



Opportunities for DFIs to scale private capital mobilisation: Structures and tools

Part of Itad's BII mobilisation study

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Foreword

Mobilising private capital is one of the most powerful ways development finance institutions (DFIs) can scale their impact in emerging economies. The climate emergency and global development challenges demand trillions in investment – far beyond what public finance alone can deliver. To meet this challenge, we need to [unlock the vast pools of capital](#) held by pension funds, insurers and other institutional investors.

DFIs have historically taken a ‘buy-to-hold’ approach to investing: investing their own capital and patiently holding assets for years. This model has delivered meaningful impact, especially in markets otherwise starved of long-term capital. But it is hard to scale because it is limited by the size of DFIs’ own balance sheets.

Most large private investors have been reluctant to invest large sums in emerging markets because of perceptions of higher risk and lower returns in those countries, compared to more advanced markets. Finding ways to unlock these private pools of capital is the best way for BII and other DFIs to further scale their impact.

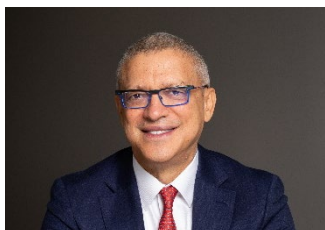
DFIs are uniquely positioned to originate high-quality, impact-focussed assets in emerging markets. We have in-market teams and deep market knowledge, alongside a strong track record for risk-adjusted returns and impact. By ‘sharing’ these assets with institutional investors, we can free up our balance sheets, attract more capital and multiply our impact.

Realising this vision requires new approaches to mobilisation, such as structuring transactions on a multiple-asset basis, creating replicable structures in line with private investor needs, and injecting concessional finance into structured funds or via guarantees to provide the additional risk protection required by some investors.

At BII we’re exploring ways to unlock private capital so we can scale our impact. Our £100 million [blended-finance mobilisation facility](#), including our [global competition with investment advisory group Mercer](#), is just one example of how we are thinking about this work.

But we know we cannot act alone. This report, prepared by independent experts as part of the FCDO-BII Evaluation and Learning Programme, offers valuable insights into how DFIs and MDBs are using financial tools and structures to mobilise private capital. It highlights practical examples and operational considerations that can help our community move from ambition to action.

I hope it will contribute to the growing body of knowledge on how DFIs can unlock private capital and ultimately deliver more for global development and the planet.



Leslie Maasdorp
Chief Executive Officer
British International Investment

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List of acronyms

ACP	Asia Climate Partners
ADB	Asian Development Bank
AfDB	African Development Bank
AIIB	Asian Infrastructure Investment Bank
AMC	Asset Management Company
ATI	African Trade Insurance Agency
BII	British International Investment
CLO	Collateralised Loan Obligation
DAC	Development Assistance Committee
DFC	U.S. International Development Finance Corporation
DFI	Development Finance Institution
DKK	Danish Krone
EBRD	European Bank for Reconstruction and Development
ECA	Export Credit Agency
EDFI	Association of European Development Finance Institutions
EIB	European Investment Bank
EMDE	Emerging Market and Developing Economy
EPF	Equity Participation Fund
ESG	Environmental, Social and Governance
EU	European Union
FCDO	Foreign, Commonwealth & Development Office
GEMs	Global Emerging Markets Risk Database
GP	General Partner
IABS	Infrastructure Asset-Backed Securities
ICIEC	Islamic Corporation for the Insurance of Investment and Export Credit
IDA	International Development Association
IDB	Inter-American Development Bank
IFC	International Finance Corporation
IFU	Investment Fund for Developing Countries
IMC	Investment Management Company
LCF	Local Currency Facility
LP	Limited Partner
MCPP	Managed Co-lending Portfolio Program
MDB	Multilateral Development Bank
MIGA	Multilateral Investment Guarantee Agency
OECD	Organisation for Economic Co-operation and Development
ODI	Overseas Development Institute
PIDG	Private Infrastructure Development Group
PSW	Private Sector Window
RAROC	Risk-Adjusted Return On Capital
Repo	Repurchase Agreement
SDG	Sustainable Development Goal
T&C	Transfer & Convertibility
TA	Technical Assistance
TCX	The Currency Exchange Fund
UK	United Kingdom
UN	United Nations



Executive summary

Development finance institutions (DFIs)¹ are being asked by their shareholders to expand their focus from just investing their own capital to also mobilising private capital. Some DFIs have made more progress than others, and it may be possible for other DFIs to learn from approaches that have effectively mobilised private capital. Private financial institutions have also developed financial tools that DFIs can adopt, depending on their risk appetite, capital base and management capacity.

Mobilisation of cofinancing by DFIs can bring private capital into areas where it would not otherwise flow, and can scale up the amount of capital private investors make available. In higher-risk and frontier markets, mobilisation usually happens on a single transaction basis, and many DFIs have experience in syndicating individual loans to participant banks and bringing other investors into equity transactions.

However, single transaction approaches are hard to scale, and they do not match the appetites of large pools of institutional capital, which look for large, risk-diversified investment opportunities. There is, therefore, increased attention on mobilising private capital on a multiple-asset basis, to achieve greater scale. In the case of debt, this involves pooling assets originated by DFIs and then sharing part of the credit risk with private investors on a portfolio basis. This can be structured in various ways: existing assets can be securitised and sold (or the credit risk passed on through synthetic securitisation), or investors can commit funds to cofinance new assets through fund structures or co-lending arrangements. Single-asset and multiple-asset mobilisation approaches are complementary; DFIs may need to build a track record through individual transactions before they can attract capital to multi-asset structures.

A key difference between DFIs and private investors is their appetite for emerging market and developing economy (EMDE) risk, and for investing in sub-investment grade illiquid assets. To share exposure to higher-risk assets with private investors, DFIs often need either structured finance mechanisms, which involve less exposure to risk for co-investors than for DFIs (that is, DFIs take junior positions in the capital structure which expose them to residual risk), or insurance, guarantees and other risk management tools allowing co-investors to transfer risks. Credit risk, country risk and currency risk are distinct risk categories that deter private investors from investing in EMDE assets. Different de-risking products are available to manage each category of risk, but not all products are available in all countries; some risks are simply uninsurable in frontier markets, leaving DFIs to take the residual risk themselves. Again, these tools can be used in a single transaction or within the structure of multi-asset pools.

¹ In this report, DFIs encompass both MDBs and bilateral DFIs with a mandate to finance private investments on commercial terms to achieve sustainable development outcomes.

Blending concessional finance into single transactions or into multi-asset pools can improve investability for private investors by enhancing returns or reducing risk, beyond what DFIs can achieve when investing on a commercial basis. Good practice has emerged around minimising market distortions and ensuring concessional finance is only offered to the extent needed for capital to flow.

Mobilisation involves sharing part of the credit risk of DFI assets with private investors. This frees up DFI risk-bearing capacity to expand financing, or to take on more risk. Origination capacity can be expanded through larger investment teams, especially in-country, by partnering with local banks and fund managers, and investing in venture capital and private equity funds that can create co-investment or follow-on investment opportunities. Another promising approach involves DFIs with the ability to invest equity and/or play a sponsorship role (alone or with others) creating platforms which in turn generate investment opportunities, either in the platform company itself or in projects that the platform creates. However, even with these approaches to expanding origination, individual DFIs may not generate sufficient volume of investments to support the creation of multi-asset pools from their transactions alone. Moreover, individual DFIs tend to have greater country and client concentration than DFIs as a group. Investors may therefore find it more efficient and more attractive to pool assets across multiple DFIs.

While DFIs might have a wide range of financial tools at their disposal to originate, pool, share and de-risk assets, and to blend concessional finance when appropriate, they may not yet have the operational and risk management capacity to deploy a such tools. However, they may be able to build this capacity over time, or choose to outsource some activities to private financial institutions. In particular, private asset managers are often better placed than DFIs to manage multi-asset investment programmes and portfolios. Nevertheless, sharing credit risk will often require DFIs to upgrade their portfolio monitoring and reporting capabilities, including their ability to manage and report on environmental, social and governance (ESG) risks and impacts. DFIs' focus on these issues can be attractive to private investors, but only if they demonstrate the capability to systematically report on them.

The financial tools and structures described in this report, with examples, offer a rich menu of opportunities to enable DFIs to increase their capacity to mobilise private capital towards climate-related goals and the Sustainable Development Goals (SDGs). To scale their impact, DFIs should:

- Scale up origination and portfolio management capacity to support larger volumes of investment activity, with the intent to share a large part of the assets with private investors
- Shift focus from single asset to multi-asset mobilisation structures which meet the appetites of institutional investors
- Structure assets for co-investors with appropriate levels of de-risking, using a blend of concessional and commercial finance (where necessary and available)
- Collaborate across DFIs to create larger, risk-diversified pools of assets
- Work with private asset managers to supplement their own capacity to structure, manage and share assets.



1. Introduction

Shareholders of multilateral development banks (MDBs) and bilateral DFIs² are asking more of these institutions. Recent statements by the G20 and by United Nations (UN) members, including at the 2025 Sevilla Financing for Development Conference, show it is no longer sufficient for institutions to deploy capital on their own balance sheets to finance high-impact investments in emerging markets and developing economies (EMDEs). Shareholders want them to play a role in mobilising private capital to these markets to increase their impact. Most MDBs have had mobilisation as part of their business strategies for some time, but this is a newer challenge for most bilateral DFIs. DFIs have introduced a range of innovations to attract private capital and co-investment in recent years. This report describes a range of relevant instruments and structures that DFIs can use to mobilise private capital alongside their own investments. It is not intended to be a complete list of all possibilities; rather, it focuses on those most relevant to DFI strategies and capabilities. It also considers the operational implications of deploying these structures and instruments, which may make some better suited to certain DFIs than others.

Since the mandate of DFIs is to finance sustainable development, volume of financing is not an end in itself, but rather a means to achieve sustainable development. It follows that mobilisation of private capital should focus on financing with a high impact on sustainable development, and which is additional to the private financing that would occur without DFI involvement. There are five main mechanisms through which DFIs can support increased private investment in EMDEs in ways which maximise its impact:

- **Fill gaps in markets that have real capital shortages**, where demand for capital exceeds the ability of cross-border investment and the local financial sector to supply it, by introducing new investors to impactful investments.
- **Create investable opportunities** through pioneering investments and technical assistance (TA) that demonstrate financial viability and support the growth of firms and assets that others can invest in at some point.
- **Create replicable structures** that reduce frictions in cross-border investment and package opportunities to match the requirements of institutional (and other) investors, where the absence of such structures constrains capital flows.
- **Collaborate with other DFIs to develop capital markets**, ensuring new initiatives complement the efforts of other DFIs.

² In this report, DFIs encompass both MDB and bilateral DFIs with a mandate to finance private investments on commercial terms to achieve sustainable development outcomes.

- **Generate and communicate information** to help markets operate more efficiently.

In doing so, each DFI should consider its role in the ecosystem, to ensure its efforts complement those of other DFIs. This could include adopting the same replicable structures or collaborating to develop secondary markets.

Although bilateral DFIs have much in common, they differ in the structure of their balance sheets, the mandates set by shareholders, their operational capacity, and legal status. Likewise, although they share a similar development mandate to MDBs, their legal status and capabilities differ in important respects. Therefore, the suitability of mobilisation structures used by MDBs for bilateral DFIs must be assessed on a case-by-case basis.



2. Context: risk, investment flows and mobilisation margins

The appetite of private investors for EMDE assets depends on their perceptions of risk and expected financial returns.

The largest pools of capital which, potentially, could increase their exposure to EMDE assets are held by pension funds, insurance companies and other large institutions, known collectively as ‘institutional investors’. They are characterised by a long-term time horizon, a low-risk appetite (owing partly to regulatory limits on risk-taking), a focus on keeping investment costs down, and the need for large ‘ticket sizes’ to deploy substantial capital pools. They typically look for risk diversification across asset classes and countries, and in recent years have increased their willingness to invest in less liquid assets in pursuit of higher returns.

Institutional investors are often required by regulators to allocate most of their capital into investment grade assets (those rated BBB- or higher).³ By contrast, because of their development focus, DFIs investments are targeted at lower-income countries, most of which are rated sub-investment grade. For example, of the 52 countries in which BII operates, only six are investment grade. Some non-investment grade countries could attract private investment if DFIs de-risk assets through measures such as securitisation, which creates senior investment grade tranches (see Section 5), de-risking tools (Section 6) or blended finance (Section 7). However, many frontier markets and fragile or conflict-affected states are far from being considered investable and in such cases it may be difficult to de-risk sufficiently to create investment grade tranches.

Practical barriers also constrain investment flows. Many institutional investors are unfamiliar with local legal frameworks, struggle to originate suitable ticket sizes, and lack in-house teams to underwrite small-scale infrastructure or early-stage climate technologies. Deal pipelines can be thin or opaque, and disclosure standards vary widely. As a result, transactions that do reach the market incur higher due diligence costs, and sponsors face longer timelines to reach financial close. These frictions reinforce a self-fulfilling cycle: limited private participation keeps capital market depth shallow, which in turn perpetuates liquidity concerns and high funding costs.

Between 2008 and 2022 – a period of ultra-low interest rates and a stable, low-risk global economy – capital flows to EMDEs grew only slowly. Since 2022, higher interest rates, increased instability and economic risk, and debt overhang from the COVID-19 pandemic, have discouraged EMDE investment flows. Investors have been able to earn higher returns in developed markets without the risk and uncertainty of EMDEs and the difficulty of accessing assets. Over the past 20

³ Fitch Ratings publishes credit ratings as an indication of “the relative ability of an entity or obligation to meet financial commitments [...] Investment grade categories indicate relatively low to moderate credit risk”. See <https://www.fitchratings.com/products/rating-definitions>

years, EMDE equities have outperformed developed market equities, while EMDE debt has delivered returns similar to developed market debt.⁴ Loans in EMDEs involving MDBs have also shown similar default and recovery rates to developed market loans.⁵ However, because most EMDE debt is below investment grade, it remains off-limits to institutional investors. This has led to stagnation in private capital flows to EMDEs, particularly from institutional investors (see Figure 1).⁶

Figure 1. Net portfolio investment flows to EMDEs (excluding China)



2024 data come from the Institute of International Finance (IIF) Capital Flows Tracker, since World Bank data are not available yet
Source: World Bank · Created with Datawrapper

To facilitate greater private investment in EMDEs, DFIs need to encourage increased asset allocations by institutional investors. This means addressing their need for:

- Access to investment opportunities with large ticket sizes (\$500 million or more)⁷
- Risk profiles that fit within their risk appetite
- Adequate risk-adjusted returns, taking into account the benefits of portfolio diversification
- Data and information to build investor confidence that adequate returns are achievable with manageable risk
- Strong ESG risk management

In addition, increasing numbers of institutional investors want to be measure and report on the environmental and social impact of their investments, particularly their climate impact.

⁴ ODI Working Paper: *Trillions or billions? Reassessing the potential for European institutional investment in emerging markets and developing economies*. Attridge et al. (2024).

⁵ Global Emerging Markets Risk Database (GEMs) default rate data on MDB portfolios.

⁶ World Bank. (2025). *Global Economic Prospects, June 2025*. Washington, DC: World Bank. doi: 10.1596/978-1-4648-2193-6. License: Creative Commons Attribution CC BY 3.0 IGO

⁷ The pursuit of larger ticket sizes to attract institutional investors is a rationale for pooled asset structures that can mobilise at scale, versus single-asset mobilisation.

DFIs face important strategic choices about where to pursue private capital mobilisation. They can use their investments either to encourage investors to take on slightly more risk than at present, or to increase their exposure in higher-risk frontier markets. The first approach is likely to mobilise more capital, mainly in more mature emerging markets. This could be particularly relevant for climate mitigation investments, where large decarbonising investments in middle-income countries can have a significant impact. It may also help private investors gain confidence more quickly with investing in these markets independently. The second approach may involve smaller sums but could be critical for achieving impact objectives such as poverty reduction in low-income and fragile countries. There is currently very little private investment in frontier markets, so even a doubling would involve small amounts, though these could have a significant development impact in small markets. However, it will take more than a few DFI co-investments in these markets to get private investors to the point where they are willing to invest on their own. This is likely to be a longer-term result as these countries develop and become less risky. DFIs therefore should be clear on the objectives of private capital mobilisation, and the timescale over which they expect it to lead to standalone private investment.



3. From 'originate-to-hold' to 'originate-to-share'

DFIs were set up to go 'where private capital feared to tread'. For decades, their business model was mostly originate-to-hold: investment officers, particularly in large MDBs and most bilateral DFIs, sourced senior fixed-rate hard currency loans and held them to maturity, or took long-term passive minority equity stakes in firms. In effect, DFIs became specialised underwriters of EMDE risk, leaning on their preferred-creditor⁸ status (in the case of MDBs), government relationships, higher risk tolerance, patience, and cross-regional diversification, to mitigate those risks better than most private investors would be able to. They invested in field offices and local relationships to source investment transactions. These capabilities, coupled with in-house supervision capacity and strong ESG and impact credentials, enabled them to take on the risk of investing in private firms in EMDEs in a financially sustainable way.^{9,10}

Private commercial banks used to operate as originate-to-hold strategies too, but over the past half-century they have evolved towards an originate-to-distribute strategy. In this approach, banks focus on originating new assets and selling them in capital markets. For example, most mortgages originated by commercial banks are packaged into portfolios, securitised, and sold to long-term investors, leaving banks with little or no exposure on their balance sheets.

A similar shift is now being discussed for DFIs.¹¹ However, rather than fully offloading assets they originate, there are good reasons for DFIs to retain some exposure to the assets for longer periods. This enables them to continue engaging with clients to achieve the intended development impact, in de-risking, in managing ESG risks, and in measuring and reporting on impact. This emerging DFI strategy has therefore been called 'originate-to-share', with DFIs using their origination capacity to generate a flow of assets with strong ESG and impact characteristics, while sharing the risk exposure with private investors in various ways.

This approach can be applied one transaction at a time, which is the way DFIs have traditionally syndicated loans. However, most investors, especially institutional investors, are not interested in taking exposure to individual EMDE assets. A closer match for investor appetite involves aggregating the assets into risk-diversified portfolios that align with the risk appetite and country/sector preferences of different groups of investors. This may involve targeted de-risking

⁸ Preferred Creditor Status is a widely accepted principle under which MDBs are given priority for repayment of debt in the event of a country experiencing financial stress which causes it to limit access to foreign exchange for loan repayments.

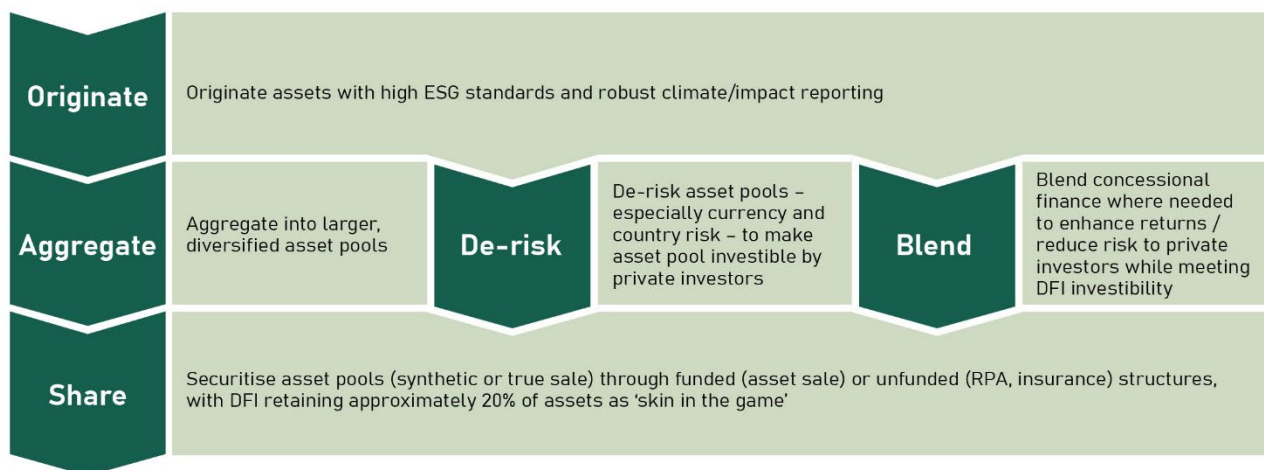
^{9,10} CGD (2023): *Taking Stock of MDB and DFI Innovations for Mobilizing Private Capital for Development*

¹¹ G20 Independent Experts Group (2023): *Strengthening Multilateral Development Banks: The Triple Agenda: Report of the G20 Independent Experts Group*

actions to lower the risk borne by private co-investors, as well as blending concessional funds with commercial investments to modify the portfolio's risk-return profile. Ultimately, it involves sharing the credit risk of these assets with co-investors through a range of structures.

The originate-to-share strategy is summarised in Figure 2.

Figure 2. Originate-to-share strategy



Under originate-to-share, the assets are aggregated into pools partly funded (or with credit risk shared) by instruments which meet institutional investor appetites, and part of the asset pool (and credit risk exposure) is kept on the balance sheet to benefit from continued DFI involvement. This frees up room on DFI balance sheets to originate assets at a larger scale and enables them to keep doing what they do best: sourcing projects in challenging markets and applying rigorous ESG and impact screening and risk management. At the same time, part of the credit risk is transferred to private investors. By retaining a stake in the transaction, the DFI preserves alignment and reassures investors that monitoring discipline and any preferred-creditor protections remain intact.

The following sections explore each element of this strategy in more detail, describing specific tools and structures that DFIs can use, and offering insights into how best to use them. The origination, de-risking and blending tools can be used on a single-asset or multi-asset basis.

4. Origination

The first challenge is how to originate a sufficient volume of new assets that can be assembled into portfolios and shared with private investors. In the past, DFIs only had to originate enough new transactions each year to deploy their own capital. Under an originate-to-share approach, however, they would need to scale up origination capacity. For instances, if DFIs shared credit risk on a 4:1 basis, (retaining 20 per cent of the credit risk), they would need to increase annual asset origination fivefold, for example, from 50 transactions annually to 250.

This may involve expanding field offices and investment teams, as well as partnering with other financial institutions that can support origination, such as local banks and fund managers.

Investing in venture capital and private equity funds can create co-investment or follow-on investment opportunities for DFIs. While there are fixed costs involved in setting up offices, hiring teams and creating partnerships, higher origination volumes can improve profitability by spreading those fixed costs over a larger number of transactions. In the longer term, DFIs that can engage on policy reforms and provide TA can help improve investment conditions.¹²

Origination activities should be aligned with the mobilisation strategy being pursued – both in terms of where the DFI is extending the boundary of risks acceptable to private investors (discussed in Section 1) and the types of assets suited to pooled asset mobilisation vehicles (see Section 5). At the same time, origination must remain consistent with the DFI's impact objectives and additionality requirements.

Another way to expand DFI origination capacity is by investing in financial institutions and platform companies that can originate new assets in turn. Unlike limited-life investment funds or project joint ventures, these open-ended vehicles can continue to generate new investment opportunities over many years.

For DFIs with the capacity to invest equity and take management control, it may be possible to establish new platform companies directly; others may need to partner with equity investors to create them. BII is one of the few bilateral DFIs to have taken the sponsorship role in creating platforms, both on its own and in collaboration with Norfund and other DFIs.¹³ Private capital mobilisation is not the only reason why platforms structures have been developed. They can also enable investment in hard-to-invest sectors where there are few existing investment opportunities, by undertaking early-stage project development. Platforms are a complement to, not a substitute for, other forms of origination. They require significant upfront effort and they demand greater capital, operational involvement and long-term commitment. Even so, they can offer the advantage of a sustained pipeline of investable opportunities that enables repeated

¹² World Bank (2019): *Accelerating Investment: Challenges and Policies*

¹³ ODI Global (2025): *DFI sponsorship of new platforms and ventures: why and how?*

mobilisation over time, allowing for risk diversification along with scalability and standardisation as they aggregate diverse projects. They can also demonstrate robust financial additionality by incubating new projects or businesses that might not otherwise exist, particularly in underserved markets or nascent sectors.

Mobilisation can occur at two main levels within a DFI-sponsored platform:

- Into the platform company itself, strengthening its financial capacity. In essence, the platform itself becomes an investable entity, drawing capital from private investors, strategic partners, or eventually public markets beyond the initial DFI funding. This can include private investment replacing the DFI in the capital structure when it exits. Platforms focused on hard-to-invest sectors and early-stage project development may find it harder to attract private investors than those operating closer to commercial viability.
- Into the individual projects created by the platform, the more common route for private capital investment.

Although private co-investment at the platform level remains uncommon, platforms have successfully mobilised private capital at the project level. International investors often fund the early stages of platform-backed projects, but successful platforms transition their financing to local banks and investors over time. This reduces reliance on foreign capital and mitigates currency risk, while contributing to local capital market development. For example, Ayana was established by BII and was recently sold to Indian domestic investors (Box 1). Infracore, founded by a group of DFIs, has also successfully mobilised project finance for the infrastructure projects it has developed (Box 2).

Box 1. BII's power sector platforms: Globeleq and Ayana

BII, together with Norway's Norfund, invested equity to support the expansion of **Globeleq**, a dedicated platform for African power generation, coupled with private project finance debt for refinancing and acquisitions.¹⁴ Globeleq has raised \$835 million at the sub-project level.¹⁵

In India, BII established renewable energy platform **Ayana** in 2018 with a \$100 million equity investment. It later attracted substantial equity from India's National Investment and Infrastructure Fund and Green Growth Equity Fund (sovereign-anchored funds with private capital from leading institutional investors such as major sovereign wealth funds, pension funds and Indian corporates). In February 2025, BII and its co-investors exited through a sale to ONGPL, a joint venture between two Indian state-owned enterprises.¹⁶ Since 2018, Ayana has mobilised private capital at both platform level (\$2.3 billion equity from Indian funds) and sub-project level (\$1.7 billion long-term debt from Indian commercial banks).¹⁷

¹⁴ BII (2025): *Globeleq Limited*

¹⁵ ODI Global (2025): *DFI sponsorship of new platforms and ventures: why and how?*

¹⁶ BII (2025): *ONGPL Signs Share Purchase Agreement for 100% Acquisition of Ayana Renewable Power*

¹⁷ BII (2024): *The story of Ayana shows BII at its very best*

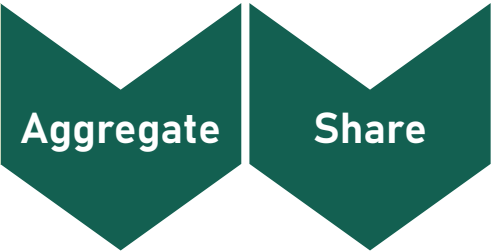
InfraCo, part of the Private Infrastructure Development Group (PIDG), was established in 2004 as a platform to catalyse private sector investment in Africa, working both as a developer and an investor, actively originating, structuring and de-risking projects. Funded entirely by public capital from DFIs and national governments, InfraCo has mobilised sizeable private capital at the sub-entity level, due to its strong focus on early-stage project de-risking and leverage of blended finance. InfraCo reports that it has generated \$5 of total investment for each \$1 from its own account, mobilising over \$2 billion since inception.¹⁸ InfraCo has successfully mobilised debt and equity into infrastructure projects at initiation and exit, while also seeding private equity funds and, uniquely, supporting bond issuance. An example is InfraCredit Nigeria, a blended-finance mechanism using DFI first-loss capital to enable Nigerian pension funds, insurance firms and asset managers to purchase over \$250 million in local currency infrastructure bonds.¹⁹

Based on the experience of bilateral DFIs such as BII and Norfund, the success of platform mobilisation depends heavily on three factors:

- **The nature of the market and sector**, as platforms in mature markets and lower-risk sectors tend to mobilise more effectively. As the Ayana example (Box 1) illustrates, mobilisation is more successful in bankable sectors where investable entities already exist, supported by strong regulatory frameworks and deep financial markets. Likewise, the African Development Bank's (AfDB's) infrastructure-focused Africa50 successfully raised private capital in mature markets such as Egypt and Nigeria, but struggled in smaller, higher-risk African economies.
- **The use of de-risking and blended finance**. As outlined in Sections 6 and 7, de-risking and blended finance products can be instrumental in mobilising private capital into projects developed by platforms. InfraCo (Box 2) is an example of a platform embedding concessionality in project funding via TA, project development and de-risking, enabling transactions that crowd in commercial investment. De-risking and blending can also be extended to the capital structure of the platform's holding company (platform-level mobilisation), which DFIs can use flexibly to accommodate diverse risk-return preferences and reach a broader investor base.
- **Robust governance, transparency and ESG practices of DFIs**. Private investors value these as additional de-risking factors. Platforms enable DFIs to apply such standards across an entire portfolio of projects instead of only at individual transaction level, meaning more transactions get to benefit from these disciplines.

¹⁸ PIDG (2025): [Project Dev – InfraCo \(Africa\), Key documents](#)

¹⁹ PIDG (2024): [Enabling infrastructure projects in Nigeria to be more bankable](#)



Aggregate

Share

5. Aggregation and sharing: mobilisation via pooling and managing assets

Because institutional investors have both limited capacity to invest in individual assets, prefer larger ticket sizes, and value diversification, DFI assets may need to be pooled into risk-diversified portfolios aligned with institutional investor interests. DFIs with broader country and sectoral diversification are better placed to assemble such portfolios, while smaller bilateral DFIs with more concentrated portfolios may need to participate in cross-DFI portfolios to create a pool of assets of sufficient size and breadth.

5.1. Asset aggregation

DFIs can assemble pools of assets from sub-sets of their portfolios, selecting assets that match the risk and diversification requirements of private investors. Not all assets in a DFIs' portfolio will appeal to private investors, due to factors such as their risk profile, the country or sector, or other considerations. Asset aggregation must therefore be guided by a clear understanding of investor requirements.

Warehousing – holding assets temporarily for onward sale to investors – is another way to create a pool that can subsequently be shared. The International Finance Corporation (IFC) Loan Warehousing Securitization Program is a comprehensive effort to build a global emerging markets collateralised loan obligation (CLO) product from warehoused loans.²⁰ The program recently closed its first transaction, arranged by Goldman Sachs: a true-sale securitisation with a \$510 million exposure to 57 IFC loans across different regions and sectors, listed on the London Stock Exchange. Of the assets, 63 per cent were funded by AAA notes, 25 per cent by unrated mezzanine debt, and 12 per cent by equity.²¹ IFC retains 25 per cent of each underlying loan and remains the lender of record. Initially, all assets will be sourced from IFC, but if successful, it could be expanded to include assets from other DFIs. IFC is also developing a Creating Markets Equity Facility under the World Bank's International Development Association (IDA) Private Sector Window (PSW), which will enable IFC to warehouse high-risk equity in frontier and fragile markets for later sale to private investors.

Most pooled asset structures involve loans, because it is easier to compare and assess the credit risk of loans. Asset aggregation benefits from standardisation of the terms of the underlying assets, which makes it easier for private investors to appraise. Pooled asset vehicles require consistent transaction documentation that matches the expectations of private investors. This

²⁰ World Bank Group (2024): *From Vision to Impact: Implementing the World Bank Group Evolution*

²¹ World Bank Group (2025): *World Bank Group Successfully Closes Inaugural Securitization Transaction, Marking Pivotal Step in Private Sector Mobilization Effort*

should conform to market norms, except where variation is essential to the DFI's development mandate.

Unlike larger MDBs such as IFC, most bilateral DFIs do not generate assets at sufficient scale or with sufficient risk diversification to create asset pools on their own. Instead, they can contribute assets to pooled asset vehicles managed by others, such as the ILX Fund or IFC's Loan Warehousing Securitization Program. They could also partner with other DFIs to create shared pooled asset vehicles. This would require agreement on common terms, documentation, due diligence and legal frameworks, so that their assets can be aggregated.

5.2. Asset sharing

Once assets have been pooled, securitisation structures can be used to create securities representing exposure to the credit risk of the pool and can be purchased by private investors. DFIs may retain higher-risk tranches, allowing lower-risk tranches to be placed with private co-investors that might not otherwise have invested.²² Securitisation supports mobilisation by giving investors access to higher-rated assets with risk-return profiles suited to different appetites, while also enabling diversification across obligors, sectors and geographies.

Securitisations can take the form of true sale, where the legal ownership of the asset is transferred, or a synthetic structure where only the credit risk is transferred through derivative instruments and the assets remain on the originator's balance sheet. AfDB and the Inter-American Development Bank (IDB) have completed synthetic securitisations of parts of their loan portfolios (Box 3). These transfers may be funded, with co-investors buying a share of the assets up front, or unfunded, where co-investors assume the credit risk in return for a premium without buying the assets, similar to an insurance contract.

Box 3. AfDB's Room2Run and IDB's Scaling4Impact: securitising MDB asset portfolios

AfDB's Room2Run was a first-of-its-kind synthetic securitisation, transferring part of the credit risk of a \$1 billion portfolio of 45 well-performing, non-sovereign loans to a range of private investors. The securitisation parcelled out risk into investment tranches matching investors' diverging risk appetites: the mezzanine tranche was sold to private investor Mariner (\$230 million) with an unfunded guarantee from the European Investment Bank (EIB), while AfDB retained the first-loss and senior tranches. In addition, AfDB purchased a \$500 million portfolio credit risk insurance, underwritten by the African Trade Insurance Agency, further reducing its risk exposure.²³

Although Room2Run freed up capital headroom for fresh lending, AfDB's synthetic securitisation was onerous, in terms of both the structuring and the cost of providing loss and guarantee coverage. Despite its scale, its loans represented almost one-fifth of AfDB's total loan book in 2018, only **IDB Invest** has launched another synthetic securitisation.²⁴ In October 2024, the \$1 billion **Scaling4Impact** securitisation created a portfolio of more than 100 Latin American loans, with a wider sector coverage than Room2Run. IDB Invest retained a small (\$30 million) junior tranche; the \$100 million mezzanine tranche was sold to private investor Newmarket Capital and private insurers AXIS and AXA; and the \$870 million senior tranche was sold to private investors.

²² In some cases, the DFI may also retain the most senior tranche, meaning the private investors invest in a mezzanine tranche tailored to their risk-return appetite.

²³ ODI (2022): *AfDB's new Room2Run highlights opportunities and questions about MDB risk transfer*, Risk Control–MOBILIST (2024) *Innovative Deals in Development Finance: Originate to Demonstrate (O2D)*

²⁴ IDB Invest (2024): *IDB Invest Launches Landmark \$1 Billion Securitization in Latin America and the Caribbean*

The aggregation, structuring and sharing of assets, or unfunded credit risk, with private investors can be undertaken by the DFIs themselves, or partly or wholly by private asset managers. DFIs can also support securitisations of assets originated by private financial institutions, for example by investing in higher-risk tranches or by providing guarantees to reduce the risk of senior tranches (see Box 4). Risk mitigation products that can be applied to securitisation structures are discussed in Section 6.

Box 4. Bayfront: securitisation and tranching of infrastructure asset-backed securities (IABS)

Singapore-based **Bayfront** is a private asset manager backed by the Asian Infrastructure Investment Bank (AIIB), which repackages project finance loans into infrastructure asset-backed securities. In 2021, Bayfront acquired a pool of 40 infrastructure loans and bonds, spread across 33 projects in 15 countries, from multiple Asian and global banks. Valued at \$410.13 million, the loan pool was securitised through a special purpose company, which issued multiple tranches sold to private investors. AIIB purchased part of the senior tranche, and the mezzanine tranche benefited from a full credit guarantee from GuarantCo (a donor-funded development institution) to transfer its AA-/A1 balance sheet credit strength. The combined effect of AIIB's backing and GuarantCo's credit enhancement attracted private capital that would otherwise have remained wary of illiquid assets with long tenors, as demonstrated by the latest issuance in July 2024 with a 3x oversubscription.²⁵

In addition to securitisations, which are typically one-off transactions, DFIs can share the risk of asset pools on an ongoing basis through funds and other co-investment structures. These can be managed by DFI or a private fund manager. They include:

- Asset Management Companies (AMC) which independently select assets from the DFI deal flow and manage the resulting portfolio (see Box 5).

Box 5. IFC AMC and FMO IMC: wholly-owned AMCs

IFC's AMC was originally structured as an independent equity fund manager with its own team, able to exercise independent decisions required of investment fiduciaries of third-party capital. From its first fund launch in 2009 up to 2017, IFC's AMC raised over \$10 billion from more than 56 different investors across 13 funds, encouraged by IFC's attractive deal pipeline and track record. However, the cost of active fund management weighed on performance, leading it to adopt a new passively managed model in 2017. This automatically co-invested in all IFC transactions within predetermined parameters.²⁶

FMO's Investment Management Company (IMC), a wholly-owned subsidiary, manages private capital across five debt funds, building on FMO's strong debt track record. All funds are closed-end, limited life vehicles, with an investment period of three to five years and total lifespans of 10–25 years. Deal flow originates from FMO, with FMO's IMC advising and sourcing investments, while external regulated managers such as Goldman Sachs and Cardano act as General Partner (GP).²⁷

- Co-lending structures, whereby DFIs manage and structure a programme in which private investors co-invest alongside the DFI (see Box 6)

²⁵ Clifford Capital: *Flagship Infrastructure Asset-backed Securities (IABS) products*

²⁶ IFC (2022): *Stepping Up in a Time of Uncertainty: 2022 Annual Report*; CGD (2023): *Taking Stock of MDB and DFI Innovations for Mobilizing Private Capital for Development*

²⁷ FMO IM (2024): *What we do*

The funds or co-lending programmes can be structured so that private investors benefit from risk mitigation products (see Section 6) or blending with concessional finance (see Section 7) to improve the risk-return profile.

Box 6. Managed Co-Lending Portfolio Program (MCPPI), the Equity Participation Fund (EPF) and the Sustainable Development Goal (SDG) Loan Fund: DFI-managed co-investment structures

IFC's MCPPI is a co-investment syndication programme that enables institutional investors to co-invest in IFC's deal flow through a 'blind pool, delegated origination' approach, based on agreed *ex ante* eligibility criteria set by institutional investors. It has mobilised circa \$16 billion from 17 institutional investors and credit insurers to date. The programme automatically allocates any new senior IFC loan that fits those parameters pro rata between IFC and the investor, with IFC as the sole lender of record and loan administrator. MCPPI's power in mobilising at scale rests on four important advantages for private investors: (1) first-time entry into emerging markets for entire investor classes, such as institutional investors; (2) enhanced diversification, with limited currency exposure; (3) cost-effectiveness in operations and delivery, due to scale and passive management similar to that of an index fund; and (4) provision of asset origination.²⁸

The European Bank for Reconstruction and Development (EBRD's) EPF was launched in 2016 with €350 million assets under management. Designed to expand EBRD's equity capacity and mobilise institutional investors, the EPF automatically invested *pari passu* in every EBRD equity investment above €10 million. The mechanism worked through equity return swaps: EPF investors would acquire an indirect non-discretionary interest in EBRD's underlying portfolio companies, with EBRD retaining 70–80 per cent of each eligible investment. The EPF gave private investors a clear exit pathway by giving them the option, at the end of its lifespan, to 'put' their residual stakes back to EBRD at the Net Present Value at that time. The EPF's financial performance was in line with expectations, although it mobilised only two large institutional investors, both of which were quasi-sovereign wealth funds.²⁹

FMO's SDG Loan Fund is a \$1.111 billion fund, launched in 2022 with a 25-year term, that aggregated 100 senior loans from FMO's portfolio. It securitised these loans through two types of share: Class A preference shares for senior investors – retained by Allianz and other institutional investors – and Class B shares comprising a first-loss tranche retained by FMO with a notional value of \$111 million, which was covered by a \$25 million guarantee (rated AAA) from the MacArthur Foundation. Cashflows from loan repayments were allocated first to Class A investors, and only once they are paid in full do Class B investors receive income. As one of the largest blended funds to date, the SDG Loan Fund, like MCPPI, demonstrates the mobilisation power of de-risked senior debt for institutional investors, achieving a 9:1 leverage ratio.³⁰

For these structures to attract private investors, the DFI must demonstrate a strong investment performance and portfolio management capacity. It is also important to have adequate origination capacity to create sufficiently large funds to share among multiple investors: investors typically prefer to take a minority stake in a fund.

²⁸ IFC (2022): *Partnering with IFC Syndications*, pp. 29–33; IFC (2025): *Managed Co-Lending Portfolio Program (MCPPI)*

²⁹ EBRD (2016): *EBRD establishes Equity Participation Fund with global institutional investors*

³⁰ Allianz SE (2023): *SDG Loan Fund mobilizes USD 1.1 billion of investor capital*; Convergence (2023): *The SDG Loan Fund: Convergence*

Private investors can also invest in DFI assets via pooled asset structures managed by private fund managers, such as the ILX Fund (see Box 7). Although not yet implemented, it would also be possible to pool DFI assets with other assets to achieve the targeted risk-return profile and portfolio size.

Box 7. ILX Fund: a private fund investing in DFI assets

Private manager ILX launched the **ILX Fund** in 2021, raising institutional capital to invest in syndicated B-loans originated by DFIs and MDBs that contribute to the SDGs. Of the underlying loans, 75 per cent are new investments, with co-investment at origination, while the remaining 25 per cent involve refinancing existing loans. Institutional investors committing capital to the ILX Fund co-invest *pari passu* with the DFI or MDB, sharing the same rights and privileges, as well as the same risk and return profile.³¹

ILX mobilised \$1 billion from institutional investors (most of which were Dutch pension funds) with a robust impact measurement framework. For smaller DFIs unable to create large, costly structures like IFC's MCPP, ILX may offer a cost-effective pathway to mobilise at scale via debt co-investment.³²

5.3. DFI asset management

All of the mechanisms described involve sharing risk in assets originated by DFIs for their own account. It is also possible for DFIs to act as GPs, raising a pool of funds to deploy in the same way as private equity or private credit funds. DFIs have a long track record of investing as Limited Partners (LPs) in funds managed by others, and some have experimented with taking on the role of GP, originating assets and managing portfolios on behalf of private LPs. DFIs have adopted two main organisational models to originate and manage assets where they either act as GP or create the GP:

- i. **DFI-managed funds**, with the DFI serving as the fund manager (GP). The Investment Fund for Developing Countries (IFU) SDG Investment Funds (see Box 8) are an example
- ii. **Privately managed funds**, where the DFI is both a minority owner of the fund manager (GP) and an anchor investor in the fund (LP). This model was first piloted by the Asian Development Bank (ADB) via Asia Climate Partners (ACP), and more recently by the IDB-Colabora Capital Partners platform (see Box 8).

Within these models, many elements may differ, including the independence of the fund manager, the ownership structure, the amount of capital committed by the DFI, the source of deal flow (captive to the DFI deal flow or not), and the existence of an additional co-investment structure for LPs. DFI decisions on how to structure a new fund depend on factors such as their own ownership structure, their source of capital, and the regulatory and legal environment they face as an institution and in the jurisdictions in which they are governed. The structure must also consider the needs of potential private LPs.

³¹ ILX (n.d.): [ILX Fund: SDG-Focused Emerging Market Private Debt](#).

³² Osano, E., Fuchs, M., Mugi, A. and Gathumi, J. (2024): [Local Currency Solutions for Multilateral Development Bank Portfolio Transfers: Feasibility Study](#).

For an actively managed fund, investors want assurance that fund management decisions are made independently from the DFI. Structures where the DFI retains full ownership and investment decision-making authority have faced governance issues, operational challenges, and rising costs. Hybrid models with a partially independent asset manager have performed better. Private capital providers also expect market-based financial incentives and governance mechanisms to align interests, which is often easier to achieve when the fund manager is from the private sector.

Box 8. ACP and Colabora: MDB-sponsored funds

ADB's ACP was a joint venture between ADB (25 per cent), Robeco Institutional Asset Management and the ORIX Corporation (37.5 per cent each). LPs included the UK government, ADB and Oryx. The fund reached a final close in 2016, with total committed capital of \$391.2 million. ADB served as GP, and ACP managed the investment portfolio through a small team seconded from each of the LPs. Just five years after launch, ACP had deployed only 17 per cent of the capital, and the fund wound down its investments by 2020 with a negative internal rate of return. Fund performance was impaired by lack of deal flow, misalignment of interest between GP and LPs, and ADB's limited prior experience both as a GP and in private equity funds.

Taking on board lessons from ADB's ACP and IFC's AMC, **IDB Invest** partnered with **Colabora Capital partners** in 2024 to launch an **investment management platform** to mobilise equity in Latin America and the Caribbean. IDB Invest owns 40 per cent of the GP, with 60 per cent held by Colabora, a private fund manager, which allows for private sector-type incentives for the GP. Likewise, deal flow is not captive to IDB Invest's pipeline: IDB and Colabora are seeking other private investor partners to take equity stakes in the GP and/or participate as LPs, which are expected to actively bring in deal flow. IDB Invest oversees ESG risk management and impact outcomes through its significant minority stake in the GP, its anchor LP role and its Board seat, while leaving the private sector GP free to structure incentives effectively.³³

Box 9. SDG Investment Fund: a DFI-managed GP/LP equity fund

Denmark's DFI, Impact Fund Denmark (formerly the Investment Fund for Developing Countries (IFU)), leveraged a strong track record in equity funds to raise capital from Danish pension funds to launch the SDG Investment Fund I in 2018, with a DKK 4.1 billion (\$630 million) commitment. In 2024, IFU launched Fund II, which is currently fundraising towards a DKK 9 billion (\$1.3 billion) target. Both funds share a similar mechanism: IFU acts as GP; the Danish Ministry of Finance acts as anchor investor, with a commitment of 40 per cent of the capital raised, and the remaining 60 per cent comes from institutional investors. Both funds offer preferred returns for private investors, further protected in Fund II by a European Union (EU) guarantee. IFU's success in balancing institutional capital mobilisation with developmental impact in frontier economies stemmed from a combination of factors, notably (1) its ability to benchmark staff compensation to the private sector, and (2) its steep learning curve as Fund II integrated improvements based on Fund I's experience. These improvements include removing pension fund LPs from the governance structure, in favour of a strengthened trust-based partnership; reconfiguring the deal pipeline towards fewer and less risky markets; and larger ticket sizes.³⁴

³³ IDB Invest (2024): [IDB Invest Announces New Investment Management Platform to Mobilize Private Capital in Latin America and the Caribbean](#). The amount raised has not yet been publicly disclosed.

³⁴ Impact Fund Denmark (2024): [Danish SDG Investment Fund Impact Report 2023](#)

Fundraising from private investors relies on demonstrating a strong track record of returns (at least three years for the specific strategy that the fund will pursue) and good ESG risk management. Some investors also want to see evidence of positive environmental and social impacts. DFIs with a long record of successful investments, and which have strong ESG and impact management systems in place, are better able to attract private investors. DFIs will find it easier to raise private capital for those parts of their portfolio with the longest and strongest financial return performance. For example, FMO has focused its mobilisation activities on debt, while IFU has leveraged its equity track record.

DFIs may face significant obstacles to becoming effective asset or fund managers. They may become subject to additional regulation in order to manage third-party capital, and will need to build up back-office capacity to manage the asset pools or funds.

The choice of pooling mechanism will depend on the type of assets the DFI originates, its operational capacity to manage asset pools (see Section 8), and investor appetite for different structures. All of these mechanisms can be combined with de-risking and blended concessional finance to make them more appealing to private investors, as discussed in the next two sections.

6. De-risking instruments

Risk management remains central to investment in EMDEs, and risk – whether real or perceived – continues to constrain private sector investment. Co-investors benefit from a degree of risk mitigation by sharing risk with DFIs through the structures described above. They also benefit from preferred-creditor status (in the case of MDBs), government relationships, ESG risk management and other DFI capacities that help reduce investment risk.

In addition, DFIs can offer risk management products to co-investors as part of individual transactions, or as part of the pooled asset vehicles described above. These risk products can be priced commercially, with fees or insurance premiums attached (Section 7 discusses structures with concessional pricing, where risk are taken without full commercial financial compensation). Some DFIs, as well as specialist providers such as GuarantCo, Frontclear and the Currency Exchange Fund (TCX), have already successfully deployed a range of risk management solutions for third-party co-investors.

Risk management products can be used to reduce co-investor exposure to three main types of risk: (1) credit and counterparty risk; (2) country risk, including political and transfer and convertibility (T&C) risk; and (3) foreign exchange or currency risk.

6.1. Credit risk

For credit risk – the risk of non-payment by private counterparties – DFIs can mitigate risk for private investors in three ways: credit enhancement and insurance, repackaging and tranching of credit risk, and repurchase transactions using collateral.

First, credit guarantees reduce investment risk by encouraging investors to take on the remaining exposure. By replacing the counterparty's risk weight with that of the guarantor, guarantees 'enhance' the credit profile of the counterparty and in this way, they enable regulated investors to reduce the capital charges for investments and thus expand their balance-sheet capacity to take on more risk. Consequently, credit guarantees have shown some of the highest mobilisation ratios, outperforming loans and equities by approximately 600 per cent.³⁵ Often, DFIs have better information about the riskiness of a transaction or asset pool than co-investors, enabling them to offer guarantees at low premiums that are attractive to private investors with higher risk perceptions.

DFIs offer a range of guarantee products, including: full credit guarantees (such as the U.S. International Development Finance Corporation's Green Guarantee Company), partial credit guarantees (such as first-loss protection which protects against losses up to a certain level),

³⁵ Mobilist Global (2024) [Research Note: Guarantees for Sustainable Development](#)

contractual performance guarantees (as offered by GuarantCo), and non-payment insurance (such as EIB's credit enhancement services). Despite this, they remain underutilised, accounting for less than 10 per cent of MDB investment portfolios, compared to almost 70 per cent on average for loans. Credit protection can also be provided through non-payment insurance, which transfers credit risk under an insurer–insured relationship

Second, credit risk may be repackaged and tranching to cater to different investor appetites, with DFIs taking higher-risk tranches, such as equity, mezzanine or junior debt, so that more risk-averse investors can participate in senior tranches. DFIs can also share credit risk with private investors through other instruments such as risk participation agreements, credit-linked notes or B-bonds and B-loans. These approaches are better suited for more mature markets with robust legal frameworks and established investor bases.

Third, repurchase agreements (repos) can mitigate default risk by using securities as collateral. In the event of default, collateral may lose value or become hard to sell, but this residual risk can be mitigated by combining repos with guarantees. Frontclear, established by FMO, offers such guarantees (see Box 10).

Box 10. Frontclear: counterparty guarantees for repo transactions with collateralisation

FMO-owned Frontclear is the only institution providing credit guarantees and repo funding to support the development of local currency short-term money markets. Its guarantees cover credit risk in cross-currency repos and derivative instruments, often using national government bonds as collateral. The underlying structure comprises a repo transaction in which funding is exchanged for security collateral in local currency. Guarantees cover both cross-border and domestic money market transactions, whether bilateral or multiparty.³⁶

As of 2024, with a cumulative guarantee volume of \$1.915 billion from 2015, Frontclear's track record demonstrates how using guarantees can address residual credit risk while supporting local currency money markets.

6.2. Country risk

Country risk refers to country-specific factors affecting investors' profitability, including political risk, cross-border T&C risk, and sovereign and state-related off-taker risk. DFIs can mitigate these risks by offering guarantees to co-investors (see Box 11 for an example).

³⁶ Frontclear (2023): [Impact Report 2023](#)

EDFI manages a €26.2 million **facility on behalf of Proparco**, that provides **guarantees covering T&C risk** in the power sector. These risks are especially significant because power is sold in local currency, while power plants are mainly financed in hard currency. With a mandate focused on countries under the EU's Sustainable Energy For All programme (including Indonesia, Ghana and Uganda), the facility funds a debt-service reserve account for each eligible project. This account provides a liquidity reserve that can be activated by any European DFI in the event of a T&C risk.³⁷

Country risk insurance offers the same risk mitigation as guarantees, but in the form of an insurance contract. Among DFIs, only the Multilateral Investment Guarantee Agency (MIGA) is set up to offer insurance products, which typically bundle together risks such as expropriation, war, civil disturbance, T&C, and non-performance by public entities.

For political risk, MIGA's product competes with private insurers such as Lloyd's syndicates, which focus on more developed and lower risk markets. They also compete with more specialist insurance providers such as the African Trade Insurance Agency, the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC), and bilateral export credit agencies (ECAs), which mainly cover trade finance.³⁸

T&C risk refers to both 'transfer risk' – the investor's ability to transfer funds out of the country – and 'convertibility risk' – the investor's ability to convert the local currency into its preferred currency. T&C risk is often combined with foreign exchange risk, as in the World Bank's IDA PSW Local Currency Facility (LCF), as well as being embedded within credit guarantees, such as IFC's, or bundled under a single guarantee product covering all country risk types, as in MIGA's product offer.

6.3. Foreign exchange risk

Foreign exchange risk, or currency risk, is an investor's exposure to losses from fluctuations in the value of a currency. In high-income countries, derivative markets allow investors to hedge these risks, but many EMDEs lack currency hedging markets. In their absence, there are two main mechanisms available from DFIs that can reduce co-investors' foreign exchange risk:

- **Hedging via derivative products**, which involves providing a local currency forward (an agreed single transaction at a future date) and swap (multiple agreed cash flows over a specified period) hedging instruments for private co-investors. Examples include MIGA's cross-currency swap agreements and bilateral swap lines with local central banks, and TCX (see Box 12).
- **Local currency loss guarantees** protect private investors against losses from local currency depreciation and devaluation, which inevitably involves some concessionality.³⁹ GuarantCo offers these types of guarantees among its products. Another example is the EIB–EU's Africa, Caribbean and Pacific Facility, which enables lenders to cover their foreign

³⁷ Proparco (2021): [EDFI launches new EU-funded guarantee tackling currency convertibility and transferability risks for renewable energy projects](#)

³⁸ MIGA (2010): *MIGA WIPR Report 2010. Chapter Three. The Political Risk Insurance Industry*

³⁹ The Law Dictionary defines concessionality as "The difference in return for a lender between a below market rate loan – or soft loan – and a full market rate loan." See: <https://thelawdictionary.org/concessionality/>

exchange losses by paying an insurance premium to the facility, which works as a risk-bearing revolving fund, recycling capital to be reinvested into new projects. The World Bank's IDA PSW LCF offers currency hedges to World Bank and IFC co-investors in projects in eligible IDA countries, with IDA concessional funds bearing any losses.⁴⁰

Box 12. TCX: Local currency hedging via derivatives

TCX is a special purpose fund providing currency hedging via derivative products for cross-border investments in frontier and illiquid emerging markets. Founded in 2007 by a diverse group of donors and DFIs, TCX plays a crucial role as market-maker in currencies and maturities not covered by commercial markets, where there are no offshore markets, no long-term hedging or, in extreme cases, no currency markets at all. TCX has executed \$1.49 billion of frontier market currency risk transactions, nearly half of which were transferred to private investors through the issuance of 44 local currency bonds in 12 currencies by TCX shareholders such as IFC or FMO.⁴¹

The ability of DFIs to offer these products to co-investors, whether in individual transactions or pooled asset structures, depends on their ability to (a) assess the risk accurately, (b) mitigate it, and (c) bear the risk on their balance sheets. The extensive due diligence that DFIs conduct, and their close familiarity with country conditions in the markets in which they operate, enables them to assess risks more accurately than most private investors. Co-investors with higher risk perceptions may be willing to pay a premium for risk mitigation higher than the loss that the DFI expects to bear. In addition, DFIs have more tools at their disposal to mitigate country risks, as government-owned institutions have better access to governments in client countries, and in the case of MDBs, with investee countries as co-owners. However, DFIs vary widely in the strength of their balance sheets and ability to bear the additional risks from offering guarantee products. They can reduce their own risk exposure by drawing on concessional funds to bear some of the risk, which is the subject of the next section.

⁴⁰ IDA: [Local Currency Facility \(LCF\)](#)

⁴¹ TCX (2023): [Impact Report 2023](#)

7. Blending concessional finance

DFIs tend to invest on commercial terms, albeit with the advantage in most cases of not having to pay a dividend on their shareholder capital, and with the ability as permanent capital vehicles to take a longer-term time horizon than private investors. Over the past 15 years, more DFIs have experimented with blending concessional finance – such as grants or low interest loans – with commercial finance. This can either bring the project to investability for the DFI itself or enhance the returns or reduce the risk to private investors, increasing their willingness to invest in EMDE assets. In many cases, the structures and products described above have incorporated some concessional finance element.

Used in a disciplined way, concessional finance can crowd in private capital, but if used to offer finance on more favourable terms than the market, it risks crowding out private investment. Where private capital is only available at high cost or for short tenors, concessional finance may be justified, but this necessarily displaces higher-cost private capital. The greatest need for blended finance is to make transactions bankable in frontier markets, but the greatest potential to mobilise capital at scale is in non-frontier markets closer to investment grade, where relatively small amounts of concessional finance can sufficiently de-risk investments to attract private capital.

Concessionality can take the form of lower interest rates on loans or lower return expectations on equity. It can also involve taking higher-risk positions in the capital structure, longer loan grace periods or extended tenors, back-weighted repayments, relaxation of collateral requirements, and facilities for local currency financing that accepts unhedged local currency risk without commercial levels of compensation. Blending can happen both at the transaction and multi-asset levels, as exemplified in the case study of FMO's Climate Investor Funds (see Box 13), or MIGA and GuarantCo's guarantees for multiple projects or entire loan portfolios.

DFIs have discussed how to deploy blended concessional finance in ways that crowd in, rather than crowd out, private capital. The Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) Blended Finance Principles and the DFI Working Group Principles for Blended Finance provide a firm foundation for its use. Where the objective is to mobilise private capital, key design considerations include:

- **Develop standardised and scalable blending structures**, avoiding one-off transactions that are resource-intensive to prepare and implement and difficult for donors and co-investors to appraise.⁴²

⁴² BII and Boston Consulting Group (2025): *Scaling Blended Finance. Practical tools for Blended Finance Fund design*

- **Align the choice of instrument with mobilisation objectives**, ensuring it addresses the specific constraints or barriers a transaction or market faces in attracting private capital, including the constraints of targeted investors, for example, guarantees for specific risks or subsidies linked to specific non-commercial costs.
- **Carefully calibrate concessionality to maximise mobilisation and stretch available concessional funds.** Too much concessionality can hamper rather than promote the development of commercial financing. To avoid this, DFIs should provide just enough support to mobilise private capital. DFIs can use RAROC⁴³ pricing models to compare concessional with commercial terms, while benchmarking the level of concessionality against comparable projects by other DFIs.

Sharing knowledge from DFI transactions with private investors can reduce perceived risk and encourage greater participation in future investments with less concessionality. This includes the level of concessionality needed to make a transaction 'bankable', the risk-return track record of past investments, and the terms and conditions of different instruments.

Box 13. Blended multi-asset funds managed by DFIs: FMO Climate Investors 1 and 2

FMO's Climate Investors 1 and 2 are blended finance facilities investing in climate mitigation and adaptation infrastructure. They are managed by Climate Fund Managers, a joint venture between FMO and Sanlam, a South African private investor. FMO designed the funds to overcome three market barriers: construction delays due to financing scarcity, high cost of capital, and limited exit and refinancing options for private investors. Both funds blend concessional with commercial capital from bilateral DFIs, MDBs, donors and private investors through an identical and innovative structure of three funds bundled into one facility, with each providing tailored funding at different stages of the infrastructure project life cycle.⁴⁴

- A development fund deploying grant capital and technical assistance
- A construction equity fund with different risk tiers held by donors, commercial capital and institutional investors
- A refinancing fund providing senior debt in de-risked infrastructure assets once projects are fully operational

⁴³ RAROC: risk-adjusted return on capital. This is a metric that "helps assess a financial operation's profitability while considering its associated risks". See <https://finalitics.net/raroc-model/>

⁴⁴ Sustainable Quality Consult (2023): *Mid-term Evaluation of Climate Investor One. Final report*; CGD (2023): *Taking Stock of MDB and DFI Innovations for Mobilizing Private Capital for Development*; Climate Fund Managers (2024): *Funds'*



8. Operational implications

Deployment of the instruments and structures described has implications for the strategy, governance and operational capacity of DFIs. Institutions set up to originate and hold assets may not yet have the capabilities needed to implement all of the mobilisation approaches outlined earlier. In some cases, they can partner with private asset managers to access missing capabilities; in other cases, they may be able to build capacity internally.

To pool assets at scale, DFIs must either have sufficient origination capacity of their own or be willing to pool their assets with those of other DFIs. Internal incentives and targets may also need adjustment so that investment teams source co-investment opportunities, as well as for the DFI's own account.

DFIs also need sufficient financial, impact and ESG supervision and reporting capacity to support a larger portfolio of transactions. A key implication of originate-to-share is that DFIs hold smaller stakes in a larger number of transactions, all of which must be monitored on behalf of both the DFI and its co-investors.

Although much of the structuring, marketing and management of pooled asset structures can be contracted out to private fund managers, the informational and reporting requirements that private investors expect may be beyond the capacity of smaller DFIs. As a result, large, pooled asset structures (such as IFC's MCPP) or complex synthetic securitisations (such as Room2Run and IDB's Scaling4Impact) are better suited to larger DFIs that can afford the overhead costs of running robust portfolio management and reporting systems. Simpler de-risking mechanisms (such as loan sales, risk participation agreements, credit-linked notes and B-bonds) are accessible alternatives for smaller DFIs with fewer resources to repackage and sell credit risk. They can also help build the capacity needed for more complicated structures in the future. Likewise, setting up origination platforms requires an ability to invest equity and take active ownership positions, which not all DFIs have the mandate or capacity to undertake.

Institutional structure and governance also matter for any mobilisation effort. Private investors may see a 'governance premium' when co-investing with DFIs that have robust systems in place for screening assets for integrity and ESG risks, managing these risks across portfolios, and maintaining strong government relationships that reduce political risk. For DFIs, reputational risk exposure is important, as publicly-owned institutions face a higher level of scrutiny. Mobilisation structures expose private investors to the same ESG and integrity risks DFIs face, which must be disclosed transparently. This can heighten scrutiny of DFI investments and their response to adverse events.



9. Conclusion

Many financial markets are characterised by innovation, as intermediaries develop new ways of matching the appetites of asset owners with the financing needs of investees. Some of the structures and models described above were pioneered by private asset managers and banks, and MDBs can learn from their experience; while other innovations originated within DFIs themselves. Together, they have developed a range of mechanisms to intermediate between large pools of capital – such as from pension funds and insurance companies – and investments in EMDEs.

Currently, most pension funds and insurance companies in developed markets have little exposure to EMDE assets. The innovations described in this paper can help them increase their exposure, thus contributing to greater private investment flows to EMDEs. They can also be used to support greater intermediation by domestic pension funds and insurance companies in EMDEs, which manage growing pools of assets and still have limited exposure to non-sovereign assets. More transparency from DFIs in sharing the financial structures and financial performance of their mobilisation activities will facilitate learning across institutions, asset owners and private asset managers. We hope this paper contributes to this learning process.



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