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Social Entrepreneurship, Empowerment and Cohesion Project (SEECO)

# Guidance Note for Blended Finance

February 2025

REPUBLIC OF TÜRKİYE MINISTRY OF INDUSTRY AND TECHNOLOGY

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**Authors**
Can Atacık
İrem Topçuoğlu Ural

**Supported by**
H. Hande Kara
Mustafa Yazar
Melis Kuzuoğlu


## About Social Entrepreneurship, Empowerment and Cohesion Project (SEECO)

The SEECO project is implemented by the General Directorate of Development Agencies of the Ministry of Industry and Technology, managed by the World Bank and financed by the European Union's Facility for Refugees in Türkiye (FRIT). For local level activities, cooperation is made with Development Agencies with high institutional implementation capacity.

The project covers 11 provinces under the jurisdiction of 5 Development Agencies. These agencies and provinces: Ipekyolu Development Agency (Gaziantep-Adıyaman-Kilis), East Mediterranean Development Agency (Hatay-Osmaniye-Kahramanmaraş), Karacadağ Development Agency (Şanlıurfa-Diyarbakır), Çukurova Development Agency (Adana-Mersin), Dicle Development Agency (Mardin).

## Purpose of the Report

This report has been prepared by SEECO to provide practical tools and information that development agencies, other public institutions, and philanthropic organizations in Türkiye may need to explore Blended Finance mechanisms in their programs.


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## Introduction

Blended finance is an innovative financing model that brings together public, private and philanthropic capital to fund projects that aim to achieve the Sustainable Development Goals (SDGs). According to the Financing Sustainable Development 2024 Report published by the United Nations (UN) Department of Economic and Social Affairs (DESA), an annual $7 trillion in financing is needed globally to achieve the SDGs.[1] This funding gap is too large to be covered by public funds alone, and new financing models are needed to involve the private sector in this process. The picture is similar in Türkiye.

Blended finance is a structuring model designed to attract investment in projects that the private sector would normally avoid due to an unfavorable risk/return ratio under market conditions. The biggest barrier to investment for the private sector is the high perceived or actual risk and low expected return compared to similar investments. Blended finance makes these investment opportunities more attractive to the private sector by using public or philanthropic capital as a risk-mitigating and confidence-building tool. It also enables the private sector's financial resources and technical expertise to be integrated into development projects.

Two key elements that enhance the impact of blended finance are "additionality" and the right choice of financial instruments and level of support. Additionality refers to the use of public and philanthropic funds to support investments that the private sector would not undertake on its own, ensuring that these investments are made. This definition is explained in more detail in Section 2 of the report. Financial additionality refers to public interventions that incentivize private sector investment, while development additionality ensures that these investments contribute to SDG-related outcomes such as employment, environmental protection, or social benefits.

This report shows how development agencies, public institutions and philanthropic organizations can use blended finance models. It provides a basic understanding of blended finance and shares practical examples of how different financing mechanisms can be used in investment processes, and how public and concessional capital providers can mobilize resources to leverage private sector investments for development.

[1] Sustainable Development Report 2024, SDSN SDG Transformation Center, University of Dublin Press

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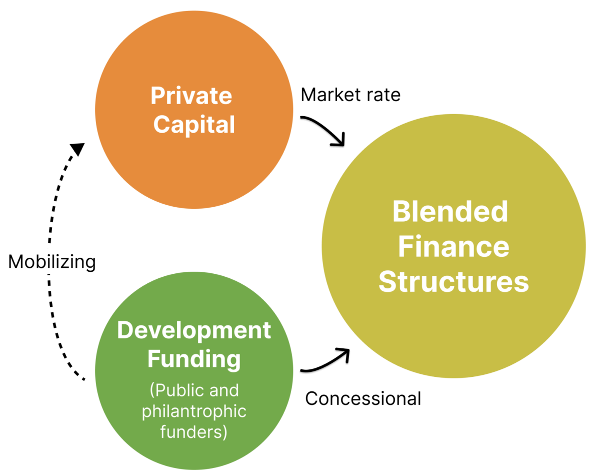
# 1. What is Blended Finance?

**Fig. 1 - Blended Finance Structure**




Blended finance is an innovative financing model that brings together public, private, and philanthropic capital to achieve the SDGs. Convergence, one of the world's leading institutions in the field of blended finance, defines it as "Blended finance is the use of catalytic capital from public or philanthropic sources to increase private sector investment in sustainable development".[2]

According to the 2024 Financing for Sustainable Development Report published by the United Nations (UN) Department of Economic and Social Affairs (DESA), the annual financing gap required to achieve the SDGs is estimated at around USD 4.2 trillion (more recent reports put the figure at USD 7 trillion).[3] This figure is significantly higher than the previously estimated USD 2.5 trillion. It is unlikely that public funds alone will be able to close this gap.

Blended finance aims to close this gap by attracting private sector investment in projects or opportunities that would be considered too risky under normal market conditions. For example, infrastructure projects in developing regions or social enterprises may fall outside the standard risk/return ratio sought by private investors, making them unsuitable for investment. By using public or philanthropic capital as a risk-mitigating and confidence-building tool, blended finance helps to align these investment opportunities with the market conditions required by private investors, making them more likely to be considered for investment.

At the same time, blended finance promotes cooperation between the public and private sectors by integrating not only financial resources but also the technical expertise of the private sector into development projects. This improves both the effectiveness and sustainability of projects, which ultimately has a positive impact on society and the economy in the long term.

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[2] Convergence, Blended Finance
[3] Sustainable Development Report 2024, SDSN SDG Transformation Center, University of Dublin Press

| Table 1 - Blended Finance Definitions | | |
|---|---|---|
| **Convergence**[4] | **OECD**[5] | **DFI Working Group on Blended Concessional Finance for Private Sector Projects**[6] |
| The use of catalytic capital from public or philanthropic sources to boost private sector investment in sustainable development. | Strategic involvement of development finance to attract additional funds for SDGs in developing countries.<br><br>The term 'additional funds' refers to commercial finance without explicit development intent, including both concessional and non-concessional public and private capital and even technical assistance. | Combining concessional finance with DFIs' (Development Finance Institutions) own account and/or commercial finance to promote private sector markets, SDGs, and private resource mobilization. |

Source: State of Blended Finance, Convergence, 2024

## Blended finance is an investment structuring approach

Blended finance is a structuring approach that enables institutions with different objectives to invest together; it is not an investment strategy or a financial instrument. As a structuring approach, blended finance creates a framework that enables different institutions to achieve their respective objectives, which may include financial returns, social impact, or a combination of both.

Private sector investors often face two main barriers when investing in development projects: (i) high perceived or actual risk, and (ii) lower returns relative to the level of risk compared to similar investments. Blended finance overcomes these barriers by combining commercial capital with catalytic capital (from public or philanthropic sources) within the financing structure.

Blended finance should not be confused with impact investing. Impact investing is an investment strategy in which the investor aims to generate direct social and environmental benefits alongside financial returns. Because of this investment strategy, impact investors are often involved in blended finance structures.

[4] Convergence, Blended Finance
[5] Leveraging private finance for development, OECD
[6] DFI Working Group on Blended Concessional Finance for Private Sector Projects, 2023

**Blended Finance and Impact Investing: Key Differences**

Blended finance is a model for structuring investments, while impact investing is an investment strategy.

Blended finance is a structuring model that brings together public, private and philanthropic resources to attract capital to projects that the private sector would typically avoid. The main objective is to incentivize private sector investments by reducing the risks or costs of capital. Public or philanthropic investors use catalytic capital to make projects more attractive to commercial investors. Impact investing, on the other hand, is an investment strategy in which investors seek not only financial returns but also measurable social or environmental impact. Impact investors focus on sectors such as healthcare, education, renewable energy financial inclusion with the aim of achieving tangible positive outcomes. In addition to private sector investors, development funds, social enterprise funds, and ethical investment funds also participate in impact investing. Blended finance can be used to scale impact investing by attracting more private sector investors to development-focused investments.

## 2. Key Concepts of Blended Finance

For blended finance to be implemented effectively, the contributions of different stakeholders must be integrated to create a favorable investment environment. This depends on several key components:

- **Catalytic or Concessional Capital:** Capital provided by public or philanthropic sources that takes a higher risk or accepts lower than market rates of return to encourage private sector investment.

- **Risk and Return Sharing:** A balanced distribution of risk between the public and private sectors to facilitate private investor participation in projects. Instruments such as guarantees or first loss[7] mechanisms serve this purpose.

- **Enhancing impact:** By taking a higher risk or foregoing return, catalytic capital aims not only to attract private sector participation, but also to deliver wider social and environmental benefits alongside financial gains.

[7] The term "first loss" refers to a situation where catalytic capital absorbs initial losses when a project does not perform as expected, thereby reducing or preventing losses for commercial investors. This topic is discussed in more detail in section 4.

- **Additionality:** The use of public and philanthropic resources to enable investments that the private sector would not undertake independently, ensuring that these investments materialize.

### What is Catalytic or Concessional Capital?

Catalytic or concessional capital refers to financing that is usually provided by public institutions or philanthropic organizations. Compared to commercial capital, it is more flexible, long-term and willing to take a higher risk or accept lower returns. By taking higher risks and/or foregoing returns, catalytic capital encourages commercial investors to participate in investments into impact and social enterprises. This approach facilitates access to the capital that social enterprises need to achieve their growth and impact goals.

When blended with private investments (blended finance), catalytic capital helps to create a risk-return profile that is more attractive to commercial investors. For example, public or philanthropic institutions can take first loss positions to reduce investment risk. Similarly, they can offer low-interest loans or guarantees to incentivize private sector participation.

This strategy not only attracts more capital into impact enterprises but also enables social enterprises to sustainably scale their mission-driven activities sustainably. Catalytic capital is intentionally used to mobilize private investment and is sometimes referred to as "catalytic funding" or "catalytic support capital".[8]

### A Closer Look at Additionality and Its Importance in Blended Finance

Additionality is a fundamental concept in blended finance and the use of concessional capital. The OECD defines additionality in two key dimensions: financial additionality and development additionality.[9]

- **Financial Additionality** means that an investment is made possible by additional financing that would not materialize under normal market conditions. Public funds should not be used for projects in which the private sector would invest anyway. Rather, financial additionality is achieved when public funds are used specifically to unlock new financing opportunities for the private sector.

[8] Catalytic Capital: Unlocking Private Investment for Impact, Catalytic Capital Consortium, 2020
[9] Blended Finance Evaluation: Governance And Methodological Challenges, OECD, 2019

- **Development Additionality** encompasses development outcomes and impacts that would not be achieved without additional financing or non-financial support through blended finance.

For example, creating new job opportunities in a region or sector in which employment growth would not occur naturally or the promotion of environmental protection measures fall under development additionality. This can be achieved through financial resources or non-financial mechanisms such as technical assistance, technology transfer or capacity building. According to the OECD, these financial and non-financial contributions ensure that development outcomes that would not be achieved without private sector involvement are successfully integrated into investment processes.

In blended finance, the presence of financial additionality or development additionality alone is not sufficient. Both forms of additionality must be present to justify the use of public or philanthropic funds. In the OECD's view, concessional catalytic capital (capital that takes a higher risk or accepts lower returns than market rates) should only be used for projects where both financial and development additionality are clearly demonstrated.

Table 2 illustrates cases where blended finance is appropriate and shows the recommended level of public sector involvement based on the presence of financial and development additionality.

| **Table 2 - Blended finance and financial and developmental additionality** | | **Development Additionality** | |
|---|---|---|---|
| | | **Yes** | **No** |
| **Financial Additionality** | **Yes** | Blended finance should be used | Public sector should not engage |
| | **No** | Private finance should be used/encouraged | Public sector should not engage |

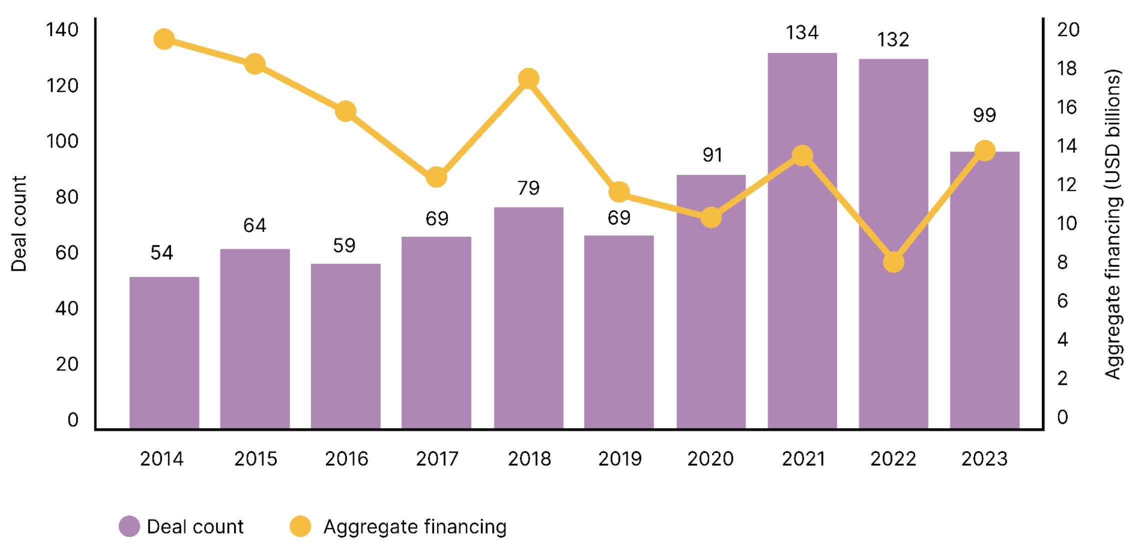
Source: [Blended Finance Evaluation: Governance and Methodological Challenges, OECD]

## 3. The State of Blended Finance in the World

According to data published in 2024, approximately $180 billion in blended finance transactions have been carried out worldwide since 2007. These transactions have primarily focused on supporting sustainable development projects in low and middle income countries.[10]

Over the last ten years, blended finance transactions have increased rapidly, with an annual average of **122 investments being financed per year between 2021 and 2023**. In 2023, 40% of these transactions will exceed USD 100 million.

**Table 3 - Overall Blended Finance Market (2014 - 2022)**




Source: State of Blended Finance, Convergence, 2024

Blended finance is primarily used in investments in sectors such as energy, infrastructure, agriculture, and financial services. Renewable energy projects have proven to be particularly attractive opportunities for investors, which has led to a significant increase in blended finance transactions in this area. Investments to adapting and mitigation for climate change have also seen rapid growth, with numerous new initiatives launched in 2023. For example, during COP28, the $30 billion ALTÉRRA Fund was established to provide catalytic capital for climate-related initiatives.

[10] State of Blended Finance, Convergence, 2024

Blended finance transactions are heavily concentrated in developing regions, including sub-Saharan Africa, South Asia and Latin America. While these regions offer significant potential for achieving development goals, they also present high investment risks. To mitigate these risks, private sector investments are often supported with public funds through risk-reducing mechanisms such as guarantees and first loss provisions.

The investor landscape in blended finance is highly diverse and includes multilateral development banks, international financial institutions, private equity funds and philanthropic organizations. According to Convergence, the average transaction size is 68 million dollars, though major infrastructure projects can reach billions.

Despite its growth, blended finance faces major challenges in scaling up, including a lack of transparency, regulatory barriers and insufficient market infrastructure.

Blended finance is expected to play an even greater role in the future in areas such as climate finance, digital transformation and social impact investments. If properly designed and implemented, blended finance models can effectively mobilize public and private resources and serve as a powerful financial lever to achieve global development goals.

### Expectations for Blended Finance Globally

According to a United Nations report from 2025, blended finance has not succeeded in mobilizing private sector investment to the extent expected. Although blended finance is seen as a promising instrument for achieving the SDGs, it has remained limited to around 15 billion US dollars. This amount is far below the 7 trillion dollars required annually to achieve the SDGs.[11]

Contrary to expectations, private sector participation in blended finance has remained limited. In 2023, only 38% of total capital in blended finance transactions came from the private sector, with the majority coming from public institutions such as development finance institutions. This suggests that public and development finance funds are primarily used to involve other sources of public funding rather than mobilize private sector investment. As a result, blended finance has not fully achieved its main objective of increasing private sector contributions. This challenge is particularly evident in sectors with high risk and long-term returns, such as climate adaptation, where private capital has not been sufficiently mobilized.

[11] UN DESA Policy Brief No. 170 (Special Issue): Reimagining financing for the SDGs - from filling gaps to shaping finance, 2025

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Significant challenges have also been observed in additionality and the impact on development. Many projects would probably have been implemented without catalytic capital, raising concerns about whether public funds really make a difference in attracting private sector participation. Ideally, the limited public funds in blended finance should only be used for investments where private sector participation would otherwise be unlikely or non-existent. There is also a lack of standardized and reliable measurement methods to assess whether development goals are being achieved.

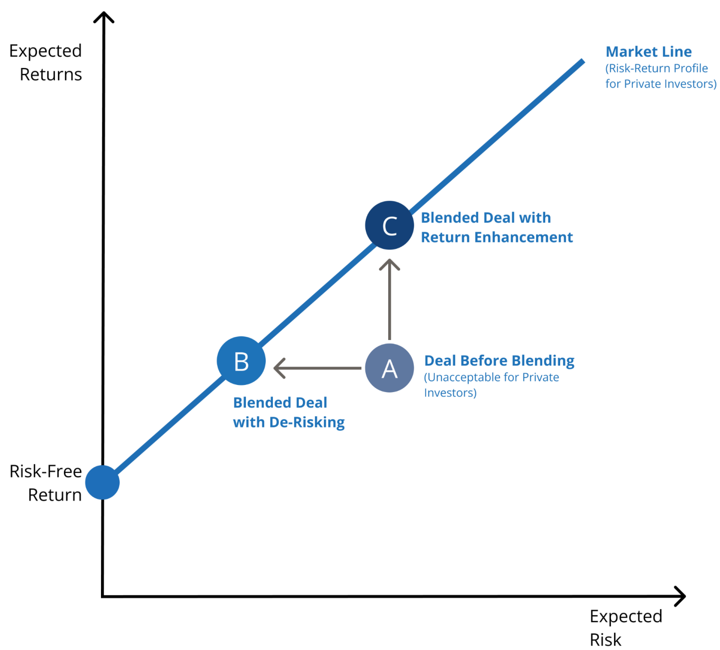
Economists argue that blended finance should not be seen as a magical solution for reducing risks for private investors. The expectation that public funds will fully absorb the risks of commercial investors is misguided. Instead, they argue that private sector investment should be aligned with social and development goals, which would make a more sustainable contribution to development projects. [12]

For this reason, when designing blended finance structures, the primary focus should not only be on reducing risks for private investors, but also on ensuring that these investments contribute to development goals.

[12] Blended finance is not working: It is time for a new approach for mobilizing private finance for the SDGs at FfD4, Mariana Mazzucato, 2025

## 4. The Impact of Blended Finance on the Risk-Return Equation

**Fig. 2 - Risk & Return Equation with Blended Finance**




The main reason why the private sector is reluctant to invest in a project is that the perceived or actual risk of the project is not aligned with its expected return.

In Figure 2, the blue line represents the market-acceptable risk-return curve accepted by the market. The higher the risk of a project, the higher its return is likely to be. In other words, investors demand higher returns to compensate for the higher risks.

Point A represents a project's pre-blended finance state. As this point is below the blue line, it represents an unacceptable risk/return balance for private sector investors. Despite the high risk, the expected return on the project does not provide sufficient compensation for this risk. As a result, commercial investors are reluctant to invest directly in such a project.

Blended finance addresses this issue in two ways:

1. **Risk Reduction (De-risking):** By reducing the project's risk, the risk-return balance can be shifted from point A to point B. For example, a development finance institution can provide catalytic capital to absorb risk. These institutions often take a first loss position, meaning that if the project underperforms, they cover the losses up to the amount of their investment, protecting the commercial investors. This approach increases investor confidence in the project. Additionally, other risk mitigation instruments, such as government guarantees or insurance mechanisms, can also be used.

2. **Return Enhancement:** Alternatively, the project's expected return can be increased by moving it from point A to point C.

In this approach, catalytic capital is deployed by philanthropic organizations that accept a capped rate of return. Returns that exceed this cap are passed on to private investors, making the project more attractive by increasing its potential profitability. Other instruments, such as low-interest loans or impact-linked finance, can also be used to enhance returns.

In some cases, both risk reduction and return enhancement strategies can be applied simultaneously. For example, in a relatively high-risk renewable energy project, a development finance institution can reduce risk through a first-loss mechanism, while a philanthropic organization can increase returns for private investors.

By using these two strategies, blended finance makes it possible to invest in projects that fall outside market expectations.

## 5. Types of Products and Support Mechanisms Used in Blended Finance

Blended finance is a structuring approach that enables different types of investors (public, private and philanthropic) to pool their resources towards a common goal. This model is not a single investment strategy, financial instrument or final solution. Rather, it provides a framework that organizes the contributions of the various actors. The Convergence platform identifies four common blended finance structures,[13] each using different methods to encourage private sector investments and make development projects more attractive.

**A) Catalytic Capital Supporting the Private Sector (Concessional Capital)**

In this structure, public or philanthropic investors provide funding at market conditions as part of the capital structure in order to reduce the risks for private sector investors. For example, low-interest loans or capital with lower expected returns help lower the overall financing costs of a project. This approach is particularly effective in high-risk projects to encourage private sector participation. It also provides additional protection and boosts investor confidence.

For example, in a renewable energy project, a concessional loan blended with a standard credit in a blended finance structure lowers the project's average borrowing costs. By reducing financing costs, returns for equity investors increase, making the project more attractive to private sector capital. Furthermore, the presence of a public institution or development bank providing concessional support increases confidence in the project.

[13] Convergence, Archetypes, last accessed on February 4th, 2025

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**B) Guarantees and Risk Insurance**

In this model, public or philanthropic investors offer credit guarantees or insurance for projects. These mechanisms enable risk sharing, making the projects more attractive to private investors. For example, a guarantee ensuring that part of the potential losses will be covered by public funds makes an investment significantly less risky for the private sector. As a result, more investors are encouraged to participate in such projects.

**C) Technical Assistance Funds**

Technical assistance funds are grants that can be used before or after the investment to improve the commercial viability of projects and enhance their development impact. For example, such funds can be used to strengthen the financial management capacity of a social enterprise or to assess the environmental impact of an energy project. This type of support helps projects to operate more efficiently while maximizing their social and environmental benefits.

D) **Design-Stage Grants**

Grants used in the design or preparation phase of blended finance projects play a crucial role. These funds cover the costs of planning and feasibility studies to establish a solid basis for implementation. For example, in an infrastructure project, such grants may finance detailed technical analyzes or support efforts to attract potential investors.

These four key structures of blended finance offer different instruments and mechanisms to increase investor participation and facilitate progress towards development goals.

**Table 4 - Example Structures**

| | |
|---|---|
| Private equity or debt funds with concessional public or philanthropic funding attracting institutional investment | STRUCTURE: Senior Debt or Equity / First-Loss Capital |
| Bond or note issuances with concessionally priced guarantees or insurance from public or philanthropic funders | STRUCTURE: Guarantee / Debt / Equity |
| Grant funding from public or philanthropic funders to build capacity of investments to achieve expected financial and social return | STRUCTURE: Debt / Equity; TA Facility |
| Grant funding from public or philanthropic funders to design or structure projects to attract institutional investment | Grant → STRUCTURE: Debt / Equity |

Source: [State of Blended Finance, Convergence, 2024]

## Catalyst Fund: Blended Finance Example

Catalyst Fund is an early-stage investment fund and acceleration program that invests in start-ups developing climate adaptation and resilience solutions in Africa. It provides pre-seed funding of USD 200,000 and continues to invest up to USD 1.3 million in successful ventures during their seed and Series A funding rounds. The total size of the fund is USD 40 million.

**Why was the Catalyst Fund set up?**
Innovative strategies and practices ,such as improved agricultural practices, efficient irrigation and improved logistics and fisheries management are critical to strengthening the climate resilience of African communities.

Between 2020 and 2030, there is a funding gap of 453 billion dollars for climate resilience initiatives.[14] The scale of this gap and the associated risks go beyond what can be addressed with commercial capital or public funding alone. To develop and scale solutions, it is essential to support startups, SMEs and large enterprises.

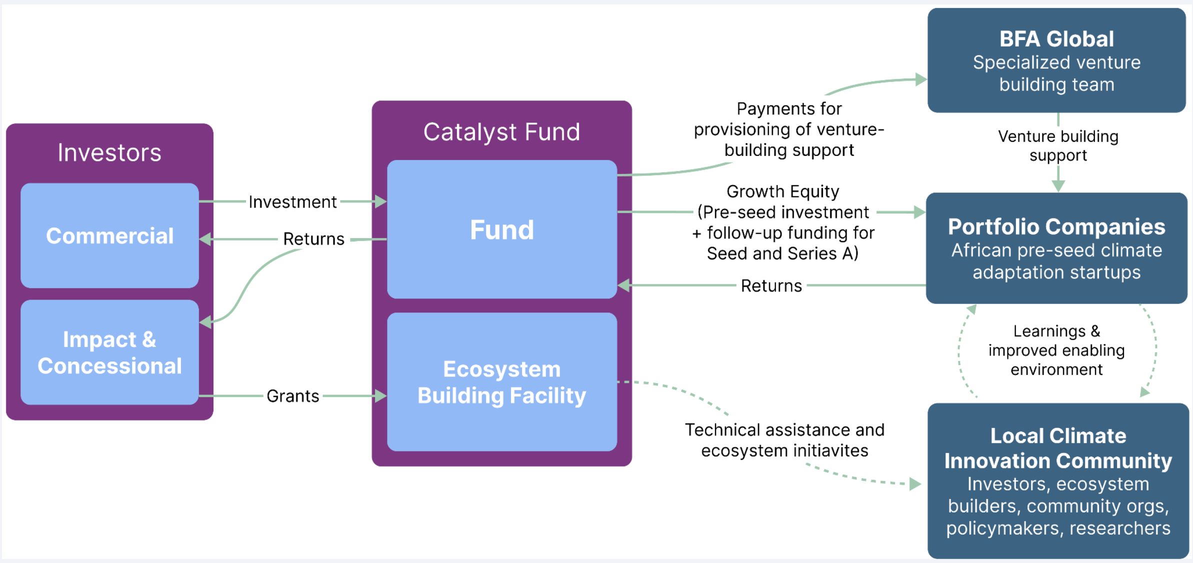
Early-stage investments in climate resilience start-ups carry high risks, especially in emerging ecosystems. These investments often present risk-return scenarios that commercial capital is not willing to accept. Catalyst Fund bridges this gap by blending catalytic capital with commercial investors, structuring a de-risked environment that enables private sector participation. [15]

**Which Startups Can Apply?**
The fund is open to early-stage start-ups that have a market-ready product and an initial customer base, regardless of their size. Eligible start-ups should focus on one of the following areas:

- Climate-friendly essential services (water management, cold storage, clean energy, waste management, healthcare)
- Fintech for climate resilience (insurance, carbon finance, climate data)
- Sustainable livelihoods (agriculture and food systems, fisheries management, land restoration)

[14] Climate adaptation finance in Africa, Brookings, 2023
[15] Catalyst Fund, The Global Innovation Lab for Climate Finance

**Fig. 3 - Structure of the Catalyst Fund**




Source: [Catalyst Fund, The Global Innovation Lab for Climate Finance]

**Blended Finance Structure**

Development institutions providing catalytic capital take the first-loss position within the fund. In terms of returns, commercial investors are prioritized for the repayment of their principal investment. Any remaining profits are then distributed equally among all investors.

Current supporters of the fund include FSD Africa, FSD Africa Investments, UK International Development, the Cisco Foundation and the Global Environment Facility, which provide catalytic capital to de-risk investments.

**Technical Support for Startups**

A key feature of Catalyst Fund is the technical assistance it provides alongside financial support. Access to expert advice in areas such as product development, strategy, marketing, fundraising and technical processes is as important to early stage start-ups as funding. Each portfolio company receives more than 400 hours of tailored technical support, ensuring that capital is used effectively, helping start-ups achieve sustainable growth and reducing investment risks.

**Impact and Reach**

Between 2015 and 2022, Catalyst Fund invested in 61 start-ups in 15 African countries. These startups have collectively raised USD 800 million in follow-on funding and reached 14 million individuals and micro, small and medium-sized enterprises (MSMEs) with their products and services.

## 6. Key Considerations for Implementing Blended Finance

The OECD Development Assistance Committee (DAC) has established five key principles for the effective implementation of blended finance.[16] These principles aim to ensure that blended finance is used strategically, efficiently and in a way that achieves long-term development impacts.

| Table 5 - OECD Blended Finance Principles |
| --- |
| 1. Anchor blended finance use to a development rationale |
| 2. Design blended finance to increase the mobilization of commercial finance |
| 3. Tailor blended finance to local context |
| 4. Focus on effective partnering for blended finance |
| 5. Monitor blended finance for transparency and results |

Source: The OECD DAC - Blended Finance Guidance, 2021

1. **Anchor blended finance use to a development rationale**
   Blended finance projects should be based on a clear development objective. Investments to be made more attractive with limited public and philanthropic resources must be built on the basis of delivering tangible benefits for development and public needs. Project objectives should be explicitly defined, aligned with local policies, and evaluated against measurable outcomes.

2. **Design blended finance to increase the mobilization of commercial finance**
   The main objective of blended finance is to attract capital from the private sector for projects that deliver development benefits. Public funds should only be used when they create new investment opportunities and enable projects that would not otherwise take place without catalytic capital. In addition, these funds should be used in a way that minimizes market distortions by providing as few grants or subsidies as possible.

[16] OECD DAC Blended Finance Guidance, 2021

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3. **Tailor blended finance to local context**
   Projects should be tailored to local needs, conditions and development strategies. They must be designed to address challenges at the grassroots level. This principle ensures the involvement of local stakeholders, the strengthening of financial markets through catalytic capital and the improvement of local technical capacities. Taking the local context into account makes projects more effective and sustainable, increases community acceptance, accelerates problem solving for the local population and directly benefits investors by supporting risk management and creating investment opportunities.

4. **Focus on effective partnering for blended finance**
   The success of blended finance depends on strong partnerships between public, private and philanthropic actors. This collaboration allows each stakeholder to fulfill its mission while leveraging the expertise and resources of the others. Project risks should be fairly distributed and mechanisms should be in place to support long-term sustainability.[17] In addition, knowledge sharing and collaborative learning processes enhance the effectiveness of such partnerships.

5. **Monitor blended finance for transparency and results**
   Ensuring transparency in blended finance operations strengthens the trust among stakeholders and promotes the efficient use of resources. Financial flows and development outcomes of projects should be clearly reported and assessed. Lessons learned from past projects should be shared and ethical business practices should be followed. Transparency not only ensures accountability for public funds, but also helps guide private sector investments more effectively.

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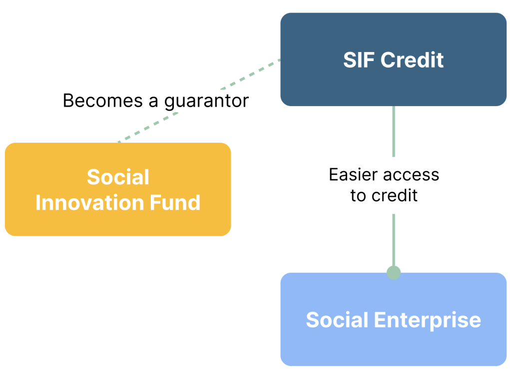
[17] In blended finance, the financial returns and risks should be distributed in proportion to each institution's financial contributions. Public and philanthropic resources may choose to accept lower returns or forgo returns if they fall below a certain threshold to encourage private sector participation. However, blended finance structures should not be used for projects where losses are guaranteed or where the focus is solely on private sector profits.

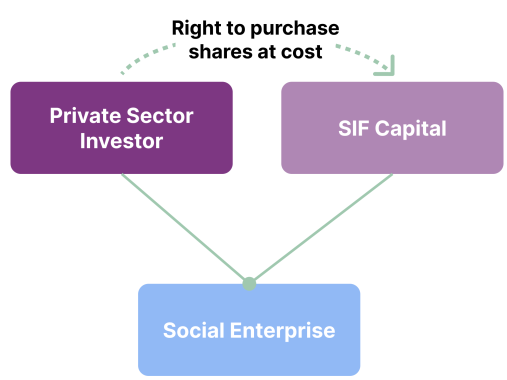
### Example: Portugal - Social Innovation Fund (SIF)[18]

In line with Portugal's social innovation strategy,[19] the Social Innovation Fund was created to support social innovation and entrepreneurial activities. The fund uses two different investment instruments: SIF Capital and SIF Credit. With a total size of EUR 100 million, 70% of the fund is allocated to SIF Credit, while 30% is designated for SIF Capital.[20] In addition to the Portuguese public funds, SIF Capital has received an additional contribution of EUR 10.6 million from the European Social Fund.

The main objective of the fund is to facilitate the establishment of companies that meet the criteria of social innovation and entrepreneurship and to give them access to venture capital and credit financing.

| | |
|---|---|
| In **SIF Credit**, the fund provides guarantees to facilitate startups' access to bank loans. | In **SIF Capital**, the fund acts as a co-investor alongside venture capital investors and partially forgoes its returns to encourage investment in social enterprises. |




SIF Credit shares the risk of default to encourage financial institutions to provide loans to social enterprises and impact-driven ventures. By offering partial guarantees, it enables banks to extend credit to these ventures which would otherwise have difficulty obtaining loans due to their risk profile.

[18] Banco Portugues de Fomento
[19] Portugal Inovacao Social
[20] Social Innovation Portugal: How Portugal has mobilised millions in EU funds for social investment, Responsible Investor, 2016

SIF Capital, on the other hand, matches private sector investments in impact ventures at a ratio of 2:1 on the same terms. Additionally, private investors are given the right to purchase SIF Capital's shares at cost (investment amount plus inflation) within the first five years. This mechanism incentivizes private investors by giving them the opportunity to significantly enhance their return if the investment performs well, thereby encouraging more investments in impact-driven enterprises.

## 7. Use of Blended Finance at Different Scales

Structuring blended finance mechanisms can be costly and time-consuming. Therefore, it is not always economically viable for every investment, especially for smaller projects. While blended finance can be applied to individual investments, it can also be structured at a larger "wholesale" level. According to the framework developed by Convergence, blended finance is typically observed at three main levels: **transaction level, fund level and market development level**. Each level employs different mechanisms that are used to mobilize capital and enhance development impact.

These levels are outlined below. Further details of example projects that have been implemented using blended finance at these levels can be found in Appendix 2.

**Transaction Level:** This level combines public and private sector capital for a specific project or investment. Public or philanthropic capital provides mechanisms to de-risk or enhance returns for private investors (e.g. first loss capital, guarantees or concessional loans). While transaction-level blended finance is typically used for large-scale energy or infrastructure projects, the following example shows that structuring can also be applied on a smaller scale.

**Example:**
In Tunisia, CrossBoundary (an investment advisory firm working in partnership with USAID in emerging markets) and Flat6Labs (a startup accelerator and investor) used USAID grants as a first-loss mechanism to make investing in early-stage startups more attractive. If the investment returns fell below expectations or incurred losses, USAID's first-loss position provided safety to other investors.

By positioning USAID grants as first-loss capital, CrossBoundary and Flat6Labs reduced the risks that commercial investors might face when investing in startups.

For the first time, this structure was applied in 2022 in the $7.8 million Series A investment round of the Tunisian edtech startup GoMyCode. Another example is the deep tech startup Kumulus, where CrossBoundary provided pre-investment technical assistance funded by USAID to help the startup become investment-ready.[21]

**Fund Level:** At this level, investment funds or platforms are set up to support multiple projects in order to concentrate private capital in specific sectors or regions. Public or philanthropic investors provide catalytic capital in the early stages of the funds to encourage private sector participation.

**Examples:**
**Japan's "Japan ASEAN Women Empowerment Fund" (JAWEF)** was designed to enhance women's financial inclusion and economic empowerment. The fund primarily provided debt financing to microfinance institutions operating in ASEAN countries, which in turn offered financial support to women entrepreneurs to promote their participation in the economy.

To qualify for debt financing from the fund, microfinance institutions had to have at least 60% female clients and/or provide financing for women entrepreneurs. The fund was structured as a blended finance instrument, the fund included both commercial and public capital, allowing private investment to be mobilized alongside public funds. As a result, the fund reached a total size of USD 241 million.[22] [23]

**SDG Loan Fund** The SDG Loan Fund is a blended finance debt fund designed to support the expansion of renewable energy expansion, financial inclusion and the improvement of agriculture in developing countries, aligned with the SDGs. The fund aims to close the financing gap needed to achieve the SDGs while incorporating commercial capital into its model.

The fund has a total size of USD 1.1 billion. 90% (USD 1 billion) comes from Allianz and other commercial investors, while 10% (USD 111 million) is provided by FMO (the Dutch Development Bank) as "first loss" capital. However, FMO's contribution is not concessional; it carries an expected return aligned with the risk profile of the investment. In addition to these amounts, the US-based MacArthur Foundation has provided a guarantee of USD 25 million as a catalytic capital contribution.

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[21] Creative capital helps entrepreneurs scale impact in a down market, Impact Alpha, 2023
[22] Unlocking Legal Pathways for Blended Finance, Global Alliance of Impact Lawyers, 2024
[23] Case Study - Japan ASEAN Women Empowerment Fund (JAWEF), Convergence, 2020

FMO's participation in the fund facilitates the identification of projects and companies that align with the fund's objectives and also provides non-financial blended finance support.[24] [25]

**Arts & Culture Impact Fund** The Arts & Culture Impact Fund offers flexible loans of between 150,000 and 1 million pounds to support organizations in the arts and culture sector to improve their resilience and social impact. The total volume of the fund is 23 million pounds.

Investors in the fund include commercial, public and philanthropic capital. Arts Council England and the National Lottery Heritage Fund contributed £5 million in grant funding. Big Society Capital invested 3 million pounds, while Bank of America, Esmée Fairbairn Foundation and Freelands Foundation collectively invested 15 million pounds.[26] This fund aims to encourage arts and culture organizations to become more entrepreneurial, financially resilient and socially impactful.[27]

### Market Development Level:

This level focuses on strengthening the blended finance ecosystem. Policy makers, development organizations and investors collaborate to create regulatory frameworks, promote data sharing and provide technical assistance. They also offer grants and support for the development of new projects.

**Examples**

- **Outcomes Accelerator:** A program funded by the UBS Optimus Foundation, the UK Foreign, Commonwealth & Development Office (FCDO) and the Swiss State Secretariat for Economic Affairs (SECO) and run by the Outcomes Finance Alliance. It provides grants, technical assistance and access to a network of experts for selected projects and helps to develop viable outcomes-based financing models and feasibility studies.
- **Convergence:** Runs funding programs with various sponsors (e.g. Global Affairs Canada, Monetary Authority of Singapore, UBS Optimus Foundation) to support the feasibility, structuring and scaling of blended finance models in priority areas defined by the funding institutions.

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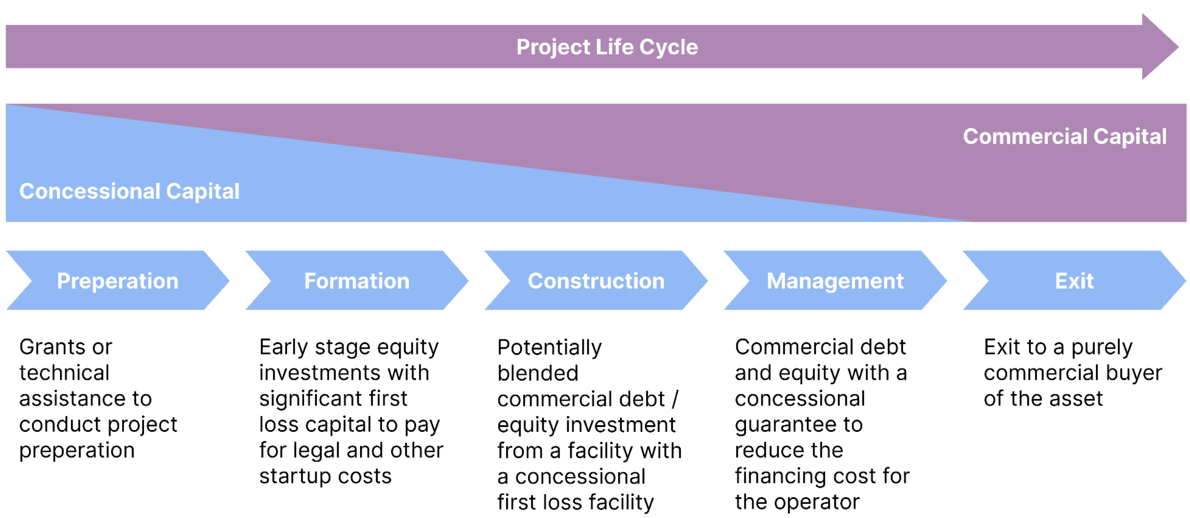
[24] SDG Loan Fund mobilizes USD 1.1 billion of investor capital, Allianz, 2023
[25] Unlocking Legal Pathways for Blended Finance, Global Alliance of Impact Lawyers, 2024
[26] Blended Finance, Better Society Capital
[27] Arts and Culture Fund, Nesta

- **SDG Impact Finance Initiative (SIFI):** Aims to expand public-private partnerships that drive measurable progress towards achieving the SDGs in developing countries. Its grant program funds the design and scaling of innovative impact investment models that involve private capital. The most recent grant call focused on financing solutions to address economic and social inequalities.

- **Catalytic Climate Finance Facility (CC Facility):** Supports blended finance structures that address climate adaptation and mitigation in emerging economies. The program provides grants, 12–18 months of tailored technical assistance, and access to the CC Facility's resources and network. The program is open to proposals for climate finance mechanisms that are ready for launch or scaling.

## Use of Blended Finance Based on Project Cycle Timing

**Table 6 - Blending at different levels in a project**




Source: Convergence

Blended finance, with its flexible structure, brings together different sources of funding to provide tailored support at various stages of a project. The blending across time approach supports an investment or project throughout its journey from early stage to commercial maturity through the use of different financing instruments. This approach ensures the most efficient use of public funds (only when needed) while enabling project development and a gradual increase in private sector participation.

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In the first phase of a project or investment cycle **the preparatory phase,** grants and technical assistance funds are typically used for feasibility studies, market research and capacity building activities. In this early phase, it is difficult to attract commercial investors as the project does not yet generate revenue and carries a high level of risk. Therefore, public funding plays a crucial role in testing the viability of the project and creating the basic infrastructure.

> **Example**: If a development agency funds the initial research for an initiative to help farmers access digital payment systems, this support will help attract private investors to the project later on.

As the project reaches the implementation phase, catalytic funding mechanisms are put in place based on the level of risk and expected returns. As mentioned above, public or philanthropic funds can reduce risk by providing low-interest loans, first-loss mechanisms and guarantees to attract private investors. At this stage, the goal is to get the investment off the ground, make it scalable and reach a commercially attractive position. Public funding may still be required, but the foundations for private sector involvement have been laid and the project may be able to scale without further public support.

> **Example**: A renewable energy initiative can launch a pilot project for decentralized energy storage in rural areas using low-interest loans from the government. Blended finance support reduces the risks in the early stages of such investments and allows commercial investors to participate in setting up or scaling the project. Without public support, private sector investors may consider the project too risky and refrain from investing.

In the final phase, as the project reaches commercial maturity, public and philanthropic funding is gradually withdrawn and private capital takes over for continued growth and operations. At this point, the project should have reached financial sustainability. Commercial loans, equity investments or, in the case of larger projects, bond issues can be used to advance the initiative forward. The key feature of this stage is that public support is no longer necessary, and the investment can continue on market terms.

> **Example**: A microfinance program that was initially supported by public guarantees may evolve over time into a sustainable model in which private banks invest directly. A system initiated with public funds transitions into a commercially viable financial service and is no longer dependent on public funding.

The blending across time approach is a crucial concept to ensure the appropriate use of blended finance at the right time and in the right amount.

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Careful structuring of public funding and the planned transition of projects to private investors over time are critical to achieving the ultimate goal of blended finance. One of the key considerations in blended finance is that public and philanthropic funding should only be used when absolutely necessary and that private sector funding should be fully underwritten over the long term.

### Success Criteria for Blended Finance: leverage ratio or impact?

The success of blended finance should not be measured by how much private capital it attracts, but also by how effectively these investments contribute to sustainable and inclusive growth. Focusing solely on financial leverage can overlook the development impact of investments. For example, investments with a high leverage ratio can only make a minimal contribution to fundamental development goals such as poverty reduction, economic growth or environmental sustainability. A high leverage ratio is not necessarily an indication of a more effective or impactful project.

Several key factors should be considered when measuring impact:

- **The balance between risk and impact:** Prioritizing low-risk investments may divert resources away from projects that have high impact potential but also carry greater risks. Therefore, the balance between risk and impact must be carefully assessed. The main purpose of blended finance is to intervene in the risk/return balance of high impact projects in order to attract funding.

- **Additionality:** Projects supported by blended finance should be proven to be unlikely to occur without public or philanthropic funding. The principle should be that these projects can only materialize because of the benefits of blended finance. It is essential to assess whether the investments actually enhance private sector participation.

- **Assessment of Cost to Public:** When calculating leverage, it is important to consider not only surface-level financial figures, but also the actual cost of public funds, including opportunity costs. For example, both grants and low-interest loans can generate similar impacts, but their costs to the public are different.

The true potential of blended finance models can only be realized by combining development economics theories with lessons learned from previous interventions. Establishing a sound impact management framework is crucial for monitoring and evaluating the impact of these investments throughout their life cycle.

Source: Matthieu Pegon, Head of Blended Finance at IDB, 2023

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## 8. Conclusion

Blended finance is an effective financing approach that brings together public, private and philanthropic capital to advance the SDGs. By mitigating project risks and optimizing investment returns, it aims to channel capital from the private sector into development projects. In developing countries, there are often significant financing gaps in sectors such as infrastructure, energy, agriculture and social services due to perceived high risks or low expected return. Blended finance offers innovative solutions to overcome these barriers by using financial instruments such as risk mitigation mechanisms, guarantees, first loss positions and return-enhancing structures to attract private sector investment.

For blended finance to be successful, investment decisions should focus not only on financial returns, but also on development impact and additionality. Additionality ensures that public funds flow into projects that the private sector would not undertake on its own without public or philanthropic support. Financial additionality unlocks new investment, while development additionality enhances the social, environmental and economic impact of projects.

In the future, blended finance is expected to become even more important. Its role will become increasingly important in areas such as climate change mitigation, digital transformation, health system strengthening and social impact investing. These areas present significant opportunities for mobilizing capital from the private sector for projects with high social and environmental impact.

In conclusion, blended finance is a powerful tool for achieving development goals. By combining public and private sector resources, it has the potential to achieve greater impact. In the Turkish context, blended finance presents new opportunities for regional development agencies, public institutions and philanthropic organizations. Development agencies and public institutions can develop strategies to strengthen public-private partnerships beyond infrastructure projects and attract private sector capital for local development initiatives. Realizing this potential depends on effective policymaking, strong partnerships and the use of innovative financial instruments. In this way, blended finance models can make significant contributions to development efforts at national and regional level.

## Annex - 1 / Lessons from large-scale Blended Finance transactions

Blended finance is an innovative structuring model that brings together public, private and philanthropic resources to achieve the SDGs. However, experience from large-scale transactions is essential for the effective implementation of this model. These findings summarize the results of an analysis of 39 large-scale blended finance transactions and highlight why these lessons are important.[28] The transactions analyzed were selected from over 1,100 transactions recorded in the Convergence database between 2010 and 2023, with a focus on large-scale projects with a volume of over USD 1 billion.

### Key Findings and Recommendations

**Focus on diversity and climate**

More than half of the projects examined were in the energy and infrastructure sectors. Climate-related objectives were a central theme in most of these projects. For example, some initiatives aimed to reduce carbon emissions and increase the production of renewable energy.

- **Why is this important?** Energy and infrastructure projects usually require significant funding. Prioritizing climate-related projects contributes to environmental sustainability and supports the transition to a low-carbon economy.
- **Who benefits from this?** This focus creates sustainable growth opportunities for both governments and international investors.

**Use of Concessional Capital**

Concessional financing - in the form of low-interest loans or with lower expected return, played a key role in the financing of large-scale projects. In the projects examined, such capital accounted for 15% of total financing. However, it was noted that catalytic capital could further enhance its ability to attract commercial investment.

- **Why is this important?** Catalytic capital helps to make risks more manageable for the private sector, thereby attracting more investors.
- **Who benefits from it?** It facilitates private sector participation in high-risk projects in developing countries.

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[28] Blending Billions: Lessons from more than three dozen big blended finance transactions, Impact Alpha, 2024

**Success and Impact Targets**

While 87% of the projects analyzed were successfully completed, only 69% achieved the intended impact targets. This discrepancy highlights shortcomings in measuring social and environmental impact alongside financial success.

- **Why is this important?** Failure to achieve impact targets means that projects are not contributing sufficiently to development goals.
- **Who benefits from this?** Public institutions and donors can achieve more effective results through improved impact measurement mechanisms.

**Regional Differences and the Importance of Sub-Saharan Africa**

24% of the projects analyzed were implemented in Sub-Saharan Africa, making this region an important target region for blended finance initiatives.

- **Why is this important?** Such projects promote economic growth in low-income areas while contributing to reducing social inequalities.
- **Who benefits from this?** Local communities gain better access to jobs and infrastructure services through these investments.

Ultimately, for blended finance to be an effective model, it is essential to balance financing and impact objectives, develop strong impact management frameworks and regional needs.

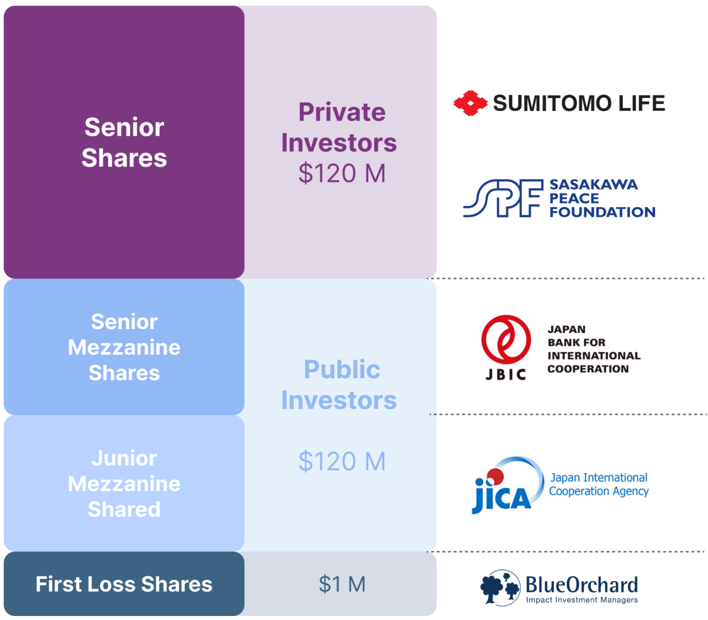
## Annex - 2 / Blended Finance - Fund-Level Investment Examples - Detailed Notes

### Japan ASEAN Women Empowerment Fund (JAWEF)

The aim of the fund was to support women's economic participation by improving their access to financial services. In line with this objective, the fund provided debt financing to microfinance institutions (MFIs) operating primarily in ASEAN member countries (Cambodia, Myanmar, Philippines, Vietnam, Laos, Malaysia, Indonesia) as well as in India, Pakistan and Sri Lanka. These institutions played a crucial role in supporting women entrepreneurs by offering tailored financial solutions.

When selecting MFIs, priority was given to institutions where at least 60% of clients were women and/or which had products specifically targeting women or showed motivation to develop such products.

**Table 7 - JAWEF Fund Structure**




Source: [Case Study - Japan ASEAN Women Empowerment Fund (JAWEF), Convergence, 2020]

In its first round in 2016, the fund raised USD 120.5 million. Following this success, the total volume of the fund was increased to USD 241 million through further investments in 2019. Existing investors remained in the second round and the Sasakawa Peace Foundation joined the fund. BlueOrchard took a first-loss position to cover potential losses from currency fluctuations and credit risks. The fund's investment period and repayment period were planned from September 2016 to March 2023.

By the end of 2019, the fund had reached 250,000 small businesses through the MFIs it invested in. Of these businesses, 78% were located in rural areas and 91% were owned by women.

Within the blended finance structure, the placement of concessional capital in a mezzanine position instead of a first- loss position showed that first- loss capital is not the only option to attract commercial investment.

The regional focus of the fund and the combination of commercial and concessional capital allowed investments to reach countries and regions that normally receive less funding. At the same time, the fund enabled the participation of commercial capital which might not have reached these markets under normal market conditions.[29]

[29] Case Study - Japan ASEAN Women Empowerment Fund (JAWEF), Convergence, 2020

## SGD Loan Fund

The SGD Loan Fund is a blended finance debt fund designed to advance solutions in the areas of renewable energy, financial systems and agriculture in line with the SDGs in developing countries. The fund has a total size of USD 1.1 billion. Its main objective is to help bridge the financing gap needed to achieve the SDGs in developing countries while creating a financing model that also attracts commercial capital.

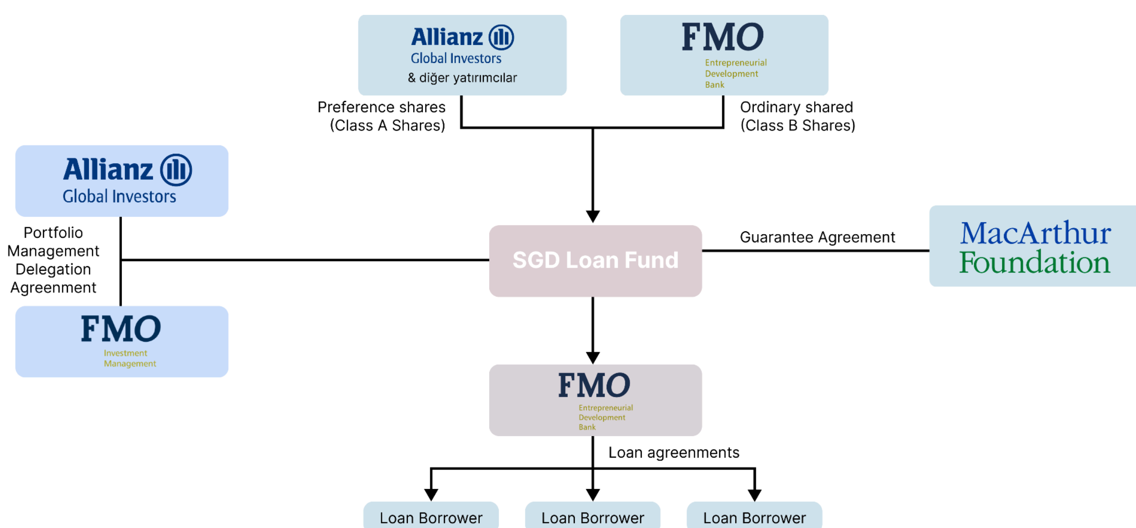
In the fund's commercial capital structure:

- Allianz and other investors contributed USD 1 billion, accounting for 90% of the fund.
- The Dutch Development Bank (FMO) invested the remaining 10% with a commitment of USD 111 million. This investment was positioned as a first loss,but it is not concessional capital—it carries a return expectation aligned with the risk profile.

In the catalytic capital structure of the fund: The U.S. based MacArthur Foundation provided a $25 million guarantee. This guarantee added an extra layer of protection to FMO's first loss position and further reduced the overall risk of the investment.

FMO Investment Managers' involvement in the fund facilitated the identification of suitable projects and companies that are in line with the fund's objectives. Although this example is a large-scale investment, similar blended finance structures can also be used on a smaller scale to support SDG-aligned solutions.

**Table 8 - Structure of the SGD Loan Fund**




Source: [Unlocking Legal Pathways for Blended Finance, Global Alliance of Impact Lawyers, 2024]

## Arts and Culture Fund

The Arts and Culture Fund offers flexible loans ranging from 150,000 to 1 million pounds to support organizations in the arts and culture sector to help them build resilience and achieve social impact. The total size of the fund is 23 million pounds.

Investors in the fund include a mix of commercial capital, public institutions, and philanthropic organizations. Arts Council England and the National Lottery Heritage Fund have contributed 5 million pounds in grant funding.[30] Big Society Capital has invested 3 million pounds, while Bank of America, the Esmée Fairbairn Foundation and the Freelands Foundation have collectively invested 15 million pounds.

The aim of the fund is to encourage arts and culture organizations to become more entrepreneurial, financially resilient and achieve greater social impact. Loans are structured with or without a guarantee, depending on the applicant's circumstances and objectives. In addition to financial support, the fund also provides guidance to help organizations better measure and manage their social impact.

Recognizing the essential role of the arts in daily life, the economy, cultural identity and community wellbeing, including their contribution to employment and income generation. The Arts and Culture Fund builds on the success of the previous Arts Impact Fund.[31] It aims to further strengthen the positive impact of the arts while improving the sustainability of the organizations that drive them forward.[32]

[30] Blended Finance, Better Society Capital
[31] Arts Impact Fund, Nesta
[32] Arts and Culture Fund, Nesta