives of the Sevilla Commitment (i.e., the SPA Mobilization Action Plan).

- The 2024 [COP29 NCQG](#) set the objective to increase annual climate finance/investment in developing countries by 2035: (i) a minimum of \$300 billion in international climate finance and (ii) a call to scale up climate finance from all public and private sources to at least \$1.3 trillion.

## Box ES.1: Summary of private investment mobilization content of FFD4 Outcome Document

We agree to urgently narrow the \$4 trillion SDG investment gap in developing countries, including through blended finance to mobilize private investment at scale impact and scale investment volumes to achieve developing countries' national priorities subject to four conditions:

- i Financial additionality: Mobilize private investment that would otherwise not invest in the project or developing countries
- ii Standardize blended finance in a limited number of solutions
- iii Mobilize with debt sustainability
- iv Use public sector funding to share risk fairly with private sector investors

1 This report uses the expression FFD4 Outcome Document and Sevilla Commitment interchangeably.

2 Estimated in 2025 by UNCTAD and OECD.

3 The Scale Private Investment Mobilization Project and this report focuses on the 142 low and middle-income countries on the OECD Development Assistance Committee list of countries eligible for Official Development Assistance.



**Blended finance to mobilize private investment is the strongest, and perhaps only, viable pathway to achieve the Sustainable Development Goals (SDGs) and Paris Agreement objectives in developing countries.**

Blended finance and private investment mobilization have been practiced for 40+ years and operate differently than as described in the FFD4 Outcome Document and the ambitions of the NCQG. It is highly unlikely blended finance will organically and voluntarily reform to achieve the scale mobilization objectives of the Sevilla Commitment and NCQG.

**The past decade has seen a 40% increase in global financial assets, but a decline in cross-border private sector investment to developing countries.**

The [Financial Stability Board](#) estimates global financial assets at \$504 trillion, but only around 5% is located in developing countries (*ex China*). Various United Nations reports, the [World Bank International Debt Reports](#), the [World Investment Report](#), the [Financing for Sustainable Development Report](#), the [Sustainable Development Goals Report](#), and the [SDG Investment Trends Monitor](#) indicate foreign direct investment, net debt, and net portfolio equity investment from developed countries to developing countries have actually been lower in the decade following the 2015 FFD3 Outcome Document ([Addis Ababa Action Agenda](#)<sup>4</sup>) and Paris Agreement than the decade before.

Convergence has engaged 12 investor groups and hundreds of investors to identify the main investment challenges/barriers to invest in developing countries, these include:

- i High assessed/perceived country risk (e.g., the Big 3 Rating Agencies' median sovereign credit rating for developing countries is highly speculative "B-" and 76% of countries are rated "B" or lower)
- ii Currency risk (e.g., median depreciation to USD has been around 2.1% with high volatility).

Applying the "country ceiling" investment convention results in implied risk ratings of "B" and "CCC" for the large majority of public and private sector borrowers in developing countries. This level of risk is beyond the fiduciary and regulatory investment mandates of most private investors.

**Effectively, there are many strong companies, financial institutions, and projects that warrant investment, but are located in developing countries with high perceived/assessed country risk.**

Developed country investors have the option to invest in developed or developing countries, but decide rationally to remain invested in developed countries due to this high country risk.

4 The only references to blended finance were observational and not action oriented: "We also recognize the potential of new investment vehicles, such as development-oriented venture capital funds, potentially with public partners, blended finance, risk mitigation instruments, and innovative debt funding structures with appropriate risk management and regulatory frameworks (Clause 43)" and "For harnessing the potential of blended finance instruments for sustainable development, careful consideration should be given to the appropriate structure and use of blended finance instruments. Projects involving blended finance, including public-private partnerships, should share risks and reward fairly, include clear accountability mechanisms and meet social and environmental standards (Clause 48)"



Because private investors generally perceive country risk in developing countries as high and beyond their fiduciary and regulatory investment mandates, investment mobilization at scale will require governments to:

- i govern their development finance institutions and
- ii deploy some fiscal resources to reduce risk to within investors' mandates.

Good practice blended finance solutions should reduce four types of risk (in rank order) to mobilize investors to finance public and private sector investment at scale equitably across the 142 low and middle-income countries:

- i **Mitigate country risk** mobilizing (mostly) cross-border/developed country investors to invest in
  - i sovereign debt and
  - ii debt and equity to the private sector
- ii **Mitigate currency risk** for investors, investment recipients, and countries – mobilizing (mostly) cross-border/developed country investors
- iii **Mitigate sovereign credit risk**
- iv **Mitigate non-country risk** (e.g., industry, sector, business, financial, and project-specific risks) mobilizing domestic and cross-border/developed country investors to invest in private sector companies, financial institutions, and projects

This report proposes a Prototype Action Plan with seven components that can mobilize private investment at scale to achieve the Sevilla Commitment and COP29 NCQG mobilization objectives – using public sector funds effectively, efficiently, and fairly. The report has been developed over the past 18 months engaging with 200+ countries and organizations using evidence from the past 15 years of blended finance and private investment mobilization. **See Table ES.1 for the Prototype Action Plan's seven components.** The Prototype Action Plan shows how to significantly increase public and private sector investment in developing countries despite declining Official Development Assistance (ODA).

Convergence recommends a core group of developing and developed country governments collaborate in 2026-27 to:

- i review the Prototype Action Plan,
- ii agree to a process to transform the prototype into a final action plan the governments can agree (supported by UN agencies and Convergence), and
- iii propose the final action plan to a broader group of governments they endorse and begin to implement in 2027.

Successful mobilization at scale impact and investment volumes will require a majority of developing and developed country governments to endorse and implement the action plan.<sup>5</sup>

5 At the Sevilla conference, the United Nations and Spain launched the [Sevilla Platform for Action \(SPA\)](#) to champion initiatives that achieve the FFD4 Outcome Document objectives. [One of the key initiatives](#) is to transform the high-level content of the FFD4 Outcome Document into an action plan to mobilize private investment at scale impact and investment volumes (the "SPA Mobilization Action Plan" co-proposed by 19 countries and organizations). Convergence will propose the Prototype Action Plan to the co-leaders of that initiative.

Convergence estimates that implementing the Prototype Action Plan, using existing development finance resources, could increase private investment mobilization from around \$70 billion annually to \$1+ trillion and save developing country governments \$90+ billion in lower interest costs.

Table ES.1: Prototype Action Plan

	COMPONENT	DESCRIPTION OF BLENDED FINANCE STATUS QUO	SEVILLA FFD4 OUTCOME DOCUMENT – RELEVANT LANGUAGE	REPORT RECOMMENDATIONS AND RELEVANT SECTION OF REPORT
1	<p><b>Developing and developed country governments should co-lead private investment mobilization</b></p> <p>– agreeing an action plan to deploy blended finance to mobilize private investment at scale impact and investment volumes..</p>	<p>Blended finance to date has been fragmented, uncoordinated, inefficient, and non-strategic. At most, blended finance by official development finance countries/ organizations mobilizes around \$70 billion of private investment annually – less than 1.2% of the annual SDG and climate investment needs in developing countries. As well, blended finance has involved limited participation from recipient developing countries.</p>	<p><b>CLAUSES 1, 6, AND 7:</b></p> <p><i>We, the Heads of State and Government and High Representatives, have gathered ... to renew the global financing for development framework, building on the 2015 Addis Ababa Action Agenda.</i></p> <p><i>We decide to launch an <b>ambitious package of reforms and actions to close this financing gap with urgency and catalyse sustainable development investments at scale. We will provide and mobilize additional, innovative, adequate, affordable, predictable and accessible financing from all sources, recognizing the comparative advantages of public and private finance.</b></i></p> <p><i>We commit to continued <b>reform of the international financial architecture.</b> [...] To better reflect today's realities, we commit to make global economic governance more inclusive, representative, equitable and effective.</i></p>	<p><b>PART 2, COMPONENT 1:</b></p> <p>Scale mobilization requires developing and developed country governments deploying their fiscal resources and governing DFIs complementarily pursuant to a strategy or action plan.</p> <p>Recommend a <b>coalition of willing developing and developed country governments jointly develop a final action plan</b> to mobilize private investment at scale.</p>
2	<p><b>Government shareholders must determine the maximum contributions</b></p> <p>MDBs can make to the SDGs and Paris Agreement objectives by providing financing and mobilizing private investment and govern them accordingly.</p>	<p>MDBs report they mobilize around \$40 billion of Private Direct Mobilization annually – a long way from the “Billions to Trillions” ambition of their 2015 report.</p>	<p><b>CLAUSE 33:</b></p> <p><i>We encourage the MDBs and DFIs to strengthen their catalyzing capacity for private sector financing in developing countries.</i></p> <p><i>We invite MDBs and DFIs to harmonize and strengthen impact metrics to support mobilization targets... and to align incentives with maximizing sustainable development impact tailored to national priorities.</i></p>	<p><b>PART 2, COMPONENT 2:</b></p> <p>To achieve scale mobilization requires MDB shareholders (governments) to interrogate MDBs’ investment and mobilization capacities with ratings agencies and then to govern them accordingly to achieve the investment objectives of the Sevilla Commitment and NCGQ.</p>

<p>3</p>	<p>Developing and developed country governments should agree that <b>the purpose of blended finance is to mobilize private investment</b> focused on <u>Private Direct Mobilization</u> as defined by MDBs (i.e., “<u>financing from a private entity on commercial terms due to active and direct involvement of a MDB leading to commitment</u>”).</p>	<p>First, the majority of blended finance to date has mixed concessional and non-concessional public finance with limited private investment mobilization. Second, the majority of private investment mobilized by MDBs and DFIs has been Private Indirect Mobilization; this investment is mostly co-investment from project sponsors that is mandatory in MDB and DFI private sector operations and where an MDB or DFI has played no active role.</p>	<p><i>We decided to launch an ambitious package of reforms and actions to <b>close this financing gap with urgency and catalyze sustainable development investments at scale</b> (6)</i></p> <p><i>We will <b>provide and mobilize additional, innovative, adequate, affordable, predictable and accessible financing from all sources, recognizing the comparative advantages of public and private finance</b> (6)</i></p> <p><i>We call for <b>blended finance initiatives to ensure financial additionality</b> and development additionality (33 g iv).</i></p>	<p><b>PART 2, COMPONENT 3:</b></p> <p>Recommend developing and developed countries agree:</p> <ul style="list-style-type: none"> <li>• Blended finance is a complementary development tool to traditional development finance tools like grants, subsidized public sector loans, and private sector development finance</li> <li>• The most beneficial use of blended finance is to mobilize “additional” private investment to finance SDG and climate investment in developing countries that would otherwise not happen</li> <li>• The primary focus of blended finance is to mobilize Private Direct Mobilization - financing from a private entity on commercial terms due to active and direct involvement of a public sector organization.</li> </ul>
<p>4</p>	<p>Developing country governments should <b>identify national priorities for private investment mobilization</b>, and then ideally in national and regional private investment mobilization programs.</p>	<p>Almost all private investment mobilization has happened in MDB and Bilateral DFI private sector operations with no/limited involvement of developing country governments. Most blended finance has been in the form of hard currency debt (likely 85%+ of volumes), inconsistent with debt sustainability.</p>	<p><b>CLAUSES 33, 36, 37 AND 40:</b></p> <p><i>We call for blended finance initiatives to <b>promote country ownership.</b></i></p> <p><i>We will promote sustained foreign direct investment in developing countries, <b>in accordance with the respective countries’ investment priorities.</b></i></p> <p><i>We urge developed countries to increase official development assistance <b>programmed at the country level and aligned with the sustainable development priorities of recipient countries.</b></i></p>	<p><b>PART 2, COMPONENT 4:</b></p> <p>As per the FFD4 Outcome Document, private investment should be mobilized to developing countries’ national priorities.</p> <p>Recommend developing country governments clearly identify their mobilization priorities in national and regional private investment mobilization programs; the former developed by individual developing country governments and the latter co-developed jointly by developing and developed country governments.</p> <p><u>National Priorities:</u> At a minimum, each participating developing country should rank on a scale of 1-100 its mobilization priorities. This ranking provides guidance to all organizations in development, development finance, private investment mobilization, and private investment. This ranking would guide the selection of the best blended finance solutions at the country and regional levels.</p>

<p>5</p>	<p><b>Developing and developed country governments should agree, with private sector investors, on a package of blended finance solutions to standardize and replicate</b> – creating investments that meet the fiduciary and regulatory investment mandates of private investors, and that require less (or no) concessional public sector funds over time.</p>	<p>Cross-border private investment from developed countries to developing countries has been lower in 2015-2025 than the prior decade. The Financial Stability Board estimates only 5% of the \$504 trillion of global financial assets are invested in developing countries. The primary reason for low levels of private investment is investors’ perception of high country credit, and currency risk.</p> <p>There have been 2,000+ blended finance transactions in the past decade, but no agreement on the most effective and efficient approaches.</p>	<p><b>CLAUSE 33:</b></p> <p><i>We support efforts to <b>create effective and replicable, scalable blended finance structures and instruments</b> for different country contexts, based on lessons learned, best practices and existing efforts towards harmonization, as appropriate. Particular attention should be paid to the specific context and needs of the target areas of intervention, in order to improve the efficiency, relevance and coherence of such instruments. We will identify and facilitate the</i></p> <p><i>We call for blended finance initiatives... to <b>ensure financial and development additionality as well as project viability; – to share both risk and rewards fairly; – to follow relevant standards</b>, be transparent and have clear monitoring and accountability mechanisms; and ...to take into account <b>debt sustainability</b></i></p> <p><i>We will work to <b>increase the mobilization ratio of private finance from public sources by 2030 by strengthening the use of risk-sharing and blended finance instruments.</b></i></p>	<p><b>PART 2, COMPONENT 5:</b></p> <p>Convergence project participants have identified a package of 12 Private Investment Mobilization Models (PIMMs) that serve to address the main private sector investment challenges in developing countries (overcoming high perceived country, credit, and currency risks).</p> <p>Recommend governments agree to focus private investment mobilization on the package of 12 PIMMs. Standardization is expected to lead to a huge increase in private investment and new investors and over time demonstrate actual risk is lower than perceived risk.</p>
<p>6</p>	<p><b>Developing and developed country governments should co-lead a Network(s) of Catalytic &amp; Concessional Funders to optimize the use of those funds to mobilize private investment in the standardized blended finance solutions.</b></p> <p>The majority should be awarded transparently through competitions akin to auctions.</p>	<p>Most catalytic and concessional finance is either:</p> <ul style="list-style-type: none"> <li><b>i</b> deployed to MDBs (e.g., EU blended finance programs, Green Climate Fund (GCF), Climate Investment Facility, and Global Environment Fund) or</li> <li><b>ii</b> allocated directly with limited/no coordination. Very low amounts (likely less than 5%) are allocated on a competitive basis to the best ideas globally.</li> </ul>	<p><i>We further support utilizing innovative structures in blended finance, including equity and equity-like instruments, state-contingent subsidies, and <b>auction mechanisms, to ensure that both risk and rewards are shared fairly between the public and private sectors</b> in a way that prevents market distortions and maximizes the positive impact of these investments.</i></p> <p><i>We encourage ... pools of catalytic capital seeded by development banks, development finance institutions and development partners, including foundations and philanthropies, with standardized, simplified and transparent access requirements.</i></p>	<p><b>PART 2, COMPONENT 6:</b></p> <p>Mobilization at scale will require deploying public sector funds to reduce risk and create investments that meet investors’ fiduciary and regulatory investment mandates. Catalytic and concessional finance from both developing countries and developed country governments (complemented by philanthropic foundations) is required in the first generation of scale blended finance transactions; most will demonstrate over time the risk is acceptable for DFIs.</p> <p>There is only a limited supply of catalytic and concessional finance – therefore, the funding should be allocated collaboratively through a network of governments and foundations.</p>

7	<p><b>Governments should introduce SMART governance key performance indicators (KPIs) for private investment mobilization within relevant government departments and DFIs.</b></p>	<p>The Project did not identify any stretch mobilization KPIs at MDBs, multilateral organizations, DFIs, NDBs, and most OECD DAC countries.</p> <p>If these public sector organizations continue to have no or limited governance KPIs, then private investment will not mobilize at scale.</p>	<p><b>CLAUSES 6 AND 7:</b></p> <p><i>We decide to launch an ambitious package of reforms and actions to close this financing gap with urgency and catalyse sustainable development investments at scale. We will provide and mobilize additional, innovative, adequate, affordable, predictable and accessible financing from all sources.</i></p> <p><i>We commit to continued reform of the international financial architecture.. To better reflect today's realities, we commit to make global economic governance more inclusive, representative, equitable and effective.</i></p>	<p><b>PART 2, COMPONENT 7:</b></p> <p>Recommend government shareholders should establish private investment mobilization KPIs for all relevant</p> <ul style="list-style-type: none"> <li>i MDBs (e.g., World Bank Group and African Development Bank) ,</li> <li>ii multilateral organizations (e.g., GCF),</li> <li>iii Bilateral DFIs (e.g.,Proparco),</li> <li>iv NDBs (e.g., Uganda Development Bank).</li> </ul> <p>Developed and developing country governments should establish KPIs for their relevant ministries, departments, and agencies.</p>
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### This report is made up of three parts:

- i Part 1: Background on blended finance and private investment mobilization
- ii Part 2: Summary of the Prototype Action Plan and its seven components
- iii Part 3: Potential mobilization amounts and next steps

# BACKGROUND ON BLENDED FINANCE AND PRIVATE INVESTMENT MOBILIZATION

## SECTION 1.1

### BLENDED FINANCE AND PRIVATE INVESTMENT MOBILIZATION FOR DEVELOPING COUNTRIES TO DATE

The most important definition of blended finance globally is the one agreed by the 33 OECD Development Assistance Committee (DAC) countries: *“the strategic use of development finance for the mobilisation of additional finance towards sustainable development in developing countries.”* The OECD produces its [Mobilisation of Private Finance for Development](#) report annually estimating amounts of private investment mobilized by all Official Development Finance (ODF). In 2022-24, the average amount was **\$70 billion** – around 1.1% of the \$6-7 trillion annual SDG investment needs in developing countries.

Three items to note that demonstrate (i) low levels of private investment mobilization and (ii) low levels of risk reduction in mobilization activities:

- i In most years, MDBs/DFIs mobilize around 80–85% of private investment (15–20% mobilized by concessional public sector funders like OECD DAC countries). Almost all investment mobilized is for private sector investment (nominal amounts for

public sector investment). The OECD allocates all private investment mobilization to six leveraging mechanisms. Only one of the mechanisms uses public sector funding to reduce investment risk for private investors – guarantees, which typically account for 20% of mobilized amounts. In the other five mechanisms, private investors take the same risk or higher risk than the MDBs/Bilateral DFIs.

- ii The [Mobilization of Private Finance by MDBs/DFIs Report](#) is produced by MDBs/DFIs based on self-reporting. For 2023, they reported \$87.8 billion of Total Private Mobilization. A closer review identifies only 46% is classified as Private Direct Mobilization and 54% as Private Indirect Mobilization – see MDB definitions [here](#). The former is defined as “financing from a private entity on commercial terms due to the active and direct involvement of a MDB leading to commitment,” and the latter is defined as “financing from private entities<sup>6</sup> provided in connection with a

<sup>6</sup> And development finance institutions acting pursuant to private sector finance principles, e.g., IFC and FMO. (text in italics)

specific activity for which an MDB or DFI is providing financing, where no MDB/DFI is playing an active or direct role that leads to the commitment of the private entity's finance." In most years, the split is around 45:55. That is, the majority (55%) of private investment mobilized as reported by MDBs/DFIs does not involve the MDB/DFI playing an active or direct role. Most independent reports identify the ratio of private investment to public investment involving MDB financing commitments is only 0.15 to 1.

- iii The [DFI Working Group on Blended Concessional Finance for Private Sector Projects](#) report describes how MDBs/Bilateral DFIs use concessional donor funds in their private sector operations. The most recent 2023 report identifies MDBs/DFIs financed a total of \$13.4 billion of private sector operations, funded 34% by private sector finance, 40% by MDB/DFI finance, and 26% by concessional funds.<sup>7</sup> The ratio of private investment to public investment is only 1:2 – far too low to achieve scale mobilization.

To date, *most* blended finance has combined public sector concessional funds (i.e., “*development finance*” in the OECD definition) and public sector non-concessional funds (“i.e., “*additional finance*” in the OECD definition) to achieve climate and development impact in developing countries – with low amounts of private investment mobilization.

The world's largest blended finance programs fit this description:

- i the European Commission blended finance programs,
- ii the majority of funding issued by three major climate funds (Green Climate Fund, Climate Investment Facility and Global Environment Facility) and
- iii the IDA Private Sector Window.

Annually, around \$3-7 billion of concessional funds complements around \$100-130 billion MDB financing commitments and \$10-20 billion DFI financing commitments. Not only are low amounts of concessional public sector funds made available to reduce private investors' risk, few are made available on open,

transparent, quasi-auction bases (e.g., open calls for proposals) to fund the best private investment mobilization proposals from the private sector as called for in the FFD4 Outcome Document. The Nordic-led Investment Mobilization Collaboration Alliance (IMCA) is the best current example of OECD DAC countries collaborating to fund the best mobilization proposals and, while still early in its development, has established the best precedent for good practice donor collaboration to mobilize at scale going forward.

**A reasonable estimate is that there has been only around \$15 billion of Private Direct Mobilization annually by ODF through risk reduction.** This is likely the primary reason private investment mobilization remains much lower than envisioned in the 2015 Addis Ababa Action Agenda. Underlying investment risk in developing countries is generally beyond the fiduciary and regulatory investment mandates of private investors, but very low amounts of ODF are used to reduce risk to within private investors mandates, e.g., reducing risk from highly speculative “B” and “CCC” to lower risk investment grade “BBB” and strong non-investment grade “BB.”

Many investors have organized themselves into investor groups over the past decade to engage with public policy makers to increase SDG investment in developing countries. Examples include the Global Investors for Sustainable Development Alliance, the Net Zero Asset Owners Alliance, and the Sustainable Markets Initiative. These investor groups have published many reports signaling they are prepared to increase their investment in developing countries if the investments meet their fiduciary and regulatory investment mandates. Based on evidence over the past decade and consultations with private investors for the Project, it is expected most cross-border/developed country investors from the investment sector (e.g., pension companies, insurance companies, investment funds, and sovereign wealth funds) prefer to invest in large and diversified blended finance vehicles for two reasons: (i) diversification reduces risk and (ii) scale. Typically, these vehicles diversify across 10+ countries and 15+ projects.

<sup>7</sup> It is likely the large majority is Private Indirect Mobilization where the MDB or DFI does not play an active role mobilizing the private investment.

## SECTION 1.2

### HIGH ASSESSED/PERCEIVED COUNTRY RISK IS THE MAIN IMPEDIMENT TO CROSS-BORDER/ DEVELOPED COUNTRY INVESTMENT IN DEVELOPING COUNTRIES. RISK MUST BE MITIGATED TO MOBILIZE PRIVATE INVESTMENT AT SCALE.

#### 1.2.1 High assessed/perceived country risk and sovereign credit ratings

Box 1.1 summarizes the risk rating processes of the Big 3 Rating Agencies<sup>8</sup>. Several main points as follows:

- **Country risk** is the risk of doing business within the country itself, and then trying to transfer funds out of the country. For example, when a foreign company wants to build a manufacturing plant in a developing country, they face all kinds of regulatory and legal issues that foreign creditors who buy sovereign bonds do not face.
- **Sovereign credit risk** is an assessment of whether the government can/will repay its debt, and is reflected in the **sovereign credit rating**.<sup>9</sup>
- The **country ceiling**<sup>10</sup> starts with the sovereign rating, then considers what additional risks any

non-sovereign entity might face when trying to convert local currency into foreign currency and/or transferring foreign currency out of the country to repay foreign creditors. The sovereign can interfere in convertibility and transfer, and thus it exposes non-sovereign entities to these additional risks. The country ceiling is typically 1-2 notches above the sovereign credit rating.

The Big 3 Rating Agencies produce sovereign risk ratings for 94 developing country governments. Using those ratings, complemented by the [OECD Arrangement on Officially Supported Export Credits](#)<sup>11</sup> country risk classifications (see ratings [here](#)), 76% of developing countries are rated “B” or lower with a median risk rating of “B-”.

#### Box 1.1: Summary of the Big 3 Rating Agencies’ risk assessment process for debt investment.

RATING	AAA	AA	A	BBB	BB	B	CCC	CC	C	D
Description	Investment grade				Non-investment grade					Default
	Prime	High grade	Upper medium grade	Lower medium grade	Speculative	Highly speculative	Substantial risk	Default imminent		
Risk Level	Low and very low risk				Medium risk	High and very high risk				

The rating agencies issue risk ratings that combine country risk assessment and non-country risk assessment. For all ratings in a developing country, the rating agencies start with a country risk assessment to produce a country ceiling. The country ceiling effectively serves as a rating cap for all

borrowers in the country. That is, the rating for government, banks, financial institutions, companies, and projects are usually capped at that country's ceiling rating (unless there is external security or extraordinary circumstances).

<sup>8</sup> All public sector MDBs, DFIs and export credit agencies follow a similar country risk assessment process and ratings – their country risk ratings are similar to the Big 3 Rating Agencies.

<sup>9</sup> Sovereign credit ratings published by rating agencies do not opine on country risk – the rating agencies typically discourage investors from using sovereign risk ratings as a measure of country risk. Most investment banks practice this well - they have internal sovereign credit assessments (how much will we lend to the government) and separate country risk assessments (how much business in total do we want in terms of the whole country).

<sup>10</sup> On average across developing countries, country ceilings are 0.99 notches better (less risky) than sovereign credit ratings, e.g., the median country ceiling is “B.” For example, Fitch Kenya rates the Government of Kenya “B-” and lists a “B” country ceiling for Kenya.

<sup>11</sup> The public sector risk rating systems mimic the Big 3 Rating Agencies ratings. A review of the MDB rating systems (e.g., IBRD and IDA country risk classifications) and the OECD Export Credit Agency Participants’ country risk classifications demonstrates a very high correlation with the Big 3 Rating Agencies.

## Box 1.1 (cont.)

Key country level risks include:

- **Political and institutional risk:** stability of the political system, quality of governance, rule of law, and policy predictability are central to all three agencies' sovereign frameworks.
- **Macroeconomic and external risk:** growth volatility, inflation, external position (current account and FX reserve adequacy), and dependence on commodity trade or external financing expose corporations to country wide shocks.
- **Financial system and liquidity risk:** depth and stability of the banking sector, degree of dollarization,

and history of currency crises or capital account stress affect firms' ability to refinance and manage FX mismatches.

- **Regulatory and legal enforcement risk:** contract enforceability, creditor rights, restructuring regimes, and regulatory transparency feed into both sovereign and corporate assessments.
- **Geopolitical and structural risk:** exposure to conflict, sanctions, trade barrier shifts, or climate-related shocks can materially increase country specific risk premiums embedded in corporate ratings.

The Big 3 Rating Agencies derive an "issuer" rating for a government or private sector entity by combining (i) the country risk assessment and (ii) a stand-alone credit assessment of the entity. Stand-alone credit assessments are driven by "non-country" risks, such as assessing the business risk profile, financial risk profile, and liquidity/structural risk of the entity.

Non-country (entity specific) risks include:

- **Business risk:** industry dynamics, competitive position, diversification, regulatory exposure, and operating flexibility determine the stability and resilience of cash flows.
- **Financial risk:** leverage, coverage ratios, cash flow to debt metrics, and earnings volatility are quantified using standard gearing and interest coverage measures, often tailored by sector.
- **Liquidity and funding risk:** maturity profile, access to uncommitted and committed facilities, debt rollover capacity, and FX funding structure are stressed to judge refinancing risk.

- **Governance and strategic risk:** management quality, financial policy (including payout discipline and appetite for leverage), ownership structure, and corporate governance standards are qualitatively weighted in all three rating methodologies.
- **Structural and legal risk:** group structure, inter-company cash flows, structural subordination, and collateral or guarantee structures can lead to "notching" above or below the issuer rating for specific issues.

Country risk assessments create "country ceilings" for all domestic public and private sector entities<sup>12</sup>. Country risk assessments that result in high-risk country ceilings (e.g., "B" and "CCC") severely impact investment from cross-border/developed country investors, and indeed lead to capital flight from the developing country (e.g., domestic insurance companies and pension companies requiring investment grade ratings must invest outside the developing country). Essentially, the high-risk country ceilings prevalent in most developing countries lead to implied risk ratings for all borrowers beyond the fiduciary and regulatory investment mandates of most cross-border/developed country investors. This means most of these investors cannot invest in most developing countries unless risk is reduced to fall within their mandates

**Country risk assessment dwarfs non-country risk assessment for private sector entities. Many strong developing country companies, financial institutions, and projects do not qualify to receive cross-border debt investment due to high country risk. When deploying blended finance solutions to reduce risk to mobilize private investment, by far the most important activity is to reduce/mitigate country risk. Non-country risk is typically a distant second consideration.**

Using default and loss statistics from the Big 3 Rating Agencies, the probability of default and expected loss of investing in debt rated "B" or "CCC" is around 10-25 times higher than investing in debt rated investment

<sup>12</sup> In practice most entities would be rated one or several notches below the country ceiling.

grade “BBB.” In general, risk at this level is beyond the fiduciary and regulatory investment mandates for most investors. Simply, private investors will remain invested in developed countries and higher rated debt unless they are mobilized through risk reduction. Mobilizing private sector debt investment at scale requires reducing risk from *highly speculative* “B,” “CCC” and “CC” to investment grade “BBB” and strong non-investment grade “BB.”

The collaboration of DFIs in producing the Global Emerging Markets (GEMs) database has made a strong contribution in demonstrating that actual risk has been much lower than forecasted using the Big 3 Rating Agencies default and loss data (see Box 1.2). If future defaults in developing countries unfold similar to the GEMs database, the catalytic and concessional finance advocated in junior positions and guarantees in the 12 PIMMs described in Part 2, Section 5 will likely not be lost – and can be recycled into future generations of blended finance transactions.

### Box 1.2: Lower defaults and losses evidenced in GEMs database

The most important difference between the GEMs database and Big 3 Rating Agency data (using S&P data) is for borrowers rated “B” and “CCC”, and since 76% of developing countries are rated “B” or lower, this difference represents the large majority of private borrowers in developing countries. At “B” and “CCC” risk ratings, the GEMs data suggests significantly lower risk. For example, 7% default rates versus 17-25% using S&P data.

This difference suggests several important factors:

- i It is incredibly important for the shareholders of MDBs/DFIs to ensure the GEMs database is made available for private investors. If private investors were to use the GEMs database, it would likely transform risk assessments and perceptions for investing in developing countries.
- ii MDBs and DFIs can readily expand their loan origination activities in countries rated “B” and “CCC” and expect reasonable defaults and losses – for example IFC’s loan portfolio has the following risk ratings: median risk rating is “BB”, 73% are “BB-” or better, and only 6% rated “CCC” or lower.
- iii Private investors should be prepared to invest in loan portfolios, with “B” and “CCC” rating, especially when originated, arranged, and managed by MDBs and DFIs.
- iv MDBs and DFIs can readily subscribe to mezzanine and junior capital in blended finance debt funds while conforming to their existing risk management policies.
- v If the GEMs consortium had made available the GEMs data historically, and private investors had used the data to invest, (i) developing country governments and private borrowers likely would have been able to gain access to significantly higher amounts of debt investment at much lower interest rates and (ii) private investors would have an extra decade of experience demonstrating lower actual risk compared to their perceptions, and more private investment could happen without catalytic and concessional finance.
- vi The hard costs and opportunity costs to developing countries of MDBs not releasing the GEMs data at the granular levels required by investors has likely been significant.
- vii If future defaults in developing countries unfold similar to the GEMs database, the catalytic and concessional finance advocated in junior positions and guarantees in the 12 PIMMs described in Part 2, Section 5 will likely not be lost and can be recycled into future generations of blended finance transactions.

## 1.2.2 High interest rate premiums for borrowers rated “B” and “CCC” in developing countries

In addition to most investments being beyond the fiduciary and regulatory mandates of most developed country investors, the market commands a premium for investing in emerging markets compared to the US market. Table 1.1 was produced in December 2025 using the [US Federal Reserve Bank of St Louis database](#). Key observations:

- The interest rate premium for emerging markets corporates over US corporates increases from around (i) 0.04% for investment grade “A”, to (ii) 0.55% for “BBB”, to (iii) 1.47% for “BB”, and (iv) 2.61% or more for “B” and lower issuers. Considering the

large majority of borrowers in developing countries are capped at “B” and “CCC” country ceilings, the interest rate premium for developing countries governments, financial institutions, and real economy companies is significant.

- The economic and development benefits that will accrue to developing country governments by deploying blended finance that allow governments to borrow at investment grade “BBB” interest rates is substantial.

Table 1.1: Interest rate premiums for emerging markets corporates over US corporates

EMERGING MARKETS INTEREST RATE PREMIUMS OVER US TREASURIES (OPTIONAL ADJUSTED SPREAD)							
Rating	AAA	AA	A	BBB	BB	B	CCC or lower
US Corporates	0.48%	0.63%	0.89%	1.35%	2.39%	3.84%	8.76%
Emerging Markets Corporates	0.93%			1.90%	3.86%	8.91%	
<b>Emerging Markets Premium over US Corporates</b>	<b>0.04%</b>			<b>0.55%</b>	<b>1.47%</b>	<b>2.61%</b>	

Source: St Louis Federal Reserve Board - 5-year average December 2020-25 at December 8, 2025

10-YEAR AFRICAN GOVERNMENT BOND YIELD - LOCAL CURRENCY			
Country	Currency	Yield	Rating
Mauritius	MUR	5.66	BBB-
Morocco	MAD	3.16	BB+
Cote d'Ivoire	XOF	7.56	BB
South Africa	ZAR	8.46	BB
Namibia	NAD	9.64	B+
Nigeria	NGN	15.31	B-
Uganda	UGX	16.83	B-
Kenya	KES	12.62	CCC+
Zambia	ZMW	17.87	CCC
<b>Average</b>	<b>LCY</b>	<b>12.61</b>	<b>B+</b>
US Treasury (10-year)	USD	4.16	AA-
<b>Premium Local Currency over UST</b>		<b>8.45</b>	

Source: investing.com December 8, 2025

### Main Messages:

- Emerging Markets premium for non-investment grade is significant (55 basis points (bps) for BBB, 147 bps for BB, 261 bps for B or lower).
- Most economic blended finance solution is to mobilize private investors at BBB rating.
- Mobilizing at BBB could raise funding at 1.35-1.90 OAS compared to 3.86-8.91 OAS. Median savings 4% annually.
- Start with hard currency solutions - standardize and replicate - move to local currency solutions.



### 1.2.3 It is critical to reduce/mitigate country risk across three time horizons to mobilize cross-border private investment at scale equitably across developing countries

Table 1.2 describes actions to reduce/mitigate country risk in developing countries over short, medium, and long terms. **In the long-term**, the most important action is for developing country governments to execute reforms to improve its investment climate which should lead to better country ceilings from ratings agencies and better investor risk assessments. But the SDG and Paris Agreement have short and medium-term (2026-2035) investment objectives. **In the short and medium-term**, blended finance can mitigate country risk (and non-country risk) to mobilize private investment.

**Table 1.2: Actions in short, medium, and long term to reduce/mitigate country risk to increase private investment**

TIME HORIZON	ACTION	DESCRIPTION	SECTIONS OF REPORT
Long-term	Improving national investment climates and reducing country risk	Critical for developing country governments to reduce country risk and improve investment climates. See the following two sources:  See World Bank <a href="#">Group Doing Business</a> Report and UNDP & Convergence <a href="#">Strategic Framework for Blended finance</a>	Part 2, Component 4
	Creating pools of data and information that narrows the gap between investors' perceived risk and actual risk	Developing country governments and the international development community believe the risk of investing in developing countries is much lower than perceived by the Big 3 Rating Agencies and developed countries' private investors. But governments and DFIs have undertaken nominal activities to narrow this gap. Governments need to identify the best sets of data and information to curate at relevant websites to narrow/eliminate the SDG investment gap.	
Short - and medium - term	Using some public sector funding to reduce investment risk to within investors' fiduciary and regulatory investment limit	Governments will need to direct resources into good practice blended finance to reduce investment risk.	Part 2, Components 5-6
	Governing sources of public sector finance to mobilize, primarily through reducing risk	The two main reasons why private investment mobilization volumes remain low relative to expectations in 2015: <ul style="list-style-type: none"> <li>• Main public sector DFIs, MDBs, and NDBs are not governed with private investment mobilization as a top tier objective or with stretch mobilization targets</li> <li>• Low amounts of public sector finance have been deployed to reduce risk to mobilize private investment.</li> </ul>	Part 2, Component 7
	Releasing GEMs database is the first step in creating pool of data and information	Private investors, developing country governments, and OECD DAC countries have requested the MDBs/DFIs to fully release the GEMs database so all investors have access to the granular data. The data are likely to further demonstrate: (i) the low level of default and losses on public sector sovereign loans and (ii) the better-than-expected defaults and losses experienced by MDBs/DFIs when lending to private sector borrowers rated "B" and lower.	Box 1.2

## SECTION 1.3

### MAIN SOURCES OF PRIVATE INVESTMENT AND PUBLIC SECTOR FUNDING

#### 1.3.1 Segmentation of private investment

Table 1.3 simplifies the main sources of private investment that can be mobilized across two dimensions:

- Location: Investors located either in a developing country or in a developed country
- Industry/sector: Investors operate either in the financial/investment sector or the real economy.

Table 1.3: Private sector investors to be mobilized in Prototype Action Plan

Source of Investment	TYPE OF PRIVATE SECTOR ENTITY	
	Financial/Investment Sector	Real Economy Sector
Developed Countries	Pension Companies, Insurance Companies, Commercial Banks, Investment Funds and Sovereign Wealth Funds	Foreign Direct Investors and Large Corporates
Developing Countries	Commercial Banks and Public Pension Companies	Large Corporates, Mid-caps, and MSMEs.

#### 1.3.2 Main sources of private investment in financial/investment sector

The FSB publishes an annual report estimating amounts of financial assets globally ([Financial Stability Report Global Monitoring Report on Nonbank Financial Intermediation 2025](#)). The FSB estimates global financial assets have increased 40% from 2015 to \$504 trillion in 2024 – around 425% of global GDP. Table 1.4 below summarizes the main investor types; around 90% of assets are controlled by the private sector.

Table 1.4: Summary of \$504 trillion global financial assets

MAIN SOURCES OF PRIVATE SECTOR INVESTORS	AMOUNT	MAIN INVESTMENT HOLDINGS	
		DEBT	EQUITY
Commercial Banks	\$189 trillion	Loans and Bonds	No
Pension Companies	\$43 trillion	Bonds and Notes	Yes
Insurance Companies	\$38 trillion	Bonds and Notes	No
Other Investment Funds	\$62 trillion including \$33 trillion in equity funds, \$15 trillion in fixed income funds and \$14 trillion in other/mixed funds	Bonds and Notes	Yes
Finance Companies	\$53 trillion	Bonds and Notes	No
Captive Finance Institutions	\$29 trillion	Bonds and Notes	No



The FSB report also estimates the geographic distribution of global financial assets: around 81% in high-income countries, 14% in China, and 5% in the other 141 low and middle-income countries. To achieve scale private investment mobilization for developing countries, the primary objective of blended finance should be to mobilize some of the global financial assets invested in high-income countries to developing countries, and the secondary objective should be to mobilize domestic investment. Despite the growth in global financial assets, the asymmetric investment outside of developing countries continues and has declined over 2015-24.

Meanwhile, total external debt owed by developing countries has grown at 2.9% per year – too low to fund the SDGs (net portfolio investment and net FDI has experienced declines). Total external debt for developing

countries (after deducting China's external debt), equals around \$7.8 trillion - relative to the \$4 trillion SDG investment gap annually. The external debt burden has shifted from 50% public sector and 50% private sector in 2014 to 60% public sector and 40% public sector; the amount of external debt owed by the private sector has experienced low growth (2.1% CAGR) versus medium growth in public sector at 3.8% CAGR. Debt sustainability is higher if undertaken by private sector companies that have revenues, profits, and positive cash flows to service the debt. The composition of creditors has also moved in the wrong direction - official creditors (mostly MDBs and developed country governments) have grown from 24% to 28% share (6.3% CAGR). Indeed, there has been nominal growth in private creditors from 2019 to 2024 (only 1.5% CAGR).



Table 1.5: Total external debt owed by all developing countries

TOTAL EXTERNAL DEBT OWED BY ALL LOW AND MIDDLE-INCOME COUNTRIES						
	2014	2019	2024	2014	2019	2024
	AMOUNTS USD BILLIONS			% TOTAL EXTERNAL LONG-TERM DEBT		
Total External Debt	6,273	7,726	8,937			
Total External Long-Term Debt	4,253	5,680	6,543	100%	100%	100%
LTD owed and guaranteed by public sector	2,131	3,101	3,931	50%	55%	60%
LTD owed by private sector	2,122	2,579	2,611	50%	45%	40%
CREDITORS						
Official Creditors	1,001	1,314	1,834	24%	23%	28%
Private Creditors	3,252	4,366	4,708	76%	77%	72%
Bonds	1,205	1,971	2,175	28%	35%	33%
Banks and others	2,046	2,394	2,533	48%	42%	39%
China Total External Long-Term Debt			1,067			

Source: World Bank International Debt Report 2025

Table 1.6 below provides additional selective highlights showing low levels of private investment in developing countries since 2015.

Table 1.6: Selective highlights of investment flows for developing countries over the past decade since Addis Ababa Action Agenda

HIGHLIGHTS SINCE 2015 LAUNCH OF SDGs AND PARIS AGREEMENT	DETAILS
50% increase in investment needs to achieve SDGs and Paris Agreement objectives	UNCTAD estimates annual investment needs increased from around \$4 trillion in 2015 to \$6-7 trillion in 2024 (around \$3.2 trillion for climate)
60% increase in SDG investment gap	UNCTAD estimates annual SDG investment gap increased from \$2.5 trillion to \$4 trillion (including climate)
47% decrease in FDI (% of GDP)	World Bank Group data identifies FDI has decreased from 4% median across developing countries to 2.1%
Low level of private investment mobilization	OECD reports private investment mobilized by all ODF averaged \$70 billion in 2022-24; only 1.2% of SDG investment needs
Low private investment mobilization by MDBs (e.g., World Bank Group) and Bilateral DFIs (e.g., Proparco)	MDBs report around \$30-40 billion of Private Direct Mobilization annually – far below their stated aspirations in their 2015 <a href="#">“Billions to Trillions: MDB contributions to financing for development”</a> report
60% increase in global financial assets – but systemically under-invested in developing countries	The FSB reports global financial assets increased 60% to \$504 trillion in 2024 (from 2015), but only 5% invested in low and middle-income countries.
50% decrease in investment (as % of GDP)	World Bank Group data reports: <ul style="list-style-type: none"> <li>• Average investment growth across developing countries decreased from 7.5% in 2000-09 to 3.8% in 2010-2023</li> <li>• Average private investment growth decreased from 8.5% to 5%</li> <li>• Average public investment growth decreased from 12% to 3.5%</li> </ul>
40% decrease in financial investment (net debt and net equity)	World Bank International Debt Statistics: <ul style="list-style-type: none"> <li>• Net debt flows from developed countries to developing countries decreased from \$120 billion to \$75 billion annual average</li> <li>• Net portfolio equity flows decreased from \$40 billion to \$19 billion annual average</li> </ul>

The information above demonstrates that relying on external hard currency debt to close the SDG investment gap will likely create a debt crisis, meaning (a) cross border equity (FDI and portfolio equity), (b) transforming external debt from hard currency to local currency, and (iii) mobilizing domestic capital are all important parts of the solution.

### 1.3.3 Main sources of public sector development finance

Table 1.7 identifies the seven main sources of public sector finance resources available to mobilize private investment. The only way to mobilize private investment at scale is for developing and developed country

governments to agree on how to deploy and govern these resources in a coordinated manner – optimizing the comparative advantage of each source. See Part 2, Component 6.

**Table 1.7: Seven main sources of public sector finance to be considered to mobilize private investment**

SOURCE OF PUBLIC SECTOR FUNDING	#	TYPE OF PUBLIC SECTOR FUNDING	AMOUNTS AND DESCRIPTION
Developed Countries	1	Government Resources – Concessional	OECD DAC Members allocate around \$200 billion ODA annually. This includes European Commission blended programs.  Other high-income countries allocate concessional funds for SDGs and climate.
	2	Bilateral DFI (e.g., France Proparco)	Bilateral DFIs have around \$40 billion of balance sheet capital and make around \$20-30 billion of annual financing commitments - mostly loans and equity investments to private sector operations.
Developing Countries	3	Fiscal Resources	A portion of fiscal resources from the 142 low and middle-income countries.
	4	ODA and sovereign loans received	Annually equal to \$250 – 300 billion.
	5	NDBs (e.g., Brazil BNDES and Uganda Development Bank)	A portion of financing commitments from the 500+ public development banks owned by developing countries (Uganda Development Bank and Brazil BNDES)
Both	6	MDBs (e.g., African Development Bank)	MDBs have around \$500 billion of balance sheet capital and make around \$120 billion of annual financing commitments – primarily subsidized loans to governments and secondarily market-priced loans, and equity investments to private sector operations
	7	Other multilaterals and multi-donor funds	Examples: Green Climate Fund

Sources 1, 2, 6 and 7 in Table 1.7 are the main sources of **ODF** that can be deployed in blended finance - around \$350 billion of financing commitments annually comprised of (i) \$200 billion (ODA) and (ii) \$150-160 billion in financing commitments from MDBs and Bilateral DFIs. As important and significant as these resources are, at only 2-3% of the \$6-7 trillion SDG

investment needs in developing countries annually, an excellent use of a portion of these resources is to mobilize private investment. For example, the \$350 billion annual ODF could be allocated as such: \$160 billion ODA in traditional aid purposes and \$40 billion for mobilization and 50-100% MDB and DFI resources for mobilization.



### 1.3.4 Alternatives for using public sector finance to mobilize private investment

Table 1.8 lists the main alternatives of using public sector development finance to reduce risk and mobilize private investment. Based on discussions over the past 18 months with OECD DAC countries and developing countries, Convergence and stakeholders assess Alternative 6 to be the most implementable alternative. **The Prototype Action Plan described in Part 2 fleshes**

**out the most practical, realizable approach for Alternative 6.** To be clear, developing and developed country governments have signalled that the large majority of ODA should remain as traditional ODA. This report recommends/assumes no more than 20% of ODA could be used strategically in private investment mobilization.

**Table 1.8: Main alternatives to reduce risk**

#	ALTERNATIVE	WHY	COMPLEXITY TO ACHIEVE
1	Focus one MDB to be 100% operational on reducing risk and mobilizing private investment. For example, increasing capital of MIGA, transforming IFC, or merging the two.	<p>MIGA is the only MDB whose primary business is to reduce risk and mobilize private investment. One option is to scale up its capital and risk reducing/mobilization activity.</p> <p>IFC has \$40 billion of existing balance sheet capital, a strong history of negotiating with the private sector, and is mandated to operate in all low and middle-income countries– it would be the natural choice to be the single MDB to be 100% focused on risk-reducing and mobilizing.</p> <p>An MDB with a primary risk-reducing and mobilizing mandate for the 142 developing countries (with median sovereign risk rating of “B-”) would likely need to operate with a lower risk rating than IFC’s current “AAA” rating; “A” or “BBB” rating would likely be optimal rating.</p> <p>IFC and MIGA likely have the highest level of commercial skills, amongst MDBs, required to structure transactions that deploy public sector funding fairly to mobilize private investment at scale.</p>	<p>MIGA only has \$2 billion of balance sheet equity and only provides \$9 billion of gross commitments annually (lower after re-insurance). Likely a minimum of \$50-100 billion of capital would be required.</p> <p>It would likely take IFC shareholders 1-2 years to decide to make the required transformation and then 1-2 years to execute transformation. The existing IFC organization does not have the experience and culture of taking risk at the required level.</p>
2	Govern MDBs (and bilateral DFIs) to be a combination of existing business models and risk-reducing mobilization organizations	<p>In principle, it is straightforward to achieve as it is mostly a governance issue to be decided by MDB shareholders.</p> <p>The approximately \$500 billion of existing balance sheet capital within MDBs and \$40 billion at Bilateral DFIs that can readily be multi-purposed from (i) arranging and holding to (ii) a combination of arranging, risk-reducing, and distributing.</p>	<p>Existing MDB ratings of mostly AAA are inefficient for the new role – maintaining that high rating does not allow the MDBs to take on the high risk exposures required to reduce investment risk to within private investors’ fiduciary and regulatory mandate.</p> <p>It is very complicated to transform many/all MDBs for this dual-purpose and have them agree to lower risk ratings.</p> <p>Existing legacy business models will impede the ability to achieve this goal.</p> <p>Lower risk ratings will increase the cost of borrowing and therefore sovereign loan interest rates.</p>

3	Establish a new MDB to reduce risk and mobilize	<p>Similar to the IFC alternative above, but with a new organization.</p> <p>Theoretically it is a simple solution, but practically it is highly unlikely.</p>	<p>Would require around \$100+ billion of capital - a large number that could be achieved by transferring excess capital from existing MDBs.</p> <p>Would likely not attract investors at the quantum required, and would take over three years to establish.</p>
4	Allocate a large portion of annual ODA (e.g., 35%+ or \$70+ billion) as concessional and catalytic funding to reduce risk and mobilize	<p>In principle, relatively simple to achieve – \$200 billion of ODA committed average in 2022-25.</p> <p>Committing \$70 billion to reduce risk and mobilize would be truly transformational.</p>	<p>Unlikely to be acceptable to developing countries who need traditional ODA for many social and humanitarian purposes.</p>
5	Allocate new concessional funding above existing ODA levels specifically earmarked as concessional and catalytic funding, around \$50-100 billion annually	<p>Concessional and catalytic funding is the most important financial resource for large-scale risk-reduction and mobilization.</p>	<p>Difficult to get a critical mass of countries to commit to allocating concessional funding annually substantially above current levels.</p>
6	Combination of 2 and 4	<p>Relatively simple to achieve.</p> <p>No new funds required.</p> <p>Govern MDBs and Bilateral DFIs to reduce risk and mobilize as a primary activity.</p> <p>Govern 10-20% ODA to be allocated to reduce risk and mobilize.</p>	<p>Legacy business models of MDBs, bilateral DFIs and ODA donors.</p>



### 1.3.5 Importance of both non-concessional and concessional public sector funding

Generally, to mobilize private investment equitably across the 142 developing countries requires reducing investment risk from (a) mostly underlying “B” and “CCC” ratings to (b) mostly “BBB” and “BB” ratings. This risk reduction requires the public sector to underwrite, absorb, and hold risk exposures equal to “B”, “CCC”, and “CC” risk. Holding a lot of “CCC” and lower is beyond the mandate, ability and/or willingness of most MDBs and DFIs (for example, 73.3% of IFC’s debt investments is “BB-” or better with only 6% rated “CCC” or lower).

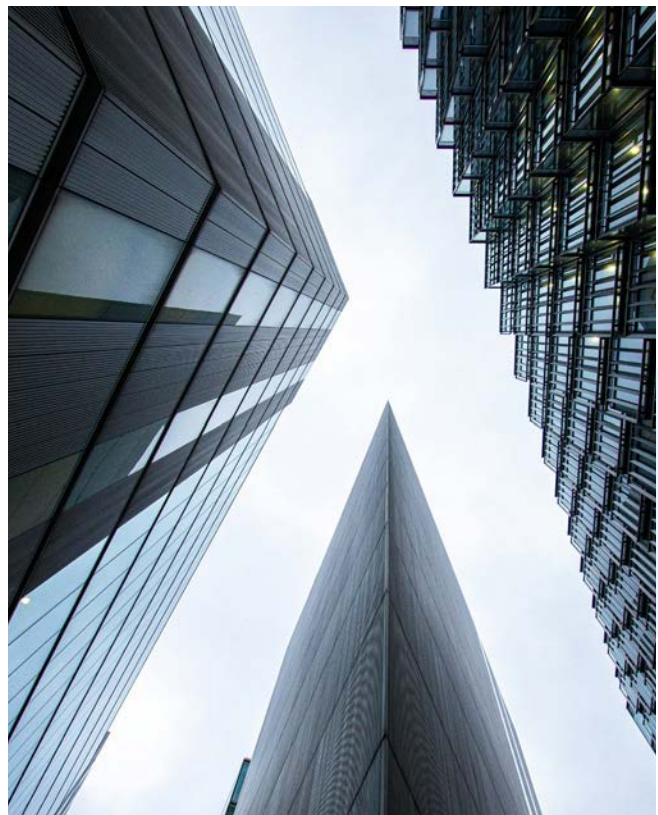
Table 1.7 illustratively maps the relevant public sector finance sources described in Table 1.5 based on (i) ability to take on high expected losses and (ii) necessity to break even or earn a profit. In general, there are four forms of ODF relevant for blended finance:

- i Concessional finance from developed country governments, such as ODA commitments:** ODA deployed by the 33 OECD DAC countries is composed primarily of grants and subsidized loans to mainly governments and secondarily by private sector instruments – the latter is important for mobilization. The OECD converts all ODA commitments into a “grant equivalent” with the expectation the ODA provider will recover none or only a portion of their ODA commitments. These funds are committed bilaterally (e.g., by France) and multilaterally (e.g., multiple countries through entities like GCF).
- ii Non-concessional MDB financing for the public sector, such as IBRD loans:** The MDBs provide these loans at interest rates significantly lower than market interest rates. But generally, MDBs are expected to make public sector loans where interest income covers all costs (e.g., funding costs, operating costs, and credit losses) resulting in a small profit or breaking even.
- iii Non-concessional MDB financing for private sector, such as IFC loans and equity investments:** The MDBs provide (i) loans at market or near-market interest rates and (ii) equity investments at market terms. Generally, MDBs are expected to earn tangible profits in their private sector operations, for example IFC’s net interest margin on its hard currency loan portfolio is likely over \$1 billion annually.

- iv Non-concessional Bilateral DFI financing for the private sector, such as Proparco loans and equity investments:** The DFIs provide (i) loans at market or near-market interest rates and (ii) equity investments at market terms. Generally, DFIs are expected to earn small profits in their private sector operations.

Mobilizing private investment at scale by reducing investment risk requires two main activities from governments:

- i Governing non-concessional DFIs to mobilize:** Optimize mobilization contributions from MDBs, Bilateral DFIs, and NDBs such as (i) originate to distribute business models and (ii) investing in blended finance vehicles that reduce risk to mobilize - while ensuring the DFIs earn break even or positive profits and retain their risk ratings.
- ii Deploying some concessional finance from governments:** Ideally government finance will reduce risk complementary to DFIs by bearing risks beyond their mandate, ability, and/or willingness.



EXAMPLES FROM PUBLIC SECTOR ORGANIZATIONS	CONCESSIONAL FINANCING COMMITMENTS			NON-CONCESSIONAL FINANCING COMMITMENTS	
	<i>A development finance commitment with an analytical expected loss or breaking even</i>			<i>A development finance commitment with an analytical expected gain</i>	
	Full loss	Partial loss	Break even	Profitable to cover costs	Market or near market
<b>MDB in public sector operations (using its own capital)</b>	Not Applicable. MDBs generally make loans to public sector sovereigns expecting to earn small profit or to break even.		Some sovereign loans.	Almost all sovereign loans.	Not Applicable. MDBs lend to sovereigns at below-market interest rates.
<b>MDB in private sector operations (using its own capital)</b>	Not Applicable.			Sometimes. For example, the European Investment Bank often makes loans on below market terms.	Almost all MDB loans and equity investments to the private sector are at market or near-market terms.
<b>Bilateral private DFI in sector operations (using its own capital)</b>	Not Applicable.			Rare.	Almost all DFI loans and equity investments to the private sector are at market or near-market terms.
<b>Developed country government (e.g., OECD ODA commitment)</b>	The French government provides a grant to a project preparation facility.	The Canadian government subscribes risk capital in a guarantor issuing investment grade guarantees.	Sida provides a guarantee and charges 0.9% annual fee to cover expected losses.	Not applicable.	

*Note: This table depicts illustrative development finance commitments on an expectations basis at the outset of the financing commitment by comparing expected revenues to the expected loss. In a "break even" scenario, the public sector entity would earn revenues equal exactly to the expected loss of the commitment.*

*The actual financial result at the end of the life of development finance commitments is often different than the expected result. In general, actual losses on development finance commitments have been lower than expected, and as a result most public sector development finance commitments in private investment mobilization have out-performed original expectations.*

## PART 2

# PROTOTYPE ACTION PLAN TO MOBILIZE PRIVATE INVESTMENT AT SCALE

Part 2 presents seven components of a Prototype Action Plan to mobilize private investment at scale to achieve the mobilization objectives of the FFD4 Outcome Document and 2024 COP29 NCQG. The intent is to demonstrate to governments the ability to achieve the mobilization objectives of the Sevilla Commitment and 2024 COP29 NCQG, if private investment mobilization is implemented strategically with proper governance. The Prototype Action Plan is drafted for the potential to mobilize a significant amount of private investment relative to the \$4 trillion SDG investment gap.

**Convergence estimates (Part 3) that \$1 trillion of private investment mobilization annually is possible using existing development finance amounts and institutions optimally in the proposed Prototype Action Plan.**

Table 2.1 summarizes the seven components of the Prototype Action Plan. **Component 1 (strategic action plan) and Component 7 are the most critical, which describe the policy decisions required by developing and developed country governments to achieve scale private investment mobilization.**

Table 2.1: Seven components of the Prototype Action Plan

#	DESCRIPTION
1	<b>The need for groups of developing and developed country governments to agree on an action plan to mobilize private investment at scale.</b> Only recently – in the 2025 FFD4 Outcome Document and the 2024 COP 29 NCQG – have developing and developed country governments agreed in high-level, strategic documents to mobilize private investment at scale. Success requires both developing and developed country governments to co-develop and co-implement an action plan, including strategically (i) deploying government fiscal resources and (ii) governing DFIs to reduce risk to mobilize private investment.
2	<b>Why and how government shareholders must determine the maximum contributions MDBs can make to the SDGs and Paris Agreement objectives, by providing financing and mobilizing private investment, and then govern them to mobilize at scale.</b> Successfully narrowing the \$4 trillion SDG investment gap likely requires the majority of the MDBs' \$500 billion of capital and \$140 billion annual financing commitments to go towards mobilizing private investment. It is recommended a group of governments establish a working group and an advisory group of private sector investors, and then engage with the Big 3 Rating Agencies directly. A scale action plan will require governments governing MDBs to be at the center of risk reduction and mobilization, complemented by (i) Bilateral DFIs and NDBs and (ii) concessional public sector finance – with the latter taking on risk to mobilize beyond the ability, mandate or willingness of DFIs.

- 3 **Why governments should agree that the purpose of blended finance is to mobilize private investment with strong *financial additionality* defined by MDBs and DFIs as “Private Direct Mobilization.”** To date, most blended finance has combined public sector concessional and non-concessional funds with no/low (a) private investment mobilization and (b) financial additionality. Most private investment mobilized has been “Private Direct Mobilization” that does not involve active participation of development organizations. The actual amount of third-party private investment mobilized (Private Direct Mobilization) by ODF has likely been less than \$40 billion annually – less than 1% of annual SDG and climate needs.
- 4 **How developing country governments should drive private investment mobilization by rating their national priorities for mobilization on a scale 1-100, and then transforming those priorities into national and regional private investment mobilization programs.** A national program would be developed by an individual developing country (e.g., Kenya) to mobilize to their national priorities (primarily domestic investors). A regional program should be developed by related groups of developing country governments (e.g., Sub-Saharan African countries) to mobilize to their common priorities (primarily cross-border/developed country investors).
- 5 **How governments should agree with private investors on a limited number of proven blended finance solutions to standardize and replicate.** The report recommends a package of 12 Private Investment Mobilization Models (PIMMs) that would mobilize private investment at scale impact and investment volumes by (i) reducing risk (primarily country and currency risk) and (ii) addressing the four main investment challenges to investing in developing countries.
- 6 **How developing and developed country governments should collaborate in network(s) to allocate their scarce catalytic and concessional finance to fund the best blended finance proposals complying with the 12 standardized PIMMs.** The next 3-7 years of mobilization at scale will likely require governments to award catalytic and concessional finance to reduce risk, taking on risks beyond the ability, mandate, or willingness of MDBs/DFIs. They will also be required to govern their DFIs to co-finance these best proposals.
- 7 **This is the most critical component. It describes how governments should govern two sources of public sector finance to mobilize private investment at scale:** (i) a large portion of DFI commitments (e.g., +50% of MDB financing commitments) and (ii) a portion of government fiscal resources (e.g., 10-20% of ODA from OECD DAC countries).



## COMPONENT 1

### DEVELOPING COUNTRY GOVERNMENTS SHOULD CO-LEAD PRIVATE INVESTMENT MOBILIZATION

The most important section of the FFD4 Outcome Document describing objectives and standards for blended finance to mobilize private investment for impact and investment at scale is Clause 33g replicated in Box 2.1.

#### Box 2.1: Clause 33g of the 2025 FFD4 Outcome Document (Sevilla Commitment)

We call for blended finance initiatives to:

- i focus on sustainable development impact as well as on quantity and degree of leverage
- ii promote country ownership by aligning with national sustainable development priorities and industrialization strategies
- iii give due consideration to global frameworks
- iv ensure financial and development additionality as well as project viability
- v share both risk and rewards fairly
- vi follow relevant standards, be transparent, and have clear monitoring and accountability mechanisms
- vii include participation of Indigenous Peoples and local communities as well as relevant stakeholders in decisions affecting them and
- viii take into account debt sustainability monitoring.

Over the past 10-20 years, there has been no strategy, action plan or leadership for blended finance and private investment mobilization. Developed country governments have already organized themselves into a group (e.g., the OECD DAC countries) and have agreed [OECD blended finance principles](#) and [OECD blended finance guidance](#). The MDBs have a working group on mobilization and have published a [methodology for private investment mobilization](#), and the MDBs and Bilateral DFIs have a [working group on concessional blended finance in private sector operations](#). The G20 has established the [International Financial Architecture Working Group](#) and the [Sustainable Finance Working Group](#) to indirectly address the topics. The UNFCCC leads engagement in blended finance for climate, with the 2024 COP29 [New Collective Quantified Goal for Climate Finance](#) the most important articulation of mobilization objectives. The G7 addresses mobilization on occasion under different presidencies. There are countless activities and initiatives, but still no strategy, no action plan, no meaningful mobilization relative to the SDG investment gap, and scattered/variable governance. The FFD4 Outcome Documents is the closest thing approaching a strategy or action plan agreed by governments, but its language is high-level.

The Prototype Action Plan recommends developing country governments should seize the momentum and clarity of the recent FFD4 Outcome Document<sup>13</sup> to co-develop and co-implement, with developed country governments, an action plan that transforms the FFD4 high-level language into a fit-for-purpose action plan, followed by implementation. Developing country governments should:

- i Organize themselves into a group(s) dedicated to private investment mobilization, similar to high-income countries in the OECD DAC. For example, the G77 could possibly be the equivalent to the OECD DAC for private investment mobilization. Four UN agencies are well positioned to support the countries (UNDP, UN ECA, UN ESCAP and UN ECLAC).
- ii Increase their knowledge and execution capacity for good practice blended finance to mobilize private investment. Convergence and partners have programs to increase to beginner, intermediate and expert levels of aptitude.
- iii A group of willing governments should collaborate with a similar group of developed country governments to co-develop an action plan to mobilize private investment as described in the FFD4 Outcome Document. And once agreed, propose to all interested governments to endorse the action plan. Once endorsed, collaborate to implement the action plan.

13 And COP29 NCQG

- iv Identify the national priorities (and regional priorities) to which developing country governments want private investment mobilized; agree on a template where they identify their national priorities and rate them on scale 1-100. This will allow aggregation of national priorities into regional priorities.
- v Review the recommendations in the [Strategic Framework for Blended Finance](#), and implement the recommendations most relevant/required by the country.

It is unwieldy to attempt to concurrently align 142 low and middle-income countries and many high-income countries to develop an action plan. It is recommended that a group of willing and interested developing countries collaborate with a similar group of developed countries (e.g., OECD DAC countries) to co-develop a draft action plan, and once agreed, propose the action plan for endorsement to all interested governments. Table 2.1 describes a reasonable pathway.

**Table 2.2: Process for groups of developing and developed country governments to develop, endorse, and implement action plan (illustrative only)**

#	ACTION	DESCRIPTION	CORE ORGANIZATIONS TO SUPPORT GOVERNMENTS
1	Form core group of developing country governments	A group of willing and interested developing countries form a group to transform the FFD4 Outcome Document mobilization content into an action plan.	UN agencies: DESA, UNDP, DCO, RCOs and ECA, and Convergence
2	Form core group of developed country governments	A core group of developing countries approach a core group of willing and interested developed countries (e.g., OECD DAC countries) to collaborate to co-develop the action plan.	OECD Development Cooperation Directorate (DCD) and Convergence
3	Draft action plan	Two groups of governments use the Prototype Action Plan described in this report to co-develop a draft action plan to be presented to a broad group of governments for their feedback. Core of action plan is to deploy some fiscal resources and govern DFIs to mobilize at scale through 12 standardized blended finance solutions.  Identifying best mobilization solutions requires workshops with private investors.	Above, plus mobilization experts and private sector
4	Final action plan	Developing and developed country governments consult with other willing and interested governments, receive feedback, and transform draft action plan into final action plan.  Two groups of countries produce a final action plan after consultations.	TBD
5	Endorsement of final action plan	Developing and developed country governments along with participating UN agencies, propose a final action plan to all interested developing and developed country governments seeking their endorsement. It is expected many countries would endorse and participate in the action plan.	TBD
6	Flesh out implementation	Endorsing and participating governments agree on architecture to implement, coordinate and oversee the action plan.	TBD (tentative WBG)
7	Implementation	Participating governments implement the action plan.	TBD
8	Mobilization at scale	Participating governments govern their national resources (e.g., fiscal resources and development finance institutions) and collective resources (e.g, MBDs) to mobilize.	TBD

## COMPONENT 2

### GOVERNMENTS SHOULD IDENTIFY THE FULL POTENTIAL OF MDBs TO MOBILIZE INVESTMENT FOR THE SDGs AND PARIS AGREEMENT

Mobilization at scale will require (i) government shareholders to govern their DFIs and (ii) governments to use some of their financial resources to reduce investment risk to within investors' fiduciary and regulatory mandates, primarily by mitigating high assessed/perceived country risk.

#### 2.1 DFIs' roles in Prototype Action Plan to mobilize private investment at scale

Mobilization at scale requires governments to decide the roles they want their three primary DFIs to play, and then govern them accordingly:

- MDBs, like WBG, AfDB, ADB
- Bilateral DFIs, like Proparco, FinDev Canada, and British International Investment
- NDBs, like Uganda Development Bank and Brazil BNDES

Table 2.3 summarizes the DFIs' main comparative advantages and describes the proposed main activities in the Prototype Action Plan.

**Table 2.3: Main roles of development finance institutions to achieve scale mobilization**

PUBLIC OR PRIVATE SECTOR SDG INVESTMENT	FINANCING ACTIVITY	EXAMPLE OF ACTIVITY	MAIN COMPARATIVE ADVANTAGES	PROTOTYPE ACTION PLAN MAIN ACTIVITIES REQUIRED FOR SCALE MOBILIZATION	
				Direct Financing No Risk Reduction	Investment in Blended Finance Vehicles Reducing Risk Risk Reduction
Public Sector	MDB sovereign loans	IBRD \$100 million loan to Government of Kenya for public infrastructure project.	Working with governments to create viable projects. Provide governments low-cost loans directly. Ability to raise inexpensive funding with AAA/AA rating.	Arrange more sovereign loans as A/B loans, and distribute B-loans to blended finance funds	Invest in mezzanine capital in three-tier blended finance funds. Some funds will invest in B-loans and some in bonds and bank loans.
Private Sector	MDB private sector finance (debt and equity)	IFC \$50 million loan to a company in Kenya to expand manufacturing.	Provide loans to low risk banks, companies, and projects in the country. Ability to raise inexpensive funding with AAA/AA rating.	Arrange more private sector loans as A/B loans, and distribute them to blended finance funds. Both hard currency and local currency.	Invest in mezzanine capital in three-tier blended funds: debt and equity. Invest in private sector blended finance vehicles that reduce risk and/or mobilize private investment
Private Sector	Bilateral DFI private sector finance	Norfund invests \$30 million in a Rwandan company.	Investing direct equity. Investing equity in funds.	Arrange more equity investments and lead/distribute to equity funds. Invest in equity funds.	
Private Sector	NDB private sector finance (debt and equity)	Uganda Development Bank loans \$20 million to a local Ugandan company	Provide loans to medium and high-risk banks, companies, and projects in the country. Provide local currency loans.	Arrange more private sector loans as syndicated loans, and distribute them to blended finance funds. Primarily local currency.	To be determined after MDB shareholders decide the best role for MDBs.

## 2.2 Role of MDBs to mobilize at scale

MDBs are typically co-owned by developing and developed country governments, and in principle, are financing mechanisms to achieve the development and climate impact objectives agreed on by those government shareholders. The most recent articulations of those objectives are the FFD4 Outcome Document and the COP29 NCQG. MDB governance and business models should be updated to align with them.

## 2.3 Governments must determine MDBs, maximum contributions

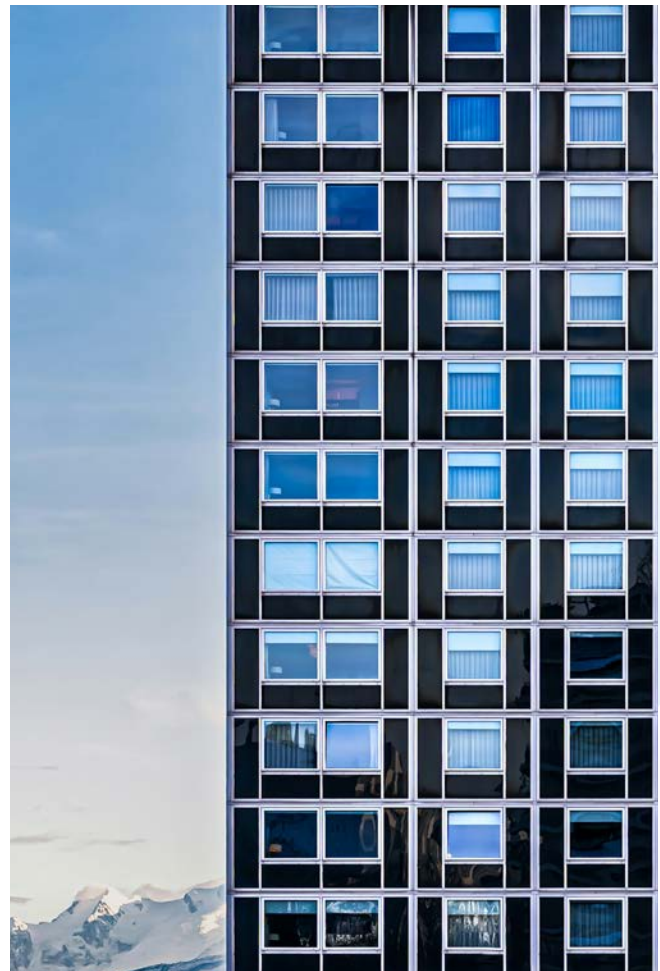
**How shareholders govern MDBs will determine whether scale impact and scale investment volumes to achieve the SDGs and Paris Agreement objectives will be achieved.** MDBs possess around \$500 billion of capital, can hold around \$2.3 trillion of development investments (i.e., loans and equity investments in developing countries) on their balance sheet, and can arrange and hold around \$300 billion of net financing commitments annually. Given those limits, it is clear MDBs cannot make a dent in the SDG investment gap by financing alone. For the MDBs to play a significant role in reducing the SDG financing gap, they must (See Component 5 for details):

- i Increase the amount of loans they arrange (as A/B loans), and then distribute the B-loans to blended finance funds (or other investors) and
- ii Invest in blended finance vehicles that reduce risk and mobilize private investors.

It is not possible to achieve the investment and mobilization objectives of the FFD4 Outcome Document and COP29 NCQG without significant changes to the MDB business models. It is unreasonable and unrealistic for MDB management teams (or boards) to significantly alter their business models to reduce risk to achieve scale mobilization unless governed by their government shareholders to do so. And since developing countries are the main beneficiaries of increased SDG and climate investment made possible by mobilization, the success of private investment mobilization at scale likely relies on developing country governments initiating co-leadership for scale mobilization.

MDBs are not banks – they are international organizations that conduct bank and investment-like activities such as making loans and equity investments and providing guarantees. They are not formally regulated. Since they all issue bonds in international capital markets, they all require an international credit rating. Almost all are rated “AAA” (better than all borrowers except 10 high-income governments) allowing them to borrow huge amounts at low interest rates.

Effectively, a combination of (i) an MDB’s target risk rating (e.g., “AAA”) and (ii) the Big 3 Rating Agencies’ rating methodologies, determines the maximum amount of development investments and the maximum risk of the development investments an MDB can hold on its balance sheet. An MDB rated “AAA” would need to hold a lower amount of development investments and less risky development investments compared to an MDB rated “AA”. Since MDBs operate in developing countries where 76% of sovereign risk ratings are rated “B” or lower, the amount of development investments and the riskiness of those investments must be relatively low to maintain a “AAA” rating.



Given the large mobilization ambitions of the FFD4 Outcome Document and COP29 NCQG, and ongoing low levels of private investment mobilization by MDBs at less than 1.2% of annual SDG investment needs, it is critical for MDB shareholders to engage directly with the Big 3 Rating Agencies to determine MDBs' maximum potential contributions to SDG investment and mobilization. For example, (i) the maximum development investment each MDB can hold on its balance sheet, (ii) the maximum amount of annual financing commitments an MDB can make, and (iii) the maximum distribution of risk ratings the MDB can tolerate - while maintaining its target risk rating (e.g., "AAA" or "AA"). For example:

- Given IFC's \$40.9 billion of balance sheet capital as of June 2025, what is the highest amount of leverage possible (while maintaining a "AAA" rating)?: (i) 4 times for maximum \$164 billion development investments,<sup>14</sup> (ii) 5 times for maximum \$205 billion development investments or (iii) 6 times for maximum \$246 billion development investments. In all cases, IFC can hold significantly more than its actual development investments of \$67.5 billion (1.65 times leverage) as of June 2025
- Is IFC's current loan asset risk profile (e.g., 73.3% of loans rated "BB-" or better with only 6% rated "CCC+" or lower) close to the maximum risk profile it can hold?

It is proposed that a group of developing and developed country governments, possibly supported by a philanthropic foundation, create a working group to

answer the relevant questions. It is proposed the working group have comparable representation from developing countries and developed countries. For example, the G77 could initiate this working group and invite a core group of OECD DAC countries to join. Since MDBs are governed by developed country governments by a combination of ministries of finance and ministries of foreign affairs/ international development, it is important for both types of ministries to be involved in the working group.

It is recommended the group of countries create an advisory group of investors that blended finance is trying to mobilize, such as (i) developing country banks, microfinance institutions (MFIs), pension companies, large companies, and SMEs and (ii) developed country banks, fund managers, institutional investors, and foreign direct investors. It is recommended that governments invite investors who are experienced in blended finance and who have participated in important investment groups like GISD Alliance, Net Zero Asset Owners Alliance, and Net Zero Managers Alliance.

The governments and advisory group should then agree on the Terms of Reference to hire an expert firm to engage with the Big 3 Rating Agencies to address the key questions.<sup>15</sup> This process will allow MDB shareholders to gain clarity on important issues such as maximum development investments and maximum risk profile, and then take mobilization governance decisions accordingly.

**Sections 2.3.1 to 2.3.4 below summarize illustrative questions for the working group to investigate.**

### **2.3.1 MDB maximum development investments and annual financing commitments (illustrative only)**

Box 2.2 presents how [G20 Boosting MDB's investing capacity: An independent review of MDBs capital adequacy frameworks](#). The analysis is based on Convergence's<sup>16</sup> engagement with the Big 3 Rating Agencies and are estimates. Determining actual maximum amounts would require MDB shareholders engaging directly with the Big 3 Rating Agencies. The analysis identifies that MDBs, using their existing

balance sheet capital and maintaining their existing, mainly AAA ratings, would likely be able to (i) hold a maximum of \$2.3 trillion of development investments, and assuming the average life of each commitment is around eight years, (ii) the MDBs would be able to arrange and hold on their balance sheets around \$300 billion of net financing commitments annually<sup>17</sup>.

14 Described by IFC as Investments in relevant Notes B, D, E, F, G, R and T.

15 The working group and expert firm would need to have full authority to engage with the Big 3 Rating Agencies.

16 The analysis is based on Convergence's best information and assumptions following discussions with the Big 3 Rating Agencies. The Big 3 Rating Agencies have no obligation to disclose critical information to Convergence or any other private sector entity. But the rating agencies will disclose the highest level of information to the management teams and the shareholders of the MDBs.

17 This report intentionally uses the 2020 report given its prominence in the development finance world. A review of MDBs' more recent financial statements and up-to-date balance sheet capital suggests the maximum \$300 billion annual commitments is likely \$325-350 billion.

## Box 2.2: MDBs Maximum financing capacities (illustrative only)

The table below approximates the maximum amount of development assets (e.g., loans, equity investments and guarantees) MDBs can hold on their balance sheets (i) consistent with existing business models and risk profiles and (ii) while maintaining existing risk ratings from the Big 3 Rating Agencies (mostly “AAA” ratings). The “likely maximum leverage

ratios” are based on a review of the ratings methodologies and discussions with all Big 3 Rating Agencies. To be clear, the main point of this exercise is to approximate the maximum amount – a detailed calculation would require direct, specific discussions between MDB shareholders and the Big 3 Rating Agencies.

MDB	TOTAL PRIVATE INVESTMENT MOBILIZATION (USD Millions)	PRIVATE DIRECT MOBILIZATION (USD Millions)	PRIVATE INDIRECT MOBILIZATION (USD Millions)	BALANCE SHEET EQUITY (USD Billions)	POTENTIAL LEVERAGE	POTENTIAL DEVELOPMENT ASSETS (USD Billions)	ACTUAL DEVELOPMENT ASSETS (USD Billions)	UTILIZATION RATIO
	Data from joint MDB & DFI Report for 2022			2023	Inferred	Inferred	2023	2023
AsDB	2,007	987	1,021	55.3	5	277	153.1	55%
AfDB	404	255	149	10.8	5	54	22.8	42%
AIIB	1,916	-	1,916	21.5	6	129	22	17%
CAF	966	298	668	14.7	6	88	33.2	38%
EBRD	4,847	653	4,194	22.3	5	112	38.8	35%
EDFI	5,156	1,193	3,963					
EIB Group	8,077	2,421	5,656					
IDB Group	9,435	3,264	6,172	42.1		246	122.4	50%
- IAAB	2,675	950	1,725	38.9	6	233	114.4	49%
- IDB Invest	6,761	2,314	4,447	3.2	4	13	8	63%
IsDB	4,538	100	4,438	10.9	5	55	18.8	34%
WBG	33,736	13,843	19,893	293.2		1,307	527.7	40%
- IFC	24,561	9,391	15,170	37.5	4	150	58.7	39%
- MIGA	4,701	4,452	249	1.9	8	15	10.3	68%
- IBRD	4,475	-	4,475	63.5	6	381	260.2	68%
- IDA	-	-	-	190.3	4	761	198.5	26%
<b>TOTAL</b>	<b>71,081</b>	<b>23,013</b>	<b>48,068</b>	<b>470.8</b>		<b>2,267</b>	<b>938.8</b>	<b>41%</b>

The exercise suggests the maximum amount of aggregate development assets the MDBs can hold on their balance sheets is around \$2.3 trillion. A review of MDBs’ business practices and models identifies the average life of their loans is around seven to eight years. These two amounts result in the maximum amount of development assets the MDBs can arrange annually and hold on their balance sheets is around \$300 billion, equal to around 6% of SDG and climate investment needs in developing countries. If MDB shareholders governed the MDBs to arrange and hold riskier assets than they currently do, the annual maximum amounts would be less than \$300 billion (e.g., IFC’s debt assets have a median risk rating of “BB-” in contrast to a median sovereign risk rating of “B-” and around half of private sector entities in developing countries likely having an implied rating of “CCC” or lower). In summary, even if the MDBs operated at full capacity, they could only arrange and hold development assets equal to around 6% of SDG and climate investment needs annually.

The \$2.3 trillion aggregate financing contrasts to the following amounts of external debt for all low and middle-income countries found in Table 1.5 (page 4) of the World Bank [International Debt Report 2024](#):

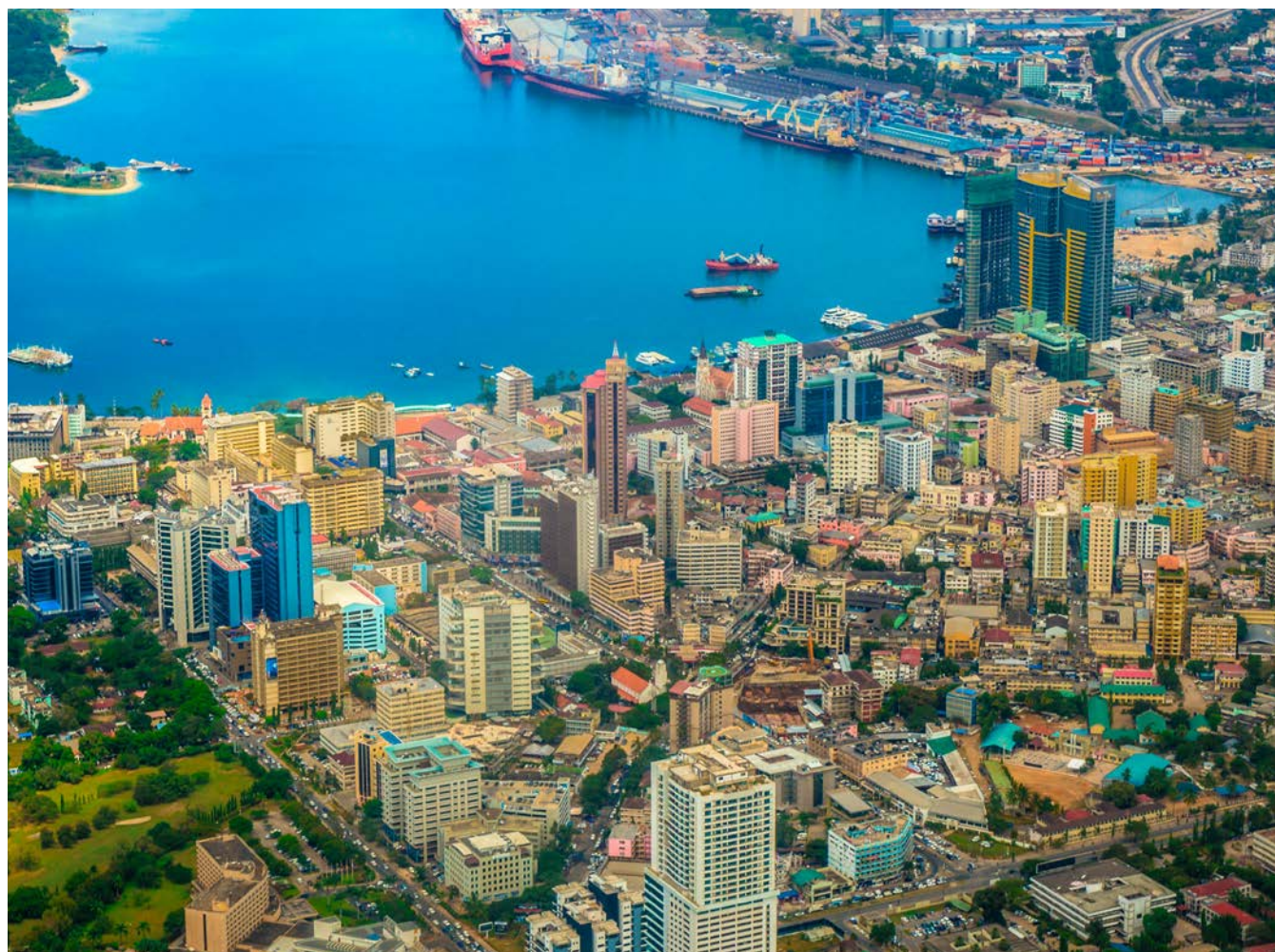
- Total external debt stock of \$8.8 trillion, including \$6.1 trillion in long-term debt
- Of long-term debt, \$3.5 trillion is owed by public sector and \$2.7 trillion to private sector
- Of \$3.5 trillion owed by public sector, \$1.4 trillion is owed to official creditors (e.g., public sector) and \$2.1 to the private sector (\$1.6 trillion to bondholders and \$400 billion to commercial banks and others)
- Of the \$2.7 trillion owed by the private sector, \$2.1 trillion is owed to commercial banks and \$539 billion to bondholders

Table 2.4 summarizes IFC's assets, reproducing information from IFC's June 2025 financial statements:

- IFC's assets comprise \$67.5 billion development investments (e.g., loans, debt securities and equity investments in developing countries) and \$61 billion non-development investments.
- The largest of IFC's non-development investments are \$33.7 billion in traded securities, which comprise (a) \$22.9 billion invested in high-income country government securities such as the Government of Japan and bonds, (b) \$6.9 billion in asset backed securities, and (c) \$4.7 billion in corporate securities.
- IFC's development investments to total capital ratio is 1.65 (\$67.5 billion / \$40.9 billion). It is likely the maximum this ratio can be while IFC still maintains a "AAA" rating is around four times. If so, IFC could hold \$164 billion of development investments

Table 2.4: IFC's main assets and capital as of June 25, 2025

	DEVELOPMENT INVESTMENTS (INVESTED IN DEVELOPING COUNTRIES)				NON-DEVELOPMENT INVESTMENTS (GENERALLY NOT INVESTED IN DEVELOPING COUNTRIES)				TOTAL CAPITAL
	Debt loans	Debt securities	Equity investments	Sub-total	Trading securities	Time deposits and cash	Derivative assets, receivables and securities	Sub-total	Paid-in capital, retained earnings and accumulated income
<b>USD billions</b>	42.2	13.5	11.8	67.5	33.7	14.3	13.0	61.0	40.9
<b>% total assets</b>	33%	10%	9%	52%	26%	11%	10%	48%	



## 2.3.2 Risk profile of MDB development investments (illustrative only)

Table 2.5 below reproduces IFC's risk ratings for its loan portfolio<sup>18</sup>, and then compares the IFC loan portfolio to other well-known governments and private sector entities. 73% of IFC's loan portfolio is equal to Government of Colombia and Goodyear Tire.

Table 2.5: IFC risk ratings for its loan portfolio (June 2025)

IFC RATINGS	VERY STRONG	STRONG	ADEQUATE	MODERATE	WEAK	VERY WEAK	IMMINENT DEFAULT	TOTAL
Big 3 Rating Agencies	AAA & AA	A	BBB	BB	B	CCC	CC+ and lower	
<b>IFC Loan Portfolio</b>								
Total Disbursed Loans (USD millions)	85	1,116	12,192	17,162	8,396	2,259	500	41,710
% of Loans	0.2%	2.7%	29.2%	41.1%	20.1%	5.4%	1.2%	100%
Cumulative Percent	0.2%	2.9%	32.1%	73.3%	93.4%	98.8%	100.0%	
<b>Rating Equivalents</b>								
Governments	Germany	Japan	Italy	Serbia	Montenegro	Argentina		
	United Kingdom	Spain	Hungary	Macedonia	Bahamas	Ethiopia		
		China	India	Colombia	Bangladesh	Zambia		
		Malaysia	Indonesia	Cote d'Ivoire	Tanzania	Egypt		
Real Economy Companies & Financial	Microsoft	IBM	Phillips 66	Goodyear Tire	Edenor	Restoration Hardware		
	Apple	Target	FedEx	Dollar Tree	Ecobank Nigeria			
	Amazon	Bank of America	Capital One	Valvoline	National Bank of Egypt			
	UBS	Sumitomo Corp	KeyCorp	Banco do Brasil				
	Royal Bank Canada	Goldman Sachs		Garanti Turkey				

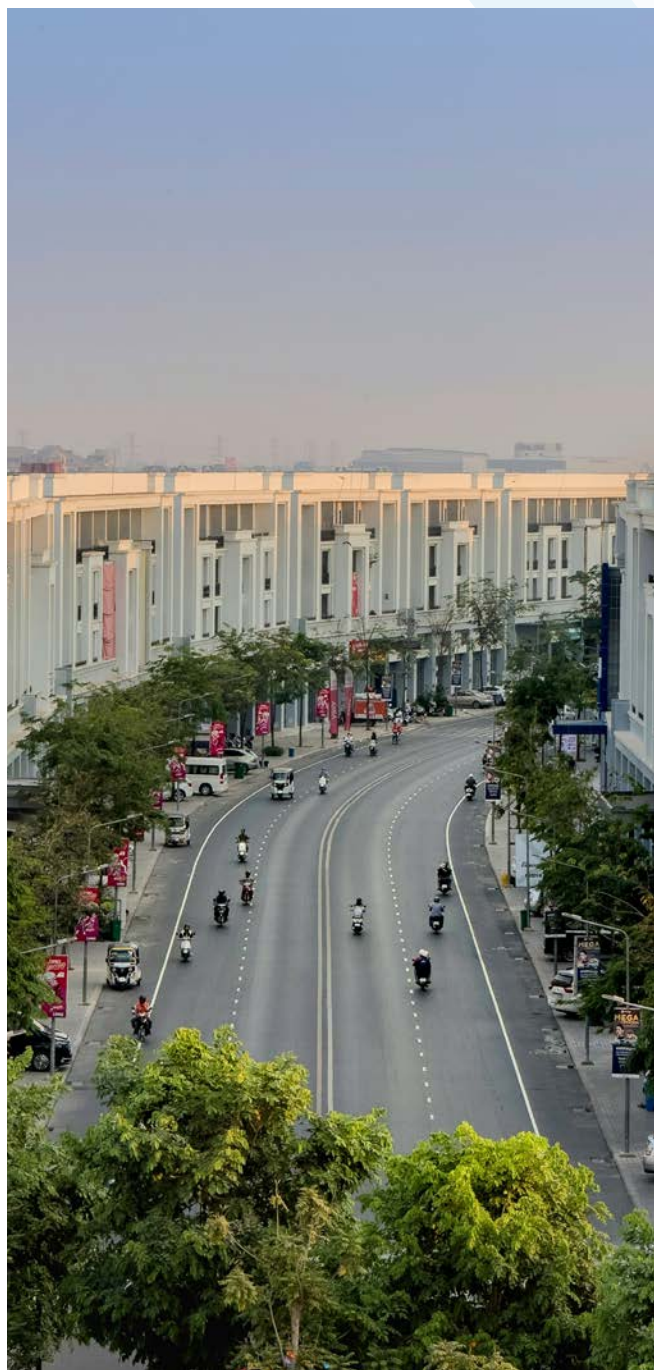
<sup>18</sup> First three rows are reproduced from Note E of IFC's June 2025 financial statements.

<sup>19</sup> See Note E, Table E.10 of IFC's 2025 annual financial statements: Of the \$ 41.7 billion outstanding loans, (a) the median risk rating is "moderate" mapping to "BB" and (b) only 6.6% are "very weak" or worse mapping to "CCC+" or lower.

### 2.3.3 MDB risk reduction activities to mobilize (illustrative only)

MDBs are not very active at reducing risk to mobilize private investment<sup>20</sup>. Most MDBs have all the required financial instruments and mandates to reduce risk to mobilize private investment, but the instrument MDBs use most to reduce risk and mobilize is guarantees<sup>21</sup>. However, they are not very active at issuing guarantees (except for the Multilateral Investment Guarantee Agency (MIGA)<sup>22</sup>. The authors estimate less than 4% of aggregate MDB exposures are guarantees. For example, the information below shows how little some major MDBs use guarantees (and how little they reduce risk to mobilize):

- **IBRD:** As of June 2025, aggregate guarantee exposure was \$7.5 billion – only 2.6% of IBRD’s \$271 billion outstanding loans portfolio and 10% of IBRD’s \$72 billion capital.
- **World Bank Group’s International Development Association (IDA):** As of June 2025, aggregate guarantee exposure was \$2.8 billion – only 1.2% of IDA’s \$228 billion outstanding loans portfolio and 1.3% of IDA’s \$204 billion capital.
- **IFC:** As of June 2025, aggregate guarantee exposure was \$6.6 billion – only 9.8% of IFC’s \$67.5 billion development investments portfolio (e.g., debt and equity assets outstanding) and 16% of IFC’s \$41 billion capital.
- **MIGA:** As of June 2025, MIGA net guarantee exposure was \$11.2 billion – 5.3 times its \$2.1 billion balance sheet capital.
- **AfDB:** As of December 2024, aggregate guarantee exposure was UA 1.0 billion – only 4.1% of AfDB’s UA 24.6 billion development investments portfolio and 8.2% of AfDB’s UA 12.2 billion capital.



20 Caveat: MDB loans are much more profitable than guarantees. If an MDB is going to take \$100 million of credit exposure to Company X, by either making a loan (fully aligned with existing MDB private sector business models like IFC, EBRD, IDB Invest, AsDB) or providing a guarantee for another bank to make the loan (rare in MDBs’ business models), the MDB will make much higher profits making the direct loan. For example, IFC identifies its average loan has an interest rate around Libor plus 3.4%. Assuming a cost of funds around Libor minus 0.25%, the 3.65%, the net interest margin will be much higher than the guarantee fee collected from a commercial bank making the same loan. Likely two to three times more profitable.

21 Only to reduce risk directly for most MDBs.

22 MDBs rated “AAA” issuing guarantees directly to private investors is an inefficient use of MDB capital relative to other blended finance structures. Underlying country risk of “B” and “CCC” prevalent in most developing countries is the largest barrier for cross-border investment (beyond most investors’ fiduciary and regulatory mandates), but no private investor needs a AAA guarantee. Mobilization only requires credit enhancement to primarily investment grade “BBB” and secondarily non-investment grade “BB.” For investors, receiving a AAA guarantee and earning an A return is hugely profitable. But that falls well short of key tenets of mobilization: efficiency of public sector funding, minimal concessionality, non-market distortion and sharing risk fairly. If too much capacity of MDB capital and ODA funding is tied up in inefficient AAA guarantees, scale mobilization will not be achieved.

### 2.3.4 MDB optimal risk ratings to maximize contributions to SDGs (illustrative only)

The main MDBs are rated “AAA” by the Big 3 Rating Agencies. Some other MDBs operate at lower ratings: IDB Invest (AA+), New Development Bank (AA+), Caribbean Development Bank (AA+), and Development Bank of Latin American & Caribbean (CAF) (AA-). S&P describes a “AAA” borrower as having “*extremely strong capacity to meet its financial commitments*” and “AA” as “*very strong capacity to meet its financial commitments*”.

Only ten high-income countries are rated “AAA” (e.g., Germany, Norway, the Netherlands, Switzerland, and Sweden). Only two of the G7 members are rated “AAA”. Only nine of the 33 OECD DAC countries are rated “AAA”. No private sector financial institutions are rated “AAA”; the closest are major developed country banks like HSBC (AA), Bank of New York (AA-), Credit Agricole (AA-), Royal Bank of Canada (AA), Svenska Handelsbanken, (AA-) and State Street (AA-).

The biggest advantage for an MDB rated “AAA” versus “AA” is a lower cost of funds. Three markers for how much the “AA” premium would be:

- Recent research evidenced an average premium of 0.06% for MDBs rated “AA” versus “AAA”
- Recent research evidenced an average premium of 0.06% for governments rated “AA” versus “AAA”

- Recent 3-year bond issuances by IDB Invest (“AA+”) versus Inter-American Development Bank (“AAA”) resulted in a 0.12% premium paid by IDB Invest
- A 0.08% interest premium appears a reasonable assumption.

Convergence’s engagement with the Big 3 Rating Agencies suggests an MDB would be able to leverage its capital by an additional 50% if governed at “AA” versus “AAA.”<sup>23</sup> If this number is roughly accurate, then the \$2.3 trillion estimated “maximum MDB development investments” would increase to \$3.45 trillion; that is MDBs would be able to hold around an extra \$1.15 trillion of development investments on their balance sheets. The main “cost” would be an extra 0.08% interest rate premium on sovereign loans<sup>24</sup>. One can assume that if developing countries were surveyed on whether they would be prepared to pay an extra 0.08% on their sovereign loans versus receiving an extra 50% of loans, they would elect the extra \$1.15 trillion of development investments.

The private sector operations of the MDBs would experience a huge increase in profits. The assumed 0.08% extra interest rate costs would be dwarfed by the net interest margins IFC, EBRD, and other MDBs make on their private sector loans.



23 This should only be considered for illustrative purposes. The actual ratio can only be determined by MDB shareholders engaging directly with the Big 3 Rating Agencies.

24 The primary target for mobilization should be private investment located in developing countries. The main risks to mitigate are (i) non-country risks for most investors and (ii) high country risk for institutional investors required to invest in investment grade debt (e.g., domestic insurance companies and pension companies).

## COMPONENT 3

### GOVERNMENTS SHOULD AGREE THE PURPOSE OF BLENDED FINANCE IS TO MOBILIZE PRIVATE INVESTMENT

As described in Part 1, blended finance should be a primary tool in the development toolbox – a complement to traditional ODA and traditional development finance. The raison d'être of blended finance should be to mobilize private investment that would otherwise not invest in the project or in the developing country:

- The primary target for mobilization should be private investment located in developed countries that have the discretion to invest in developing countries, but do not because of assessed/perceived high country risk. This is by far the largest source of investment available to significantly narrow the \$4 trillion SDG investment gap. The main risk these investors need to mitigate is high country risk, with currency risk as a secondary concern.
- The primary target for mobilization should be private investment located in developing countries. The main risks to mitigate are (i) non-country risks for most investors and (ii) high country risk for institutional investors required to invest in investment grade debt (e.g., domestic insurance companies and pension companies)

Table 2.6 highlights the MDB and DFIs mobilization methodology. A good approach for the action plan would be for governments to agree to an amended definition to the current MDB and DFI definition of *Private Direct Mobilization*, as summarized in Table 2.6.

**Table 2.6: MDBs & DFIs definition of private investment mobilization (See MDB reference guide)**

TERM	CURRENT DEFINITION	TYPICAL EXAMPLE	COMMENT
<b>Private Indirect Mobilization</b>	<i>Financing from private entities provided in connection with a specific activity for which an MDB is providing financing, where no MDB is playing an active or direct role that leads to the commitment of the private entity's finance. Private Indirect Mobilization includes sponsor financing if the sponsor qualifies as a private entity.</i>	If a Kenyan company decides to implement a \$100 million project, and procures \$20 million loan from an MDB alongside \$80 million from the project sponsor, the MDB will report \$80 million Private Indirect Mobilization.	All MDBs and DFIs only part-finance private sector operations (e.g., IFC reports it caps its financing at 25% of project costs and EBRD at 35%). Therefore, all MDB and DFI private sector operations include Private Indirect Mobilization. Most Private Indirect Mobilization is already located in the developing country and/or committed to the project – irrespective of MDB/DFI financing. Generally, Private Indirect Mobilization has no/low financial additionality – as witnessed by the MDB definition “no MDB is playing an active or direct role that leads to the commitment of the private entity's finance”.
<b>Private Indirect Mobilization</b>	<i>Financing from a private entity on commercial terms due to the active and direct involvement of a MDB leading to commitment. Evidence of active and direct involvement include mandate letters, fees linked to financial commitment or other validated or auditable evidence of a MDB's active and direct role leading to commitment of other private financiers.  Private Direct Mobilization does not include sponsor co-financing.  A private entity includes some public entities that are organized with financial and managerial autonomy, such as FMO.</i>	If a Kenyan company decides to implement a \$100 million project, and procures a \$35 million A/B loan from an MDB alongside the project sponsor's \$65 million. Assume an A/B loan is 50:50. The MDB will report: \$17.5 million Private Direct Mobilization and \$65 million Private Direct Mobilization.	In this activity, the MDB/DFI is actively mobilizing a private investor to invest in the transactions. The investor is not committed to the country and/or project.  This Private Indirect Mobilization generally has high or medium financial additionality.  <i>Note: Public sector mobilizing other public sector finance should not count as Private Direct Mobilization since it is not private.</i>

Table 2.7 proposes minimal amendments to “Private Direct Mobilization” which is recommended to be the main target of the Prototype Action Plan and main metric to be measured in governance Key Performance Indicators.

**Table 2.7: Proposed tweaked definition of Private Direct Mobilization for Prototype Action Plan**

EXISTING MDB & DFI DEFINITION	PROPOSED TWEAKED VERSION
<p><i>Financing from a private entity on commercial terms due to the active and direct involvement of a MDB leading to commitment. Evidence of active and direct involvement include mandate letters, fees linked to financial commitment or other validated or auditable evidence of a MDB's active and direct role leading to commitment of other private financiers. Private Direct Mobilization does not include sponsor financing.</i></p>	<p>“MDB” should be amended to “public sector entity”, including but not limited to (i) development financial institutions (e.g., MDBs, DFIs and NDBs), (ii) developed country governments (e.g., OECD DAC countries) and (iii) developing country governments.</p>
<p><i>A private entity is defined as a legal entity that is:</i></p> <ul style="list-style-type: none"> <li><i>(a) carrying out or established for business purposes and</i></li> <li><i>(b) financially and managerially autonomous from national or local government.</i></li> </ul>	<p>Should be amended to include private entities only.</p> <p>Private entities should not include “public entities that are organized with financial and managerial autonomy.” The OECD estimates 25% of “Private Direct Mobilization” as reported by MDBs and DFIs in most years has been a public sector development finance institution co-investing with another public sector development finance institution, such as IFC mobilizing Proparco or EBRD mobilizing FMO.</p> <p>All these development finance institutions are capitalized and mandated to invest only in impact investment in developing countries. The objective of blended finance should be to mobilize private investment that has the discretion to invest in impact investment in developing countries yet does not otherwise do so. This should be the true target of “additional” private investment.</p>



## COMPONENT 4

### DEVELOPING COUNTRY GOVERNMENTS SHOULD ESTABLISH NATIONAL PRIORITIES FOR PRIVATE INVESTMENT MOBILIZATION, AND THEN IDEALLY TRANSFORM THE PRIORITIES TO NATIONAL AND REGIONAL PRIVATE INVESTMENT MOBILIZATION PROGRAMS

#### 4.1 Summary

Component 4 focuses on the most important activities for a developing country to ensure private investment is mobilized to its national priorities and how governments can lead private investment mobilization for their country through National Private Investment Mobilization Programs, and co-lead mobilization with other related governments in Regional Private Investment Mobilization Programs. Table 2.8 summarizes the main content of Component 4.

**Table 2.8: How blended finance vehicles mobilize private investment to the developing country government’s national priorities**

	DESCRIPTION	EXAMPLE
<b>National Priorities</b>	Each developing country is encouraged to identify its national priorities for private investment mobilization on a simple scale 1-100 across two dimensions: (1) sector, development theme and specific project and (2) type of financing, such as hard currency debt, local currency debt and equity. This clearly identifies for all governments, development finance institutions and private investors the government’s priorities for mobilization. Identifying these priorities on a simple template and scale common to all developing countries also allows aggregation across regions (e.g., Sub-Saharan Africa).	The Government of Kenya decides to prioritize private investment mobilization in rank order: renewable energy, financial sector development and SME finance.
<b>Private Investment Mobilization Programs</b>	The proposed Private Investment Mobilization Programs would be developed by a developing country government to mobilize private investment to its national priorities. The mobilization programs would be implemented on a national basis (e.g., Kenya) and a regional basis (e.g., Sub-Saharan Africa).	
<b>National Programs</b>	The core of a national program would be a clear description of the national priorities for which a government prioritizes private investment mobilization (including ratings 1-100), the mobilization activities the government will pursue, the fiscal financial resources the government will deploy, how it will govern its National Development Bank and how it will attract external financial resources to mobilize.	The Government of Kenya sets the objective to mobilize senior debt investment to finance large infrastructure projects within Kenya to be implemented on a private or public-private partnership (PPP) investment basis. The government decides to prioritize the establishment of a blended finance vehicle that will issue investment grade “BBB” guarantees to mobilize debt investors (e.g., loans and bonds) to these infrastructure projects, such as replicating InfraCredit Nigeria. The government calls for proposals for private investors to establish the guarantor, advertising it is willing to award \$20 million as junior capital and that two OECD DAC countries are prepared to also award \$20 million.

**Table 2.8 (cont'd)**

<p><b>Regional Programs</b></p>	<p>Groups of related developing country governments could co-develop a regional program, and coordinate with interested developed countries.</p> <p>Developing country governments would reflect on their individual national programs to then co-develop a regional program to mobilize private investors, for example with a focus to mobilize developed countries' institutional investors into regional blended finance funds diversified across multiple countries.</p>	<p>21 African governments agree on the need to increase debt and equity capital in African financial institutions (e.g., banks and microfinance institutions) for lending to SMEs. African governments assess alternatives and decide to establish a Sub-Saharan Africa Financial Markets Development Investment Mobilization Program. The African governments attract 12 OECD DAC countries to participate in the regional program.</p> <p>33 governments issue a collective call for proposals stating they are prepared to allocate up to \$300 million as junior capital to establish two funds that will invest common equity in African banks and MFIs.</p>
<p><b>National Blended Finance Vehicle</b></p>	<p>Developing country governments would reflect on their individual national programs to then co-develop a regional program to mobilize private investors, for example with a focus to mobilize developed countries' institutional investors into regional blended finance funds diversified across multiple countries.</p>	<p>Assume the Government of Kenya sets the objective to mobilize senior debt investment to finance large infrastructure projects within Kenya to be implemented on a private or PPP investment basis, and understands its sovereign "B-" risk rating will result in most debt for the infrastructure projects having implied risk ratings "B" and "CCC" impeding both domestic and cross-border institutional investors. The government decides to prioritize the establishment of a blended finance vehicle that will issue investment grade "BBB" guarantees to mobilize debt investors (e.g., loans and bonds) to these infrastructure projects, and after reviewing alternatives, decides that replicating the experience of InfraCredit Nigeria would be the best way forward. The government decides it is prepared to allocate \$20 million as junior capital to an organization to establish a new entity, like InfraCredit Nigeria, whose primary focus would be to mobilize (i) domestic pension companies and insurance companies to invest long-term local currency debt and (ii) developed countries banks and institutional investors to invest long term debt.</p> <p>Assume the Government of Kenya attracts two OECD DAC members to each contribute \$20 million for a total of \$60 million junior capital. The government issued a call for proposals stating they are prepared to allocate \$60 million as junior capital to an organization to establish a new entity like InfraCredit Nigeria. The government receives 12 proposals and selects a winner based on a competitive process. A new guarantor is established with \$300 million of capital (\$240 million senior and \$ 60 million junior) issuing \$150-250 million of guarantees annually. Over a ten-year period, the new guarantor issues \$2 billion of guarantees for senior debt, complemented by \$2 billion of project sponsor equity, for an aggregate investment of \$4 billion. \$60 billion catalytic and concessional finance mobilizes \$4 billion of total investment.</p>

Table 2.8 (cont'd)

<p><b>Regional Blended Finance Vehicle</b></p>	<p>A blended finance vehicle, aligned to one of the 12 PIMMs described in Component 5, that mobilizes private investment within multiple developing countries. Regional vehicles can mobilize investment for national programs. For example, a developing country government could prioritize increasing equity capitalization of domestic banks and MFIs. The government could pursue a national blended finance equity fund mobilizing mostly domestic investors into senior capital. Or could agree with regional governments to pursue a regional blended finance equity fund mobilizing mostly cross-border investors into senior capital.</p>	<p>33 governments agree to prioritize mobilizing (i) domestic African investors and (ii) cross-border private investors through four blended finance solutions. One of the solutions is a blended finance equity fund to invest equity in African commercial banks and MFIs for on-lending to SMEs. Governments decide to capitalize at least two funds to ensure competition 33 governments issue a collective call for proposals stating they are prepared to allocate up to \$300 million as junior capital to establish two funds that will invest common equity in African banks and MFIs. Governments receive 48 proposals from African and global fund managers, and select two winners based on a competitive assessment process. Two new funds are established each with three tiers of capital: (i) \$1.2 billion senior capital from private investors (80%), (ii) \$150 million mezzanine capital from African NDBs and DFIs (10%) and (iii) \$150 million junior capital from governments. The two funds invest \$3 billion equity in 48 banks in 21 (10%) African countries and increase SME finance by \$10 billion annually. The \$300 million catalytic and concessional finance mobilizes \$10 billion of private investment to SMEs.</p>
<p><b>Global Blended Finance Vehicle</b></p>	<p>A blended finance vehicle (aligned to one of the 12 PIMMs described in Component 5), that mobilizes private investment within most developing countries.</p>	<p>Groups of developing and developed country governments decide to establish a global blended finance vehicle that will mitigate currency risk, such as The Currency Exchange (TCX).</p>



## 4.2 Importance of strong enabling environment for developing country governments to engage in blended finance

This report focuses on financial structuring of blended finance solutions to reduce risk, create investments that meet investors' fiduciary and regulatory investment obligations and mobilize them to invest. An essential aspect of blended finance and private investment mobilization is for a government to create a good enabling environment for private investment mobilization. A recent [Strategic Framework for Blended Finance](#) report co-published by UNDP and Convergence describes a fit-for-purpose framework for a government to create a good enabling environment.

**Convergence recommends that developing country governments read the report prior to considering a National Private Investment Mobilization Program outlined in this section.**

This report focuses on a small subset of the Strategic Framework Report critical for good practice mobilization:

- Governments identifying the national priorities to which they want blended finance to mobilize in a simple template transparent to all relevant actors.
- Identifying the private investors most likely to invest in the national priorities, and the investment challenges (if any) they would face.
- Workshops to identify the best blended finance solutions to mobilize private investment toward the national priorities.
- National and Regional Private Investment Mobilization Programs to implement the blended finance solutions that will mobilize private investment to national priorities.
- Allocating developing country public sector resources, and governing NDBs to invest in the best blended finance solutions that mobilize.
- Collaborating with regional developing country governments and developed countries to co-fund the blended finance solutions in the national and regional programs.

## 4.3 Rating national priorities for private investment mobilization

The past decade has demonstrated that blended finance can mobilize private investment for all SDGs, all sectors and all development themes - with different solutions and very different efficiencies. The FFD4 Outcome Document clearly states private investment should be mobilized to developing countries' national priorities, ***“governments call for blended finance initiatives to promote country ownership by aligning with national sustainable development priorities and industrialization strategies.”*** (clause 33). Developing country governments should make these national priorities explicit, analytical and simple to influence official financial flows and mobilize private investment.

The Prototype Action Plan proposes developing country governments complete a simple template to identify their national priorities for private investment mobilization, rated on a scale 1–100. Table 2.9 provides a simplified, illustrative snapshot (example for Kenya). In this illustrative example, the Government of Kenya decides the following top items as national priorities for private investment mobilization:

- The government's top priority is for private investment to be mobilized for public sector investment to be undertaken for health, education, public sector infrastructure and climate adaptation – these investments range from 100 for affordable (subsidized) loans down to 50 for hard currency debt priced at market terms.
- The government's second-highest priority is for renewable energy investment in the private sector: ranging from 90 for equity down to 50 for hard currency debt
- The government's third highest priority is for financial sector development in the private sector: ranging from 87 for equity to 36 for hard currency debt.

Table 2.9: Simplified example template of a developing country government declaring its national priorities for private investment mobilization. Illustrative for Kenya.

BENEFICIARY OF FINANCING / TYPE OF	NATIONAL PRIORITIES: DEVELOPING COUNTRY'S RATING ON SCALE 1-100 FOR PRIVATE INVESTMENT MOBILIZATION				
	Affordable (subsidized) local currency	Affordable (subsidized) hard currency	Local currency debt – market	Hard currency debt – market	Equity – market price
<b>Public sector investment</b> Health, education, public sector infrastructure, climate adaptation	95-100	75-80	85-90	50-70	NA
<b>Private sector investment</b>					
<b>Financial sector development</b>	Not addressed in this report and Prototype Action Plan.		70-84	36-43	74-87
<b>MSME finance</b>			64-77	26-51	64-81
<b>Renewable energy</b>			85-90	50-70	85 - 90
<b>Infrastructure</b>			51-81	26-43	55-81
<b>Agriculture</b>			64-72	21-43	64-77

The government of a developing country uses the template to transparently identify its national priorities for mobilizing investment across the public and private sectors. The ratings will lead to development finance, blended finance and private investment mobilization activities aligned to those priorities. Indeed, Component 7 proposes that MDBs, OECD DAC countries and developing countries should establish governance KPIs for mobilization directly tied to developing countries' ratings. For example, the shareholders of the four members of the World Bank Group should govern IBRD, IDA, IFC and MIGA respectively, to support highly ranked (75 or higher) national priorities versus lower ranked (50 or lower). In the illustrative Kenya case above, the Government of Kenya priorities should influence the following behaviours to increase private investment mobilization to their national priorities:

- OECD DAC countries in principle should award/ allocate their catalytic and concessional finance to blended finance proposals that mobilize for areas with high ratings (e.g., 75 or greater).
- MDBs focused on sovereign loans, like IBRD and AfDB, would have complete clarity that mobilizing private investment to the Government of Kenya loans is the government's top priority.
- Bilateral DFIs focused on equity activities, like BII and Norfund, would understand that the Kenyan government prioritizes equity in (a) renewable energy and financial sector development in its first tier and (b) SME finance, agriculture and infrastructure in its second tier.



## 4.4 Mapping national priorities to public sector and private sector investment

Once a developing country government identifies its national priorities for private investment mobilization (rated 1-100), the next step would be to determine whether the investment should be a public sector investment or a private sector investment – the former undertaken by the public sector and the latter by the private sector.

Table 2.10 below illustrates a reasonable approach to identifying the best financing channels. The table illustrates 19 prospective sectors/development themes a government could prioritize for mobilization (e.g., SME finance and health sector). For each sector/theme, the table identifies whether the investment should be undertaken by the public sector (e.g., a public sector investment) or private sector (e.g., a private sector investment).

- For public sector investments, blended finance should mobilize private investment to public sector borrowers (sovereigns or sub-sovereigns).
- Private sector investments are divided into two types: (a) small/medium sized investments (e.g., less than \$10 million) and (ii) large investments (e.g., more than \$10 million). Small and medium-sized investments implemented by the private sector (primarily by domestic SMEs and corporates) will be financed primarily by domestic commercial banks and microfinance institutions: blended finance should mobilize private investment primarily to/through domestic banks and microfinance institutions, and secondarily to/through other intermediaries like investment funds and fintech companies.
- Large-sized investments implemented by the private sector (primarily by domestic large companies, cross-border large companies and foreign direct investors) will be financed by many sources, e.g., domestic commercial banks, international commercial banks, investment funds, capital markets, etc. Blended finance should mobilize private investment to/through those investors/intermediaries.
- For blended finance to successfully mobilize private investment to the sectors/development themes prioritized by developing country governments, it will need to mobilize comparably for all three columns: (i) public sector investments, (ii) small and medium-sized private sector investments and (iii) large private sector investments.

**Table 2.10: Mapping developing countries' national priorities to public investment or private investment, and best financing channels – illustrative**

NATIONAL PRIORITIES	INVESTMENTS TO BE IMPLEMENTED BY THE PRIVATE SECTOR REQUIRING PRIVATE SECTOR FINANCE		INVESTMENTS TO BE IMPLEMENTED BY THE PUBLIC SECTOR REQUIRING PUBLIC SECTOR FINANCE
	Small and medium size investments	Large size investments	
SME finance	Yes		
Job creation	Yes	Yes	
Gender	Yes	Yes	Yes
Financial Inclusion	Yes		
Agriculture	Yes	Yes	Yes
Manufacturing	Yes	Yes	
Mining		Yes	Yes
Financial market development		Yes	
Capital market development		Yes	
Nationally Determined Contributions (NDCs)	Yes	Yes	Yes
Renewable energy		Yes	Yes
Energy efficiency	Yes	Yes	Yes
Climate mitigation		Yes	Yes
Climate adaptation	Yes	Yes	Yes
Infrastructure - National		Yes	Yes
Infrastructure - Multiple countries		Yes	Yes
WASH			Yes
Health			Yes
Education			Yes

## 4.5 Identifying optimal blended finance solutions

Table 2.11 translates the national priorities and public/private sector investments identified in Table 2.10 into optimal blended finance solutions. For example, illustratively (See Section 5 for details):

- If a developing country government prioritizes mobilizing private investment to increase sovereign loans, a blended finance fund (PIMM 8) can be an effective approach. And that solution should be undertaken through regional private investment mobilization programs and regional blended finance vehicles.
- If a developing country government prioritizes mobilizing private investment to SME finance, then four blended finance solutions (PIMMs 6, 7, 8 and 9) are the most effective approaches addressing different investment challenges. Solutions should be undertaken through national or regional programs and national and/or regional blended finance vehicles.

**Table 2.11: Optimal blended finance solutions to mobilize private investment to finance national priorities**

SECTOR TO IMPLEMENT PROJECT/ INVESTMENT: PUBLIC OR PRIVATE	SIZE OF PROJECT/ INVESTMENT	WHO IS MOST LIKELY TO FINANCE THE INVESTMENT?	WHAT FINANCING PROBLEM IS BLENDED FINANCE TRYING TO SOLVE TO ENCOURAGE PRIVATE INVESTORS TO INVEST?	WHAT IS THE OPTIMAL BLENDED FINANCE SOLUTION TO SOLVE THE INVESTMENT CHALLENGES?		
				National Vehicle (e.g., Kenya)	Regional Vehicle (e.g., Africa)	
Projects/investments to be implemented by the private sector requiring private sector finance	Small and medium size projects and investments	Primarily financed by domestic banks and MFIs	Banks and MFIs will require more equity investment to fund loan portfolio	36-43	Blended finance fund to invest equity in banks and MFIs <b>(PIMM 10)</b>	
			Banks and MFIs will require more debt (loans and bonds) to fund loan portfolio	36-43	Blended finance fund to invest debt in banks and MFIs <b>(PIMM 9)</b>	
			Banks will require portfolio risk sharing (e.g., portfolio guarantees) to lend to sectors borrowers assessed as high risk	Risk sharing facility with domestic banks & MFIs (could be national for large countries, but most will be regional for small and medium countries) <b>(PIMM 6)</b>		
			Banks will require value chain financing to increase lending to value chain participants	<b>Value chain financing blended finance vehicle</b> with domestic banks (could be national for large countries, but most will be regional for small and medium countries) <b>(PIMM 7)</b>		
	Large size projects and investments	Financed by international commercial banks <sup>26</sup>	Need to increase number of viable projects	Project development funding vehicle (could be national for large countries, but most will likely be regional for small and medium countries) <b>(PIMM 2)</b>		
			For some projects, banks will require credit enhancement at project level to increase bankability	Guarantor issuing guarantees to international commercial banks (could be national for large countries, but most will likely be regional for small and medium countries) <b>(PIMM 3)</b>		
			For some projects, banks will require off-taker risk enhancement		Blended finance vehicle supporting off-taker risk mitigation <b>(PIMM 5)</b>	
			For some projects, banks will require political risk insurance (PRI)		Blended finance vehicle supporting increase in PRI <b>(PIMM 4)</b>	
		For some projects, banks will require currency hedges		Blended finance vehicle supporting local currency hedges <b>(PIMM 11)</b>		
		Banks will need to syndicate part of exposure		Blended finance fund to invest in syndicated loans <b>(PIMM 9)</b>		

<sup>26</sup> Some of these projects can be financed by domestic commercial banks.

**Table 2.11 (cont.)**

Projects to be implemented by the public sector requiring public sector finance	All sizes, generally large	Financed by the sovereign	Public sector will need project preparation funds		Project Preparation Facilities <b>(PIMM 1)</b>
			Public sector will need investment grants to increase project viability		Investment Grant Facility <b>(PIMM 12)</b>
			Public sector will need affordable sovereign finance (loans and bonds)		Blended finance fund to invest in sovereign debt (bonds and loans) <b>(PIMM 8)</b>
Public and Private Sector			Cross-border investors and domestic borrowers will want to mitigate hedge FX risk		Blended finance vehicle supporting local currency hedging <b>(PIMM 11)</b>
<b>Other optimal blended finance solutions to mobilize investors - illustrative</b>					
Private sector	Large projects	Domestic pension and insurance companies	Most private sector projects/ borrowers will be capped at the country ceiling – too high risk for regulated investors requiring investment grade ratings. Blended finance vehicle issuing investment grade guarantees will be an optimal solution to mobilize these investors to invest domestically.	Guarantor issuing guarantees to domestic pension companies and insurance companies (could be national for large countries, but most will be regional for small and medium countries) <b>(PIMM 3)</b>	
		Foreign direct investors	FDI investors will want to decrease the amount of capital required to make an investment in developing countries		Blended finance fund to invest in senior debt and/or mezzanine debt to attract FDI <b>(PIMM 9)</b>
	NA	Large local companies	Large companies will want to increase the amount of capital to grow and make domestic investments, such as expanding manufacturing, processing, etc..		Blended finance fund to invest equity in large companies <b>(PIMM 10)</b>
	NA	Medium and large companies	Tech companies will want to attract equity in their high-risk, venture capital activities, such as software development and fintech		Blended finance fund to invest equity in venture capital <b>(PIMM 10)</b>
	NA	SMEs	SMEs will want to attract mezzanine capital to expand their businesses, invest in capital and hire more staff - beyond loans from domestic banks		Blended finance fund to invest in mezzanine capital in SMEs <b>(PIMM 9)</b>

## COMPONENT 5

### GOVERNMENTS SHOULD AGREE WITH PRIVATE SECTOR INVESTORS TO STANDARDIZE BLENDED FINANCE SOLUTIONS

#### 5.1 Need for standardization

All parties agree blended finance (i) has become too heterogeneous and customized and (ii) must be standardized to mobilize private investment at scale. Clause 33i of the FFD4 Outcome Document emphasizes standardization, scale, risk sharing and lessons learned:

***“we support efforts to create effective and replicable, scalable blended finance structures and instruments ... based on lessons learned, best practices and existing efforts towards harmonization, as appropriate.. we will identify and facilitate the exchange of best practices for***

***risk-sharing mechanisms, building on existing efforts to evaluate how different blended finance structures affect development outcomes under different circumstances and to facilitate investment”.***

Summarizing the FFD4 Outcome Document, it is critical to standardize blended finance solutions that mobilize private investment at scale impact and investment volumes effectively, efficiently and fairly as illustrated in Box 2.3.

#### Box 2.3: Description of effective, efficient and fair private investment mobilization

**Effective blended finance** targets market gaps where private investment would not otherwise flow at scale, and uses catalytic and concessional finance only where it is genuinely needed to reduce investment risk to create investments that meet investors’ fiduciary and regulatory mandates:

- defining clear, measurable development impact objectives (for example, climate mitigation, infrastructure, or financial inclusion outcomes) and aligning instruments such as guarantees, first loss equity, or concessional debt to these goals.
- ensuring financial additionality: the blended structure must bring in new private investment that would not invest on standard market terms, and not substitute for existing bankable finance.

**Efficient blended finance** means achieving optimal leverage of private investment per dollar of concessional finance, while maximizing standardization, replication and scale and minimizing concessionality, transaction costs and duplication:

- using pooled, standardized instruments (for example, blended funds or multi-tranche funds) that diversify risk across multiple countries, projects and borrowers, and allow institutional investors to enter without bespoke due diligence on each asset.

- deploying concessional capital in the most catalytic activity/layer (typically first loss equity or subordinated debt) so that senior private tranches can be brought to near market terms, while safeguarding scarce ODA or climate finance resources.

**Fair blended finance** requires balancing the interests of private investors, C&C Funders and host governments so private investors are mobilized (but not subsidized) and C&C Funders absorb risk asymmetrically but contractually protect their funding prudently:

- transparent deal structures and pricing, with clear rules on how risks (country, non-country, FX) are allocated and how returns are shared, and how catalytic and concessional finance simply shoulders high risk and does not subsidize private investors
- optimal allocation of catalytic and concessional finance, such as in competitive calls for proposals akin to auctions
- ideally transitional and transformative use of catalytic and concessional finance – ideally with a pathway of reducing catalytic and concessional finance over time.

## 5.2 Criteria for selecting standardized blended finance solutions

During the Project, Convergence and participants identified 38 generic blended finance solutions/structures and assessed them for standardization. It is not possible to standardize blended finance across that many solutions, nor to standardize on a limited number of solutions that solve all investment challenges efficiently<sup>27</sup>. The Project therefore engaged

with a breadth of stakeholders (e.g., developing country governments, private investors, OECD DAC member countries, MDBs, DFIs, and mobilization experts) to narrow the selection down. Stakeholders largely agreed on certain criteria deemed relevant for setting out standardized blended finance solutions. Table 2.12 summarizes the main criteria to identify the final list.

**Table 2.12: Main criteria to identify short list of blended finance solutions to standardize**

CRITERIA	DETAIL
<b>FFD4 Outcome Document</b>	The package of 12 PIMMs must fully align with blended finance and mobilization objectives and standards agreed by developing and developed country governments in the Sevilla Commitment.
<b>COP29 NCQG</b>	The package of 12 PIMMs should achieve the lofty ambitions of the COP29 NCQG.
<b>Impact</b>	At the outset, all PIMMs require some catalytic and concessional finance from public sector organizations. All the providers of catalytic and concessional finance require high levels of impact to make any financing commitment. Even as many of the PIMMs will evolve to only require financing commitments from development finance institutions, they too require strong impact.
<b>National priorities</b>	As described in Component 4, all private investment should be mobilized for national priorities.
<b>National and regional private investment mobilization programs</b>	All 12 PIMMs can be implemented in national and/or regional programs. Some of the 12 PIMMs are most relevant to mobilize domestic investors in national programs and national blended vehicles, while others are most relevant to mobilize cross-border investors in regional programs and regional blended vehicles.
<b>Address main investment challenges</b>	The package of 12 PIMMs address the four main investment challenges identified by private investors: <ul style="list-style-type: none"> <li>• Increasing the number of viable projects</li> <li>• Increasing project-level investability that meet investors' fiduciary and regulatory investment mandates</li> <li>• Increasing portfolio-level investability that meet investors' fiduciary and regulatory investment mandates</li> <li>• Increasing local currency solutions to protect investors, projects, borrowers, companies and countries from foreign exchange risk</li> </ul>
<b>Reduce risk</b>	10 of the 12 PIMMs focus on reducing the main risks identified in Part 1 of the report
<b>Aligns with existing MDB comparative advantages</b>	The package of PIMMs has been intentionally selected to align with the core comparative advantages of MDBs that hold \$500 billion capital and can make around \$300 billion of new, net financing commitments.
<b>Does not require significant amounts of additional government resources</b>	The Prototype Action Plan assumes no growth in ODA and no significant increases in MDB capital. In general, it is much more important to govern existing amounts for scale mobilization than to increase ODA and increase MDB capital.
<b>Debt sustainability</b>	The 12 PIMMs will increase private investment mobilization in equity, local currency debt and affordable sovereign loans.
<b>Minimal concessionality</b>	The 12 PIMMs have been selected based on assessment of minimum concessionality in two ways: <ul style="list-style-type: none"> <li>• At the outset, optimize efficiency of catalytic and concessional finance and increase the ratio of Private Direct Mobilization to catalytic and concessional finance</li> <li>• In the medium and long terms, reduce the amount of catalytic and concessional finance required.</li> </ul>
<b>Transition over time to no/less concessionality</b>	The PIMMs represent familiar investment structures that can mature away from requiring concessionality as investors acquire experience with the actual risks in developing countries.

<sup>27</sup> The public sector could simply guarantee all risks by issuing guarantees to private investors, but that would not be efficient, would create moral hazard and would not lead to sustainable solutions without public sector support.

Table 2.12 (cont.)

<b>Market making</b>	The package of 12 PIMMs targets creating investments that meet investors' fiduciary and regulatory investment mandates, and fit within regular investment mandates and investment desks. Most investments created would be vanilla instruments for developed countries' investors. Once investors invest, and experience actual risk lower than perceived risk, in the long run public sector investors can step back from the PIMMs and transition some/most fully to the private sector.
<b>Effective, efficient and fair</b>	All 12 PIMMS meet the criteria described in Box 2.3

### 5.3 The 12 Private Investment Mobilization Models

The project identified an optimal package of 12 PIMMs to reduce risk and address the four main investment challenges. Ten of the 12 PIMMs primarily reduce risk to mobilize private investors. In the short term, the 10 PIMMs will require public sector catalytic and concessional finance to bridge the gap between (i) private investors' perception/assessment of high risk in developing countries (especially country risk and

currency risk) and (ii) developing countries and the international development community's perception/assessment of medium risk. If risk unfolds at the levels expected by developing countries and the international development community, then the public sector catalytic and concessional finance will not be lost - a fair use of public sector resources to mobilize private investors to countries they regularly do not need to invest in.

Table 2.13: Mapping proposed 12 Private Investment Mobilization Models (PIMMs) to address the four main investment challenges to mobilize private investors

BORROWER TYPE	INCREASE DEMAND FOR PRIVATE INVESTMENT		INCREASE SUPPLY OF PRIVATE INVESTMENT		DECREASE PROJECT COSTS
	Challenge 1: Increase number of viable projects	Challenge 2: Increase investability for investors at project or company level (primarily mitigate non-country risk)	Challenge 3: Increase investability for investors at portfolio level (e.g., fund) (primarily mitigate country risk and secondarily non-country risk)	Challenge 4: Mitigate FX risk	Grants to reduce capital and/or operating costs
Public sector projects and companies	1. Project Preparation Facilities		8. Public Sector Debt Blended Finance Funds (with senior capital rated investment grade) (- PIDG EAAIF)	11. Local Currency Solutions (FX risk mitigation for investors, lenders, borrowers, projects, governments and developing countries) (TCX Fund currency swaps)	12. Investment Grants
Private sector projects (including PPPs)	2. Private Sector Project Development (Infraco Africa - PIDG)	3. Guarantees for Large Projects (GuarantCo - PIDG) 4. Political Risk Insurance (MIGA) 5. Off-Taker Risk Mitigation (Africa GreenCo) 6. Risk-Sharing with Local Financial Intermediaries (African Guarantee Fund) 7. Value-Chain Financing	9. Private Sector Blended Finance Debt Funds (with senior capital rated investment grade) (\$1.5 billion IFC-Sida MCPP Infrastructure Program) 10. Private Sector Blended Finance Equity Funds (\$672 million Blackrock Climate Finance Partnership)		

Two tiers of standardization are recommended:

- i Focus all catalytic and concessional finance allocated for mobilization in the 12 PIMMs: The benefits lead to economies of scale, produces standardized solutions requested by private investor groups (e.g., GISSD Alliance), produces standardized investments for investors, produces investment grade bonds and notes in highest demand by investors, allows for better comparisons and benchmarking, surfaces best practice, optimizes scarce concessional funding in auction-like processes and minimizes concessionality.
- ii For many of the PIMMs, there has been enough evidence to standardize key financial terms and structure. The report proposes that 7 of the 12

PIMMs include standardized terms (to be further assessed by governments and the private sector in 2026-27). For example, the Private Sector Debt Blended Finance Fund (PIMM9) is proposed as a three-tier blended finance debt fund. There are 145 examples of tiered debt funds in Convergence Market Data that demonstrate best practice. But for Local Currency Solutions (PIMM11), there are many possibilities with insufficient evidence of best practice; and no standardization is proposed. As practice leads to more evidence, it is expected that most PIMMs can have standardized terms and financial structure.

Table 2.14 describes whether the respective PIMM (i) reduces risk and if so (ii) whether the PIMM reduces country risk or non-country risk, primarily.

**Table 2.14: PIMMs mitigating country risk and/or non-country risk**

PIMM #	PIMM NAME	DETAIL ON RISK REDUCTION	MITIGATES COUNTRY RISK	MITIGATES NON-COUNTRY RISK
1	<a href="#">Project Preparation Facilities</a>	No risk reduction.	NA	NA
2	<a href="#">Private Sector Project Development</a>	Reduces non-country risk.	NA	Catalytic and concessional finance co-develops projects with private investors from unviable to viable – increasing number of viable projects that can attract private investment in the post-development phase
3	<a href="#">Guarantees For Large Projects</a>	Reduces both country and non-country risks.	Guarantees transfer all risks to the guarantor – mitigating all country, non-country and currency risks.	
4	<a href="#">Political Risk Insurance</a>	Reduces country risk only.	PRI only mitigates country risk.	NA
5	<a href="#">Off-Taker Risk Mitigation</a>	Directly reduces non-country risks, and indirectly country risk.	PIMM protects investors from key buyer(s)/off-taker(s) defaulting on their payment obligations, and sometimes buyers/off-takers default due to country risk.	Buyers and off-takers usually default due to non-country risks
6	<a href="#">Risk-Sharing with Local Financial Intermediaries</a>	Reduces non-country risk.	NA	PIMM shares borrower (e.g., SME) default risk with banks/MFIs, with most defaults resulting from non-country risk.
7	<a href="#">Value-Chain Financing</a>	Reduces non-country risk.	NA	PIMM shares value chain participants (e.g., SME) defaulting on its repayment, with most defaults resulting from non-country risk.

Table 2.14 (cont.)

8	<a href="#">Public Sector Debt Blended Finance Funds</a>	Reduces country risk primarily, and non-country risk (i.e., sovereign credit risk) secondarily.	PIMM diversifies investor risk across multiple countries, thereby mitigating country risk	PIMM diversifies investment risk across multiple government borrowers, and protects investors from sovereign defaults
9	<a href="#">Private Sector Debt Blended Finance Funds</a>	Reduces both country and non-country risks.		PIMM diversifies investment risk across multiple private sector entities (e.g., companies, financial institutions and projects), and protects investors from borrower default usually triggered by non-country risks.
10	<a href="#">Private Sector Equity Blended Finance Funds</a>	Reduces both country and non-country risks.		PIMM diversifies investment risk across multiple private sector entities (e.g., companies, financial institutions and projects), and protects investors primarily from non-country risks. Decline in equity value of a company usually results from commercial activities.
11	<a href="#">Local Currency Solutions</a>	Reduces currency (country) risk only	PIMM protects investors against local currency depreciation and other currency risks (e.g., transfer and conversion)	NA
12	<a href="#">Investment Grants</a>	No risk reduction.	NA	NA



## 5.4 PIMMs for creating investment grade “BBB” debt investments

Based on feedback from private investors for the project, an important inflection point for scale private investment mobilization is to create debt investments (I) rated investment grade by the Big 3 Rating Agencies and (II) listed on the public markets. Investors identify that they need investment risk to be reduced to within their fiduciary and regulatory mandates - for most developed countries, debt institutional investors (e.g., pension companies and insurance companies) this means investment grade “BBB” or “A” ratings. Balancing differing views, it appears the most effective, efficient and fair use of public sector funds is to achieve a “BBB” rating versus an “A” rating – the latter would require significantly higher amounts of public sector catalytic and concessional finance that simply is not available.

During the project, Convergence engaged with the Big 3 Rating Agencies to identify the best blended finance solutions to create investment grade “BBB” debt investments. The Prototype Action Plan identifies three proven blended finance solutions that will clearly and simply create investment grade rated bonds, notes and loans: PIMM 3 (Guarantees for Large Projects), PIMM 8

(Public Sector Debt Blended Finance Debt Funds) and PIMM 9 (Private Sector Debt Blended Finance Funds):

- The two blended finance debt funds are a highly efficient use of catalytic and concessional capital to create investment grade “BBB” bonds and notes in the highest demand from developed country debt institutional investors, compared with guarantees. The amount of catalytic and concessional finance required in three-tier blended finance funds is significantly less than issuing guarantees rated “AAA” or “BBB”, and the revenue earned in the three-tier funds is expected to be much higher than guarantees. Catalytic and concessional finance will take on high risk in junior capital, but the expected revenues in many cases will be larger than actual losses.
- Decreasing the risk from underlying “B” and “CCC” prevalent in developing countries to investment grade requires significantly less public sector finance when enhanced to “BBB” versus the typical “AAA” provided by MDBs.

## 5.5 Roles of Concessional and Non-Concessional Public Finance in PIMMs

Table 2.15 summarizes the main role of catalytic and concessional finance in the proposed 12 PIMMs. Table 2.16 summarizes the main expected role of non-concessional finance (e.g., financing commitments from MDBs and Bilateral DFIs<sup>28</sup>) in the proposed 12 PIMMs. To be clear, the roles described in the third and fourth columns are not meant to be exhaustive – good practice blended finance is not static and might require different roles.

**Table 2.15: Role of public sector catalytic and concessional finance in proposed 12 PIMMs**

PIMM NAME	PIMM #	PRIMARY EXPECTED ROLE TO REDUCE RISK TO MOBILIZE	PRIMARY NEED FOR CATALYTIC AND CONCESSIONAL FINANCE
<b>Public Sector Finance</b>			
Project Preparation Facilities – Public Sector	1	No risk reduction	<b>Grants</b> to increase number of viable public sector projects
Public Sector Debt Blended Finance Fund	8	Junior capital in blended finance funds to risk mitigate senior capital.	<b>Risk absorbing capital</b> as junior capital in three-tier blended finance funds
<b>Private Sector Finance</b>			
Project Development – Private Sector	2	Co-financing with private sector project development	<b>Risk capital</b> in partnership with private sector developers
Guarantees – Large Projects	3	Invest junior capital and/or issue re-guarantees to investment grade rated private sector guarantors / insurers	<b>Risk absorbing capital</b> in private sector guarantors / insurers
Political Risk Insurance	4		Issue <b>re-guarantees</b> to private sector guarantors / insurers
Off-taker Risk Mitigation	5		Issue re-guarantees to private sector guarantors
Risk Sharing – Portfolios of Loans	6	Issue re-guarantees in risk sharing vehicles	Issue re-guarantees to private sector guarantors

28 In this table, NDB commitments are not included to simplify analysis.

Table 2.15 (cont.)

Value-Chain Financing	7	Co-financing and/or risk bearing in partnership with private sector	<b>Risk capital</b> in partnership with private sector
Private Sector Debt Blended Finance Fund	9	Junior capital in blended finance funds to risk mitigate senior capital.	<b>Risk capital</b> as junior capital in three-tier blended finance funds
Private Sector Equity Blended Finance Fund	10		
<b>Both Public &amp; Private Sector Finance</b>			
Local Currency Solutions	11	Equity in local currency blended finance solutions	<b>Risk capital</b> as junior capital in local currency financing solutions
Investments Grants	12	No risk reduction	<b>Grants</b> to increase financial viability of project

Table 2.16: Role of public sector non-concessional finance from development finance institutions proposed 12 PIMMs

PIMM NAME	PIMM #	MDB & DFI ROLE ARRANGING LOANS AND EQUITY INVESTMENTS AND DISTRIBUTING TO BLENDED FINANCE FUNDS	MDB & DFI ROLE TO MAKE LOANS, EQUITY INVESTMENTS AND GUARANTEES TO REDUCE RISK AND MOBILIZE
		NO RISK REDUCTION	RISK REDUCTION
<b>Public Sector Finance</b>			
Project Preparation Facilities – Public Sector	1	No role.	No role.
Public Sector Debt Blended Finance Fund	8	MDBs: Significant increase in arranging sovereign loans as A/B loans (or parallel loans)	MDBs: <b>Risk absorbing capital</b> as mezzanine capital in three-tier blended finance funds (Private Sector Instruments)
<b>Private Sector Investment</b>			
Project Development – Private Sector	2	<b>Co-finance</b> private sector developers	No role.
Guarantees – Large Projects	3	<b>Co-finance</b> private sector guarantors/insurers	<b>Issue re-guarantees</b> to investment grade rated private sector guarantors/insurers
Political Risk Insurance	4		
Off-taker Risk Mitigation	5		
Risk Sharing – Portfolios of Loans	6	<b>Loans to banks and MFIs</b> to on-lend to SMEs and other borrowers	<b>Issue guarantees or re-guarantees</b> to support loans to SMEs and value chain financing recipients
Value-Chain Financing	7	<b>Loans to banks and real-economy companies</b> to on-lend in value chain	
Private Sector Debt Blended Finance Fund	9	<b>Significant increase in arranging private sector loans</b> as A/B loans and distributing to blended finance funds	<b>Risk capital</b> as mezzanine capital in three-tier blended finance funds
Private Sector Equity Blended Finance Fund	10	<b>Increase in arranging equity investments</b> and distributing to blended finance funds <b>Increase in investing as LP in funds</b>	
<b>Both Public &amp; Private Sector Investment</b>			
Local Currency Solutions	11	<b>Significant increase in arranging private sector local currency loans</b> as A/B loans and distributing to blended finance funds <b>Increase in arranging equity investments</b> and distributing to blended finance funds <b>Increase in investing as LP in funds</b>	<b>Risk capital</b> in local currency financing solutions
Investments Grants	12	No role.	No role.

## 5.6 Sharing risk fairly between public sector and private sector in PIMMs

### 5.6.1 Non-concessional finance commitments from MDBs and DFIs

The Prototype Action Plan recommends that MDBs and DFIs continue their loan and equity investment practices similar to existing activities: (i) for public sector loans, MDBs continue their subsidized interest rate practices, and (ii) for private sector loans and equity investments, MDBs and DFIs continue to price their commitments at market interest rate. The only proposed below-market investment is for MDBs to invest mezzanine capital in three-tier Public Sector Blended Finance Funds (i.e.,

PIMM 8) that would invest in sovereign A/B loans; the MDBs would cap the interest rate on that mezzanine tranche at “BBB” interest rates. This would allow the fund to invest in public sector sovereign loans at “BBB” interest rates saving sovereign borrowers \$90+ billion annually in lower interest rates (compared to borrowing from international capital markets). See Section 3.1 for that estimation.

### 5.6.2 Catalytic and concessional finance commitments from OECD DAC countries, developing country governments and others

Given the FFD4 Outcome Document emphasizes to “share risks and rewards fairly,” the most appropriate risk-sharing tools to be deployed by public sector catalytic and concessional funders in the ten (of 12) PIMMs that reduce risk, are financial instruments that absorb risk, such as loans, equity investments and guarantees<sup>29</sup>. And with an eye towards “debt sustainability”, a larger percent of the commitments should be in the form of local currency debt and equity. For example, in those 10 PIMMs, financially, there is no need to issue non-repayable grants.

For OECD DAC countries, in 2023 the OECD DAC Chair and countries agreed a new form of ODA-qualifying instruments highly relevant for blended finance: OECD “[Private Sector Instruments](#)” (PSIs) such as loans, equity investments and guarantees and/or repayable grants. But PSIs are still seldom used and in aggregate represent a small percentage of ODA commitments (typically less than 3%). If actual risk unfolds at a lower level close to the development community’s expectations, then the public sector finance should not be lost – PSIs from OECD DAC countries and others can allow public sector concessional finance to be recycled for future mobilization activity.



<sup>29</sup> Only two of the 12 PIMMs use traditional grants: (i) the Public Sector Project Preparation Facilities (PIMM1) to help developing country governments and MDBs develop viable projects and (ii) Investment Grants (PIMM12) to make important infrastructure projects financeable.

## COMPONENT 6

### GOVERNMENTS SHOULD CO-LEAD A NETWORK TO OPTIMIZE CATALYTIC AND CONCESSIONAL FINANCE

Generally, public sector catalytic and concessional finance is required to take on high risks and poor risk-returns (e.g., expected losses) beyond the mandate of development finance institutions, with the largest global source being the approximate \$200 billion of ODA committed annually by the 33 OECD DAC countries.

Consistent with Clauses 33j and 33o of the FFD4 Outcome Document, the Prototype Action Plan recommends creating a network of C&C Funders that will drive optimal risk reduction and mobilization activities in 2027 onwards. The Network should comprise a coalition of governments and organizations interested to award some of their fiscal resources as catalytic and concessional finance to reduce risk and mobilize private investment to achieve impact in developing countries. The expected list of governments and organizations can include:

- A subset of developed country governments
- A subset of developing country governments

The primary activity of the proposed Network would be to collaborate to award catalytic and concessional finance, via auction-like mechanisms (Clause 33j) and an open and transparent process (Clause 33o), optimally to the best cases/proposals adhering to the 12 PIMMs. The best blended finance proposals are expected to be proposed by (i) private investors located in developing countries, (ii) private investors located in developed countries and (iii) development finance institutions (e.g., MDBs, DFIs and/or NDBs). This catalytic and concessional finance should be awarded by the Network members to the best mobilization proposals based on open competition (e.g., calls for proposals). In many cases, optimal use of catalytic and concessional finance will be co-committed with development finance institutions' non-concessional financing commitments – with both types of financing reducing risk within their respective mandates.



The project recommends two subsets of networks be created, with the ambition to coordinate/merge the two in the medium term:

- **Developed countries network:** A group of willing and interested OECD DAC countries can establish the network and invite others to join. Each country/network member would bring its own amounts and forms of catalytic and concessional finance, they would collaborate to award their commitments in auction-like mechanisms (e.g., calls for proposals), and it is expected each network member would retain approval authority for its commitments. **The Nordic-led IMCA, operating over the past three years, is the best working example of a network of OECD DAC countries collaborating.** A simple way forward is to leverage IMCA – for example, IMCA members could (i) expand membership to all countries and organizations interested in awarding catalytic and concessional finance to mobilize and (ii) expand remit to all 17 SGD. Based on similar experience over the past decade, the Network will require a Mobilization Secretariat to support Network members in organizing the Network, issuing calls for proposals, assessing proposals, coordinating catalytic

and concessional finance funding commitments to the best proposals, and coordinating development finance institutions to the same proposals. Network members should identify how to establish a cost-effective, expert Secretariat.

- **Developing countries network(s):** Mobilization at scale will require some fiscal resources from developing country governments to be committed as catalytic and concessional finance. It is expected that each developing country government would have a limited budget for this purpose, but could also use some of its received ODA as catalytic and concessional finance. Likely most relevant and efficient for each region to create a network of countries to mobilize (e.g., African countries creating a network of African developing countries) – similar to IMCA. As described in Component 4, it is recommended that developing country governments would create national and regional private investment mobilization programs, and each country's catalytic and concessional finance commitments would be expected to be allocated primarily to national programs and secondarily to regional programs.

Table 9.1: Four potential chapters of network

CHAPTER	ILLUSTRATIVE MEMBERS	ILLUSTRATIVE LEADERSHIP	ILLUSTRATIVE ACTIVITIES
<b>OECD DAC countries: High-income</b>	OECD DAC countries agree to collaborate to allocate catalytic & concessional finance to mobilize private investors. implement an Action Plan. Ideally, attract global philanthropic organizations to participate, like the Catalytic Capital Consortium, Gates Foundation, others.	IMCA could lead – expand to invite all 33 OECD DAC members, 9 participants and major philanthropies.	Members would collaborate to finance primarily regional blended finance vehicles (e.g., for Africa), and secondarily national vehicles (e.g., for Kenya). It is expected many best proposals would require co-funding from developing countries chapters described below.
<b>Africa Region</b>	African countries agreeing to collaborate to allocate catalytic & concessional finance to mobilize private investors.	2-4 countries could lead (with UN ECA support).	Members would implement national blended finance vehicles (for national programs) and collaborate to implement regional blended finance vehicles (for national programs).
<b>Asia Region</b>	Asian & Pacific countries agreeing to collaborate to implement an Action Plan.	1-3 countries or UN ESCAP could lead.	
<b>LAC Region</b>	Latin America & Caribbean countries agreeing to collaborate to implement an Action Plan.	1-3 countries or UN ECLAC could lead.	Invite OECD DAC countries and philanthropic organizations to participate in national and regional vehicles.

## COMPONENT 7

### GOVERNANCE AND KPIS FOR SCALE MOBILIZATION

To mobilize at scale to make a significant dent in the \$4 trillion SDG investment gap, stretch Key Performance Indicators (1) should be introduced for government ministries, departments and agencies and (ii) changes would need to be made to existing MDB and DFI business models. It is the exclusive domain of shareholder governments to set institutional goals and govern their development finance institutions. Section 7 is illustrative to demonstrate the possibilities.

**Section 7 is the most important component of the proposed Prototype Action plan.** The other six components describe the optimal activities to mobilize private investment at scale to achieve the FFD4 Outcome Document mobilization objectives. The most important ingredient is for governments to govern and empower the key public sector organizations to reduce risk and mobilize: mainly (i) development finance institutions, (ii) developed country ministries/agencies, and (iii) developing country ministries.

Mobilization at scale under the proposed action plan will require each participating country and public sector entity to (i) identify the activities it will undertake to contribute to mobilization at scale, (ii) set objectives, and (iii) identify optimal governance KPIS.

#### 7.1 Governing MDBs

In principle, MDBs should maximize their contributions to the SDGs and Paris Agreement by leveraging their comparative advantages – both through direct financing and mobilization. MDB shareholders must determine those potential maximum contributions (See section 2) and then govern MDBs accordingly. For the Prototype Action Plan, the most important six MDB activities are (all within existing mandates, but not within existing business models):

- Arrange more sovereign loans as A/B loans, and distribute B-loans to Public Sector Debt Blended Finance Funds (PIMM 8)
- Invest in mezzanine capital in Public Sector Debt Blended Finance Funds (PIMM 8)
- Arrange more private sector loans as A/B loans, and distribute B-loans to Private Sector Debt Blended Finance Funds (PIMM 9)
- Invest in mezzanine capital in Private Sector Debt Blended Finance Funds (PIMM 9)
- Invest in mezzanine capital in Private Sector Equity Blended Finance Funds (PIMM 10)
- Invest in private sector vehicles to reduce risk and mobilize private investment (PIMMs 3, 4, 5, 6, 7 and 11).



Table 2.18: Main operational changes required at MDBs and DFIs to achieve scale mobilization

FINANCING AND MOBILIZATION ACTIVITY	MDBs IN THEIR PUBLIC SECTOR OPERATIONS		MDBs IN THEIR PRIVATE SECTOR OPERATIONS		DFIs IN THEIR PRIVATE SECTOR OPERATIONS	
	HISTORICAL AND CURRENT ACTIVITY	FUTURE REQUIREMENTS FOR SUCCESS OF SCALE MOBILIZATION	HISTORICAL AND CURRENT ACTIVITY	FUTURE REQUIREMENTS FOR SUCCESS OF SCALE MOBILIZATION	HISTORICAL AND CURRENT ACTIVITY	FUTURE REQUIREMENTS FOR SUCCESS OF SCALE MOBILIZATION
Example	IBRD providing sovereign loans		IFC making debt and equity investments		Proparco making debt and equity investments	
<b>Direct financing activity – Arranging loans and equity investments</b>						
Subsidized hard currency loans	High	Critical for MDBs to arrange more sovereign loans as A/B loans	NA	NA	NA	NA
Subsidized local currency loans	Low		NA	NA	NA	NA
Market-priced hard currency loans	NA	NA	High	High	Medium - High	Medium - High
Market-priced local currency loans	NA	NA	Low	High	Low	Medium - High
Market-priced equity	NA	NA	Low - Medium	Medium	Medium - High	High
<b>Mobilizing private investment at scale by investing in blended finance vehicles that reduce risk and mobilize. Private investment focused on Private Direct Mobilization.</b>						
Mobilize with de-risking: Subscribe mezzanine and junior capital in blended finance vehicles	None	Critical for MDBs to invest in mezzanine capital of three-tier blended finance vehicles	None - Nominal	Critical for MDBs to invest in mezzanine capital of three-tier blended finance vehicles	None - Nominal	Critical for DFIs to invest in mezzanine capital of three-tier blended finance vehicles
Mobilize with de-risking: Invest debt and equity in good practice blended finance vehicles	NA	NA	None - Nominal	Invest loans and equity in blended finance vehicles that reduce risk and mobilize	None - Nominal	Invest loans and equity in blended finance vehicles that reduce risk and mobilize
Mobilize with de-risking: Issue guarantees	None - Nominal	Not required. Inefficient use of MDB capital.	None - Nominal	Important to issue re-guarantees of private guarantors rated “BBB”	None - Nominal	NA



## 7.2 Illustrative KPIs for MDBs in their public sector operations

### MDB business model decided by MDB shareholders to maximize sovereign loans to finance SDG and climate investment in developing countries:

Assume MDB shareholders ascertain from the Big 3 Rating Agencies that the maximum development investments the MDB can hold on its balance sheet is \$200 billion, and given the MDB's expected business model of an average life of 8 years for those development investments, the shareholders determine the maximum annual net development investment commitments could be \$25 billion.

Assume MDB shareholders agree to govern the MDB for its main financing activity to be arranging A/B loans and distributing the B-loans to blended finance funds.

Assume MDB shareholders agree that the B-loans should be made at below-market interest rates to deliver affordable sovereign loans to governments, especially for climate adaptation projects.

Assume MDB shareholders decide in a typical year, the target is for the \$25 billion of MDB financing commitments to be allocated: (i) 50 % as A-loans in A/B loans, (ii) 25% as mezzanine capital in Public Sector Debt Blended Finance Funds designed to deliver B-loans at "BBB" interest rates and (iii) 25% in other Public Sector Debt Blended Finance Funds.

**Table 2.19: Proposed Key Performance Indicators for MDBs exclusively providing public sector loans (illustrative only)**

OBJECTIVE	PIMM	MDB FINANCING ACTIVITY FOR SUCCESS	ILLUSTRATIVE KPI
Increase supply of loans to developing country governments	Public Sector Debt Blended Finance Fund (PIMM 8)	Fully deploy capital in development investments	Hold development investments at 85-95% of maximum. In this case, hold development investments between \$170 and \$190 billion.
		Increase amount of loans as A/B loans and distribute B-loans to blended finance funds	Minimum ratio of Private Direct Mobilization to MDB Financing commitments at 4
		Increase amount of investment as mezzanine capital in three-tier Public Sector Blended Finance funds	Minimum ratio of mezzanine capital to regular sovereign A-Loans (e.g., A-loans) of 1:2
Increase supply of loans to developing country governments at affordable interest rates		Increase amount of B-loans priced at investment grade "BBB" interest rates	Invest mezzanine capital in blended finance funds so at least \$50 billion of B-loans are priced at investment grade "BBB" rates
Increase local currency loans			At least 33% of annual loan commitments denominated in local currencies (not hard currencies)

## 7.3 Illustrative KPIs for MDBs in their private sector operations

### MDB business model decided by MDB shareholders to maximize loans and equity investments to finance SDG and climate investment in developing countries:

Assume MDB shareholders ascertain from the Big 3 Rating Agencies that the maximum development investments the MDB can hold on its balance sheet is \$160 billion, and given the MDB's expected business model of an average life of 8 years for those development investments, the shareholders determine the maximum annual net development investment commitments could be \$20 billion.

Assume MDB shareholders decide in a typical year, the target is for the \$20 billion of MDB financing commitments to be allocated: (i) 25% as A-loans in A/B loans, (ii) 25% as regular direct equity or fund equity, (iii) 25% as mezzanine capital in Private Sector Debt and Equity Blended Finance Funds and (iv) 25% invested as debt or equity in private sector blended finance vehicles that will reduce risk to mobilize.

**Table 2.20: Proposed Key Performance Indicators for MDBs exclusively providing private sector finance (illustrative only)**

OBJECTIVE	PIMM	MDB FINANCING ACTIVITY FOR SUCCESS	ILLUSTRATIVE KPI
Increase supply of loans and equity to developing country governments	Potentially all	Fully deploy capital in development investments	Hold development investments at 85-95% of maximum. In this case, hold development investments between \$136 and \$144 billion.
		Focus on mobilization	Minimum ratio of Private Direct Mobilization to MDB Financing commitments at 6
		Increase amount of investment as mezzanine capital in three-tiered Private Sector Debt and Equity Blended Finance funds	Minimum ratio of mezzanine capital commitments as total commitments of 1:4
Increase local currency loans		At least 33% of annual loan commitments denominated in local currencies (not hard currencies)	
Increase equity		At least 25% of annual commitments in equity, with at least 5 times leverage (e.g., Private Direct Mobilization to MDB commitments of 5)	
Support significant growth in mobilization by private sector		At least 40% of annual commitments to be (i) mezzanine capital in three-tier funds and/or (ii) loans and equity investment in blended finance vehicles.	

## 7.4 Illustrative KPIs for Bilateral DFIs in their private sector operations (e.g., UK BII)

Table 2.21: Proposed Key Performance Indicators for DFIs providing private sector finance (illustrative only)

OBJECTIVE	PIMM	MDB FINANCING ACTIVITY FOR SUCCESS	ILLUSTRATIVE KPI
Increase supply of loans and equity to developing country governments	Potentially all	Focus on mobilization	Minimum ratio of Private Direct Mobilization to DFI financing commitments at 4:1
		Increase amount of investment as mezzanine capital in three-tier Private Sector Debt and Equity Blended Finance funds	Minimum ratio of mezzanine capital commitments as total commitments of 1:3
Increase local currency loans		At least 33% of annual loan commitments denominated in local currencies (not hard currencies)	
Increase equity		At least 40% of annual commitments in equity	
Support significant growth in mobilization by private sector		At least 50% of annual commitments to be (i) mezzanine capital in three-tier funds and/or (ii) loans and equity investment in blended finance vehicles.	

## 7.5 National Development Banks

The business models of NDBs are much more heterogeneous compared to MDBs and DFIs. Box 2.4. Developing country governments, the shareholders of NDBs, will need to determine the best activities for them to mobilize private investment, complementary to MDB and DFI mobilization activities. Table 2.22 illustrates alternatives for the shareholders – aligned to the 12 PIMMs.

### Box 2.4: Finance in Common and National Development Banks

Agence Française de Développement has organized 544 public development banks globally into two groups: the International Development Finance Club and the Finance in Common (FiC). More than half the FiC members are National Development Banks and sub-regional MDBs operating in developing countries with around \$2.1 trillion of aggregate

total financial assets in developing countries. This group of development finance institutions hold more than twice the amount of financial assets held by all MDBs/DFIs. It is critical to involve them more directly in blended finance and in the mobilization of private investment going forward.

Table 2.22: Illustrative alternatives for governments to govern NDBs in standardized 12 PIMMs (private sector investment only)

PIMM #	PIMM Name	NDB FINANCING ACTIVITY FOR SUCCESS
2	Private Sector Project Development	Invest debt and equity in project development companies
		Invest equity in guarantors
5	Off-Taker Risk Mitigation	Invest equity in risk mitigation firms
6	Risk-Sharing with Local Financial Intermediaries	Share borrower risk with local private sector financial intermediaries to on-lend to SMEs and other target beneficiaries.
7	Value-Chain Financing	Share borrower risk.
9	Blended Finance Debt Funds – Private Sector	Invest mezzanine capital in funds.
10	Blended Finance Equity Funds – Private Sector	Invest mezzanine capital in funds.



## PART 3

# ESTIMATING AMOUNTS OF POTENTIAL PRIVATE INVESTMENT MOBILIZATION AND NEXT STEPS

### SECTION 3.1 ANALYTICAL EXERCISE

This section estimates the maximum private investment that could be mobilized through Official Development Finance and developing country fiscal resources, viewed from both demand and supply. The demand case is anchored in two recent international commitments: the 2024 COP29 NCQG, which calls for at least \$1.3 trillion a year in climate finance by 2035, including at least \$300 billion a year led by developed countries, and the 2025 FFD4 Outcome Document, which calls for urgent action to close the \$4 trillion SDG investment gap. Against that backdrop, mobilizing about \$1 trillion in private investment would represent a significant contribution to both agendas.

On the supply side, the Prototype Action Plan assumes no new sources of Official Development Finance. Mobilization would instead rely on the existing capital of MDBs/DFIs, a reasonable portion

of the roughly \$200 billion in annual ODA in 2023-25, and some fiscal resources from developing countries. Part 2, Component 2 estimates that MDBs could support up to roughly \$300 billion annually in financing commitments using their approximately \$500 billion in balance-sheet capital, while maintaining existing capital and rating constraints.

The rest of this section tests whether these existing resources could support about \$1 trillion in private investment mobilization under several assumptions:

- A majority of developed and developing country governments adopt an action plan broadly aligned with the Prototype Action Plan.
- Governments govern DFIs, and some public fiscal resources, toward private investment mobilization.

- DFIs are governed so that most annual commitments generate Private Direct Mobilization, capital is deployed close to full capacity in development investments, and institutions operate against ambitious mobilization KPIs.
- Developed countries allocate 20% of ODA to private investment mobilization.
- Developing countries allocate up to 0.25% of GDP to private investment mobilization.
- Public fiscal resources are provided as catalytic and concessional finance and awarded to the strongest mobilization proposals consistent with the 12 PIMMs.

Under these assumptions, mobilizing around \$1 trillion a year is possible, but only at the upper end of what current resources could support. Within that total, a strategy focused on affordable sovereign lending could mobilize roughly \$300 billion a year in below-market private financing for governments. After eight years at full scale, those loans could reduce developing country interest costs by more than \$90 billion a year.

The main value of the exercise is not the \$1 trillion estimate, but the policy implication. Existing public and development finance resources could mobilize far more

private capital if governments redesign governance, incentives, mandates, and fiscal tools around scale, impact, and investment outcomes. The core constraint is therefore not only the volume of private capital or public finance, but also how institutions are governed and how public resources are used catalytically. This supports a shift from transaction-by-transaction blended finance toward a system-level mobilization action plan in which scarce concessional resources are allocated competitively, institutions are managed against mobilization results, and public finance is used to crowd in commercially viable investment at much greater scale. This remains an analytical exercise rather than a forecast. It assumes strong implementation: adoption of the Prototype Action Plan, alignment of development finance institutions around mobilization, and tangible use of government fiscal resources as catalytic and concessional finance. Those conditions are unlikely to be met in full. Even so, the exercise suggests that private investment mobilization could rise well above today's roughly \$40 billion in Private Direct Mobilization, especially if developing country governments play a stronger co-leading role.

**Table 3.1: Summary of private investment mobilization and PIMMs to mobilize around \$1 trillion (illustrative only)**

#	PIMM NAME	PIMM #	DESCRIPTION OF THE BLENDED FINANCE VEHICLE TO MOBILIZE PRIVATE INVESTMENT
<b>Public Sector Investment: \$500 billion private investment mobilized</b>			
A	Public Sector Debt Blended Finance Fund	8	<p><b>Assume the objective is to mobilize \$500 billion from private investors</b> to invest in sovereign debt that would finance SDG and climate investment. Assume two subsets of Public Sector Debt Blended Finance Funds: (i) a subset invests in A/B loans where the intent is for the B-loans to be priced at below-market, affordable interest rates saving developing country governments large amounts in lower interest rate costs and (ii) a subset invests in bonds and loans at market terms/interest rates. Assume both subsets are intentionally designed to mobilize private investors into the senior capital of the fund in senior bonds/notes rated investment grade “BBB” by the Big 3 Rating Agencies:</p>
A	Subset of funds intentionally designed to deliver loans/bonds for developing country governments at below market interest rates	8	<ul style="list-style-type: none"> <li>• <b>Assume \$300 billion (of the \$500 billion) is mobilized</b> into Public Sector Debt Blended Finance Funds that would invest in B-loans issued by MDBs<sup>31</sup>. In this case, assume \$353 billion of funds are raised: (i) 85% (\$300 billion) by private investors in senior bonds/notes rated investment grade “BBB”, (ii) 10% (\$35 billion) by MDBs investing in mezzanine bonds/notes rated “CCC” and (iii) \$17.5 billion as junior capital funded equally by ODA and developing country fiscal resources.</li> <li>• In this scenario, the Public Sector Debt Blended Finance Funds would need a sufficient stock of B loans to invest in. Assuming a 25:75 A/B loan ratio would require the MDBs to arrange \$470 billion of A/B loans funded (i) \$118 billion in A-loans and (ii) \$353 billion in B-loans.</li> </ul>

30 Part of these amounts could be replaced by philanthropic foundations.

31 Reminder, the loans could be either B-loan (imparting Preferred Creditor Status) or parallel loans (no PCS). If MDBs are unable or unwilling to generate sufficient B-loans / parallel loans, the exposure could be shifted to the other Public Sector Debt Blended Finance Funds.

Table 3.1 (cont.)

A	Subset of funds intentionally designed to deliver loans/ bonds for developing country governments at below market interest rates (cont.)		<ul style="list-style-type: none"> <li>Assume all three tiers of capital inside the Public Sector Debt Blended Finance Fund invest at “BBB” interest rates; this would allow the fund to invest in B-loans priced at “BBB” interest rates. A review of the data in Table 1.1 identifies emerging market corporates rated B and CCC average a 8.9% premium over US Treasuries compared to a 1.9% premium for emerging market corporates rated investment grade “BBB.” That indicates a 7% premium. Conservatively assume in this model the savings are only 50% of that premium. Using these assumptions, the B-loans would save the developing country government borrowers 3.5% in interest costs relative to borrowing from capital markets and commercial banks. Assume the loans would have an average term/tenor of 16 years and an average life of 8 years. This would result in annual savings per vintage of \$12.4 billion and once fully operational, <b>\$99 billion annual savings for developing country governments.</b></li> </ul>
B	Subset of funds to deliver loans/ bonds for developing country governments a market interest rates	8	<p><b>Assume \$200 billion (of the \$500 billion) is mobilized</b> into Public Sector Debt Blended Finance Funds that would invest in bond issues and commercial bank syndicated loans at market interest rates. In this case, assume \$235 billion of funds are capitalized: (i) 85% (\$200 billion) by private investors in senior bonds/notes rated investment grade “BBB”, (ii) 10% (\$23.5 billion) by MDBs investing in mezzanine bonds/notes rated “CCC” and (iii) \$11.8 billion junior capital funded equally by ODA and developing country fiscal resources. No savings to the sovereign since this fund invests in bonds and loans priced at market/commercial terms.</p>
<b>Private Sector Investment: \$500 billion private investment mobilized</b>			
C	Private Sector Debt Blended Finance Fund	9	<p><b>Assume the objective is to mobilize \$150 billion from private investors</b> to invest in Private Sector Debt Blended Finance Funds that would invest in bonds, loans and B-loans to finance financial institutions, companies, projects and PPPs. Assume \$187.5 billion of funds are capitalized: (i) 80% (\$150 billion) by private investors in senior bonds/notes rated investment grade “BBB”, (ii) 15% (\$28.1 billion) equally by MDBs/DFIs investing in mezzanine bonds/notes rated “CCC” and (iii) 5% (\$9.4 billion) funded equally by ODA and developing country fiscal resources.</p> <p>Assume 20% of the funds’ investments are MDB B-loans. At a 20:80 A/B loan ratio,– this would require MDBs to issue \$47 billion of A/B loans, funded by \$9.4 billion in A-loans and \$37.5 billion in B-loans.</p>
D	Private Sector Equity Blended Finance Fund	10	<p><b>Assume the objective is to mobilize \$100 billion from private investors</b> to invest in Private Sector Equity Blended Finance Funds that would finance financial institutions, companies, projects and PPPs. Assume the \$100 billion is mobilized into senior capital in the fund shares. In this case, assume \$125 billion of funds are capitalized: (i) 80% (\$100 billion) by private investors in senior capital shares, (ii) 10% (\$12.5 billion) equally by MDBs/DFIs investing in mezzanine capital shares and (iii) 10% (\$12.5 billion) funded equally by ODA and developing country fiscal resources in junior capital.</p>
E	Guarantees – Large Projects	3	<p><b>Assume the objective is to mobilize \$100 billion from private investors including</b> domestic pension companies, international commercial banks and others. Assume the guarantors would issue investment grade “BBB” guarantees, and the guarantors can achieve 6 times leverage of their capital. That is, the \$100 billion in guarantees would require \$16.6 billion in capital. Assume the capital is provided 75% (\$12.45 billion) by the private sector and 25% (\$4.15 billion) by public sector catalytic and concessional finance. Assume the public sector finance is split 50/50 between OECD ODA and developing country governments.</p> <p>This would yield \$100 billion in investment grade “BBB” guarantees and \$12.45 billion in capital mobilized for the guarantor.</p>
F	Risk Sharing with Local Financial Intermediaries	4	<p><b>Assume the objective is to mobilize local banks and intermediaries to provide \$100 billion</b> of additional loans to SMEs and other under-financed beneficiaries. Assume the guarantees are provided by entities like the African Guarantee Fund that require catalytic and concessional finance is equal to 5% of the loan portfolios to partially cover expected losses. Assume the \$5 billion of risk capital is provided two-thirds (\$3.33 billion) by developing country governments and one-third (\$1.67 billion) by OECD DAC countries.</p>

Table 3.1 (cont.)

<b>G</b>	<b>Value Chain Financing</b>	5	<b>Assume the objective is to mobilize local banks and real-economy companies to provide \$50 billion</b> in additional loans through value chain financing mechanisms, to under-financed micro, SMEs, smallholders and others. Assume catalytic and concessional finance equal to 2.5% of the loan portfolio is required to partially cover expected losses. Assume the \$125 million of risk capital is provided half (\$62.5 million) by developing country governments and half (\$62.5 million) by OECD DAC countries.
<b>H</b>	<b>Local Currency Financing</b>	11	<b>Assume the ambition is to hedge the FX risk for a portion of the \$650 billion of private investment mobilized in A, B and C above.</b> Assume half the debt flows will be in hard currency, one quarter in local currency loans where loans are priced to cover expected depreciation, and one quarter requires currency hedging. This requires \$162.5 billion of annual currency hedging capacity. Assume through competitive calls for proposals, several private sector organizations and TCX are prepared to provide these currency hedges requiring 10% catalytic and concessional finance. This would require \$16.2 billion concessional funds annually – assume half from developed countries and half from developing countries.
<b>I</b>	<b>Project Preparation Facilities</b>	1	<b>Assume \$500 million of catalytic and concessional finance from OECD DAC countries.</b> A rough rule of thumb is that \$2 million of project preparation funding leads to \$100 million of viable public sector projects. \$500 million annually should be expected to yield \$25 billion in viable public sector projects.  Conservatively assume all \$500 million project preparation funding creates viable projects that are funded by A and B above.
<b>J</b>	<b>Private Sector Project Development</b>	2	<b>Assume \$500 million of catalytic and concessional finance – half from OECD DAC countries and half from developing country governments.</b> A rough rule of thumb is that \$5 million of project development funding leads to \$100 million of viable private sector projects. Assuming the ratio of project development investment for PIMM 2 is 2:1 for private investment to public investment, the \$1.5 billion of project development investment should lead to the creation of \$30 billion of viable private sector projects annually.  Assume \$500 million project preparation funding creates viable projects that are funded by other financing mechanisms mobilized through the 12 PIMMs.
<b>K</b>	<b>Political Risk Insurance</b>	6	<b>Assume \$500 million of catalytic and concessional finance from OECD DAC countries.</b>  Assume the ratio is 4:1 between private and public investment – leading to \$2.5 billion of capital in PRI organizations providing \$25 billion of political risk insurance annually.  Assume \$25 billion PRI coverage supports projects funded by other financing mechanisms mobilized through the 12 PIMMs.
<b>L</b>	<b>Off-Taker Risk Mitigation</b>	7	<b>Assume \$500 million of catalytic and concessional finance from OECD DAC countries.</b>  Assume the ratio is 4:1 between private and public investment – leading to \$2.5 billion of capital in organizations providing off-taker risk mitigation. Assume this results in \$25 billion of off-taker risk-mitigation coverage.  Assume all \$25 billion PRI coverage supports projects funded by other financing mechanisms mobilized through the 12 PIMMs.
<b>M</b>	<b>Investment Grants</b>	12	<b>Assume \$500 million of catalytic and concessional finance from OECD DAC countries.</b>  Assume the Investment Grants support projects funded by other financing mechanisms mobilized through the 12 PIMMs.

Table 3.2: Estimation of public sector non-concessional and concessional commitments to mobilize \$1 trillion private investment (USD billions) Scenarios (A-M) are based on those identified in Table 3.1 above.

SCENARIO #	PUBLIC SECTOR NON-CONCESSIONAL FINANCE						PUBLIC SECTOR CONCESSIONAL FINANCE	
	MDB financing commitments		DFI financing commitments		NDB financing commitments		Sources of catalytic & concessional finance	
	No Risk Reduction	Risk Reduction	No Risk Reduction	Risk Reduction	No Risk Reduction	Risk Reduction	From developed countries (OECD ODA) and others	From developing country governments
A	118 (MDB A loans)	35 (MDB mezzanine capital)					8.75 (junior capital)	8.75 (junior capital)
S		23.5 (mezzanine capital)					5.9 (junior capital)	5.9 (junior capital)
D		14.1 (mezzanine capital)		14.1 (mezzanine capital)			4.7 (junior capital)	4.7 (junior capital)
F	9.4 (MDB A loans)	6.25 (mezzanine capital)		6.25 (mezzanine capital)			6.25 (junior capital)	6.25 (junior capital)
E1								
E2							2.1	2.1
F							1.67	3.33
G							0.63	0.63
H							8.1	8.1
I							0.5	
J							0.5	
K							0.5	
L							0.5	
M							0.5	
MISC	4	0	2					
<b>TOTAL</b>	<b>131.4</b>	<b>78.9</b>		<b>20.35</b>			<b>40.6</b>	<b>39.76</b>

### 3.1.1 Most important (and affordable) investors to mobilize

The most significant investor group with substantial capital to mobilize is cross-border debt from institutional investors (e.g., pension companies, insurance companies, investment funds, sovereign wealth funds). These investors state that if blended finance issues investment grade “BBB” bonds and notes, they will be able to obtain approval to invest.

It is proposed in the first vintage of blended finance vehicles to mobilize those investors, the main mobilization vehicles should be (i) Public Sector Debt Blended Finance Fund (PIMM 8) and (ii) Private Sector

Debt Blended Finance Funds (PIMM 9). In the model, \$650 billion of private investment would be mobilized annually into bonds/notes rated investment grade “BBB” by the Big 3 Rating Agencies – those bonds/notes would serve as senior capital in the three-tiered blended finance funds. The blended finance funds would give investors what they seek/require: (i) an investment grade rating from a major agency, (ii) diversification across many countries, borrowers and currencies, (iii) scale, (iv) subordination of public sector finance, and (v) top-tier global fund managers (e.g., Amundi).

### 3.1.2 Explanation of \$99 billion annual interest rate savings for developing country governments

Convergence has discussed the [PIMM 8](#) structure at length with two of the Big 3 Rating Agencies, who have confirmed its full feasibility: the structure has numerous precedents including 120+ similar transactions in Convergence Market Data.

The most significant issues to create the target investment grade “BBB” bonds/notes are:

- Diversification of sovereign government borrowers – optimal diversification likely achieved with 20+ borrowers.
- Diversification of countries – optimal diversification likely achieved with 20+ countries.
- Underlying credit risk of the government borrowers – the lower the average credit risk, the higher levels of subordination required to credit enhance senior private sector investors to investment grade.
- An investment grade rating will require mezzanine and junior investors to agree to standard subordination terms found in securitizations. Since the mezzanine investors (MDBs) and junior investors (developed and developing country governments) are public sector entities with strong governance to mobilize, it is expected that there is a strong ability to achieve standard subordination.
- In this scenario, subordination of 10-20% is likely required to achieve investment grade BBB - depending on credit risk and country risk of borrowers.
- For mezzanine notes/bonds, assume the MDBs will require “CCC” ratings to fit within their investment mandates.
- To create “CCC” mezzanine notes will likely require 2.5 – 7.5% subordination from catalytic and concessional finance.
- In this case, expected losses for junior investors would be modelled very high, but since the funds’ assets would be B-loans arranged and managed by MDBs with a low history of default/loss, it is possible the junior investors would not incur the modelled expected losses.

In this case, the fund would invest in A/B loans arranged by MDBs. The A-loan would be priced at regular MDB interest rates (typically around Libor plus 20-70 bps). The B-loan would be priced at the equivalent of investment grade “BBB” interest rates. Using the market data in Table 1.1 would result in an average B-loan priced at US Treasuries plus 1.90%. This rate compares favourably to market interest rates for “B” and “CCC” issuers in developing countries averaging US Treasuries plus 8.9%. The approach suggests a 7% discount/saving is possible. In this model, we conservatively halve that discount / savings to 3.5%.

If the Action Plan results in \$353 billion of sovereign B-loans financed annually, and with an average interest rate saving of 3.5%, this would result in a first-year saving of \$12.4 billion. If the average life of a B-loan is 8 years, this would result in annual savings of around \$98.9 billion when the program is fully operational.

### 3.1.3 Feasibility of investing debt at amounts illustrated in Table 3.2 – Illustrative basic test

**Public sector:** Activities A and B in Tables 3.1 and 3.2 would include \$353 billion in A/B loans and \$200 billion in bonds/loans, for a total of \$553 billion in new external debt annually for government borrowers. Table 1.5 identifies all public sector external debt for all developing countries owed to external creditors at \$3.93 trillion. Assuming the debt amortizes at 10% per year, the external debt stock amortizes to \$393 billion per year. The \$553 billion in new debt minus the \$393 billion in amortizing debt, would add \$160 billion to net public sector external debt annually. Allocated across the \$21 trillion GDP of developing countries demonstrates that this amount of net debt would be feasible and tolerable.

Especially when the objective is to allocate around half of the mobilized debt in local currency or FX-hedged loans and the other half in lower-interest rate loans priced at investment grade “BBB” rates. This would lead to huge increases in debt sustainability for developing countries.

**Private sector:** Activity C in Tables 3.1 and 3.2 would include \$250 billion in annual debt for private sector borrowers. Table 1.5 identifies all private sector external debt for all developing countries owed to external creditors at \$2.61 trillion. Assuming the debt amortizes at 15% per year, the \$250 billion of gross new debt is less than the \$392 billion of amortizing debt.

## SECTION 3.2

### PROPOSED NEXT STEPS TO REALIZE THE FINAL ACTION PLAN AND BEGIN MOBILIZING PRIVATE INVESTMENT AT SCALE

This report sets out the rationale and key components of a Prototype Action Plan, primarily for governments and, secondarily, for the development and private investment communities. Table 2.2 describes a proposed process to realize an action plan that many countries can endorse and implement.

Convergence continues to engage with groups of developed countries, developing countries, UN agencies, private investors (e.g., GISD Alliance, Net Zero Asset Owners Alliance and Net Zero Asset Managers Initiative) and DFIs to advance the action plan and refine its parameters.



**CONVERGENCE** is the global network for blended finance. We generate blended finance data, intelligence, and deal flow to increase private sector investment in developing countries.



**BLENDED FINANCE** uses catalytic capital from public or philanthropic sources to scale up private sector investment in emerging markets to realize the SDGs.



Our **GLOBAL MEMBERSHIP** includes public, private, and philanthropic investors as well as sponsors of transactions and funds. We offer this community a curated, online platform to connect with each other on blended finance transactions in progress, as well as exclusive access to original market intelligence and knowledge products such as case studies, reports, trainings, and webinars. To accelerate advances in the field, Convergence also provides grants for the design of vehicles that could attract private capital to global development at scale.