

# Blended finance in infrastructure

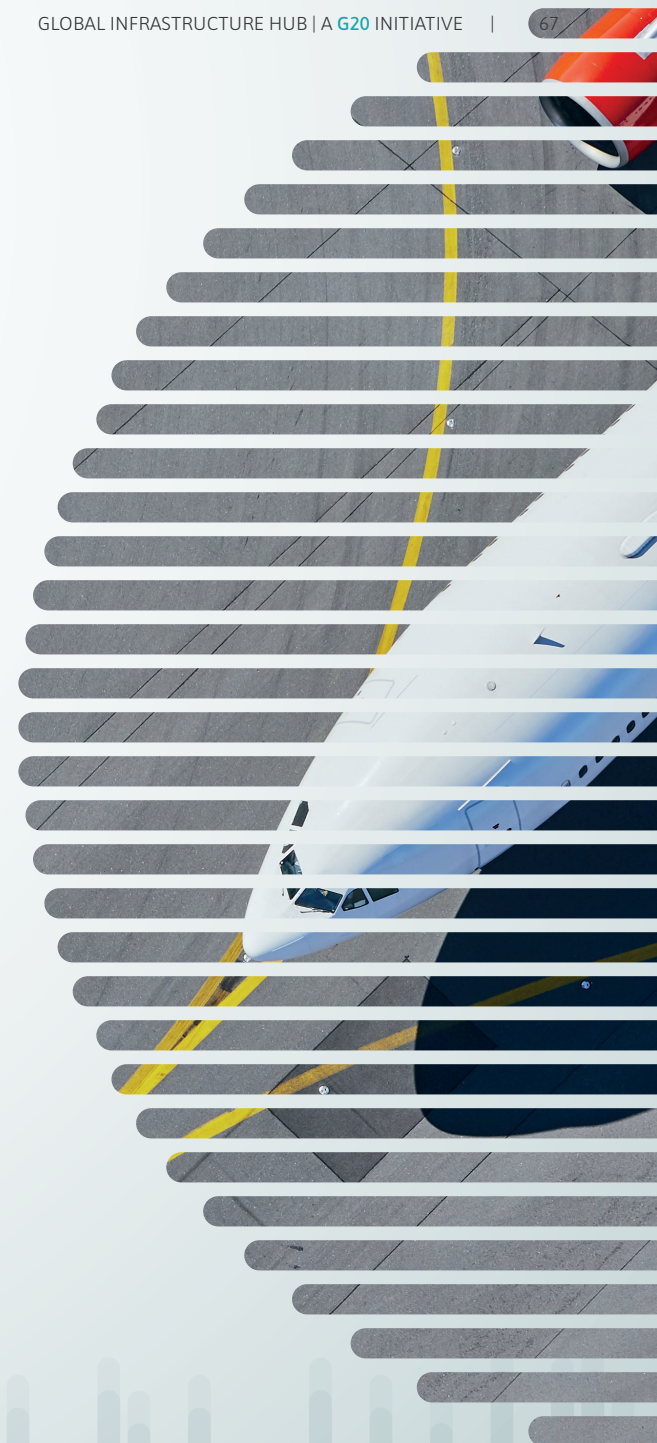
Note: This supplemental section was published in February 2024, following the publication of the original three sections of the *Infrastructure Monitor 2023* report. It has been developed in partnership with Convergence, drawing on data from Convergence's historical deals database.



## BLENDED FINANCE IN INFRASTRUCTURE

## Key findings

- On average, commercial capital represented 73% of the financing of blended finance infrastructure deals. Private and non-private sources contributed equally to commercial capital.
- Project finance was the preferred financing structure used in blended finance infrastructure deals.
- Blended finance deals were concentrated in the renewable energy sector, but most of the renewable energy deals were of lower value compared to the non-renewable energy deals.
- In total deal value, private capital had a majority share in the communications sector, followed by energy storage, transmission, and distribution. MDB capital had a larger share than private capital in the transport, renewable energy, and social sector.
- Sub-Saharan Africa attracted the largest share of blended finance infrastructure deals, followed by Latin America and the Asia-Pacific region.
- Infrastructure deals attracted \$0.4 of private capital for every dollar worth of blended finance approaches, as measured by the central value (median). About 10% of the deals demonstrated exceptional performance mobilising more than \$2.
- Across structures, bonds/notes and facilities had higher private capital mobilisation ratios.
- Across sectors, energy storage, transmission and distribution, communications, and renewable energy generation had higher private capital mobilisation ratios.
- Across regions, Latin America had the highest private capital mobilisation ratio.



## BLENDED FINANCE IN INFRASTRUCTURE

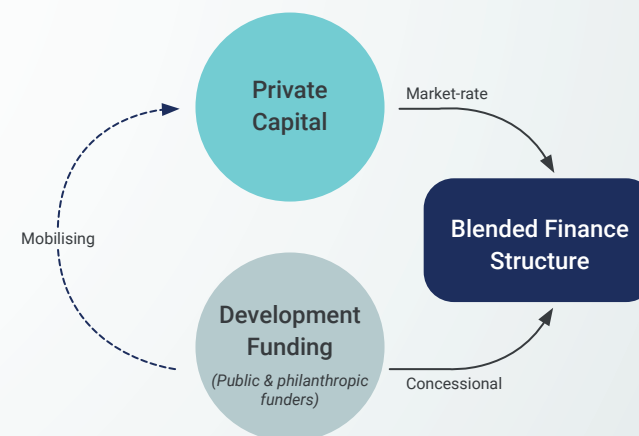
## Blended finance is the use of catalytic capital from public or philanthropic sources to increase private sector investment in sustainable development.

### What is blended finance?

Blended finance is a structuring approach that allows public, private, and philanthropic to work together to address the investment barriers while achieving their own objectives. The main barrier to private investment is unattractiveness of risk-adjusted return. Blended finance approaches either enhance returns by providing concessional capital or grants or reduce risks by providing grants and guarantees.

### Scope of analysis

The analysis of blended finance infrastructure deals presented in this section is based on details captured from 162 deals in [the Convergence historical deals database](#). Only deals launched from 2013 to 2022 were included in the sample. The sample was selected based on data availability on financing amounts by instrument and provider. Collectively, the sample includes deals with a total financial commitment of USD 34 billion. The database only covers emerging markets. See the methodology appendix for further details.



### Blended finance improves the risk-return profile of an investment



Source: Convergence.

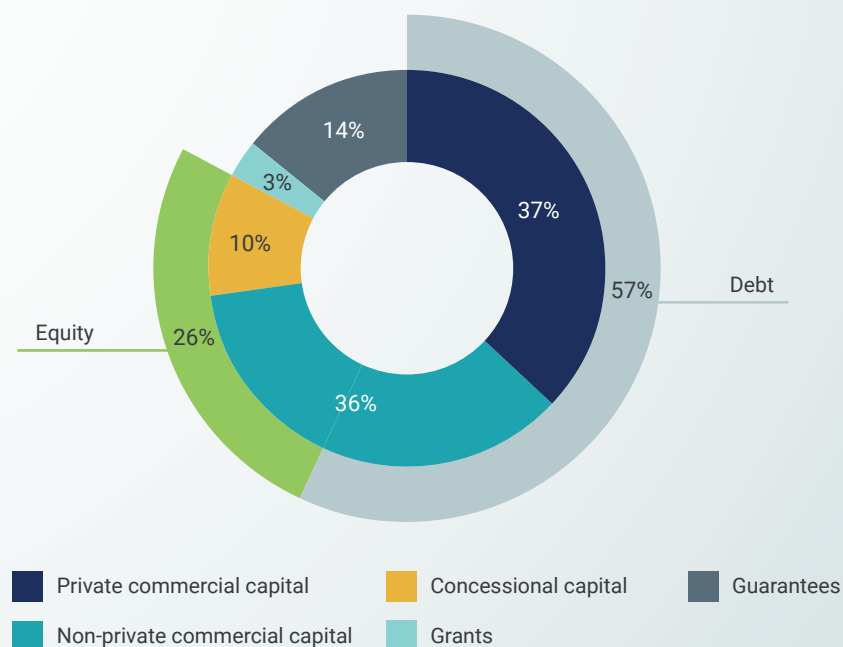


## BLENDED FINANCE IN INFRASTRUCTURE

## On average, commercial capital represented 73% of the financing of blended finance infrastructure deals. Private and non-private sources contributed equally to commercial capital.

- Within financial commitments for blended finance infrastructure deals, debt had the largest share (57%), followed by equity (26%), guarantees (14%), and grants (3%). The debt-to-equity ratio was 69:31.
- Investment capital in the form of commercial debt or equity was provided by private and non-private (public or philanthropic) investors in equal proportions – 37% by private investors and 36% by non-private investors. Non-private investors also provided concessional debt and equity but represented only 10% of the total financial commitments.
- In total, 86% of the financial commitments were for actual investments, including financing (debt or equity) and grants, and 14% were in the form of guarantee or insurance (14%). Guarantees were provided in 33% of the deals.
- Support through grants represented 3% of the total financial commitments.

**Blended finance infrastructure deals**  
Shares in total financial commitments by finance type



Source: Global Infrastructure Hub analysis based on Convergence database.

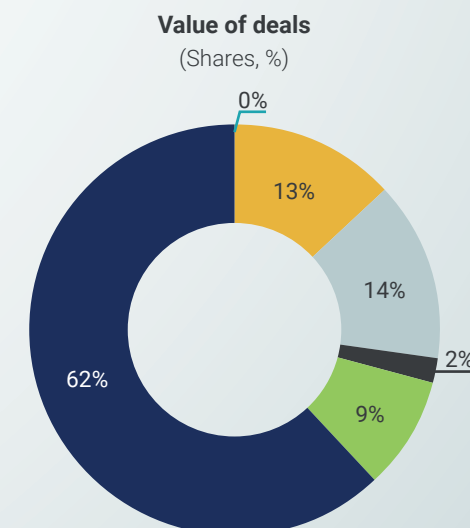
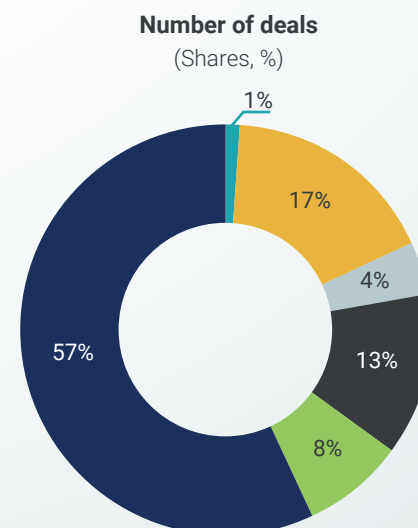
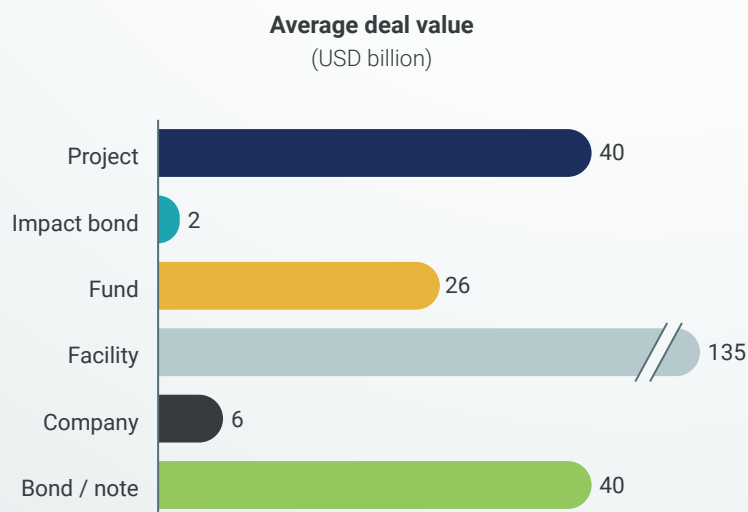
## BLENDED FINANCE IN INFRASTRUCTURE

## Project finance was the preferred financing structure used in blended finance infrastructure deals.

Project finance was used in the majority of blended finance infrastructure deals because it is the most optimal structure to develop and manage an infrastructure asset. By treating one asset development and management as one project, the large size of financing and competing priorities can be clearly managed. It allows optimal structuring of financing, risk allocation, and responsibilities between key participants in an infrastructure project including private contractor, government sponsor, and financiers.

Deals structured as facilities had the largest deal size among all blended finance infrastructure deals: the size was USD 135 billion on average, but the facility structure was used in only 4% of the deals. Fund was the second most popular structure used by 17% of the deals and had an average size of USD 26 billion. Bond / note was also a popular structure used in 8% of the deals with an average size of USD 40 billion.

### Blended finance infrastructure deals by structure



Source: Global Infrastructure Hub analysis based on Convergence database.

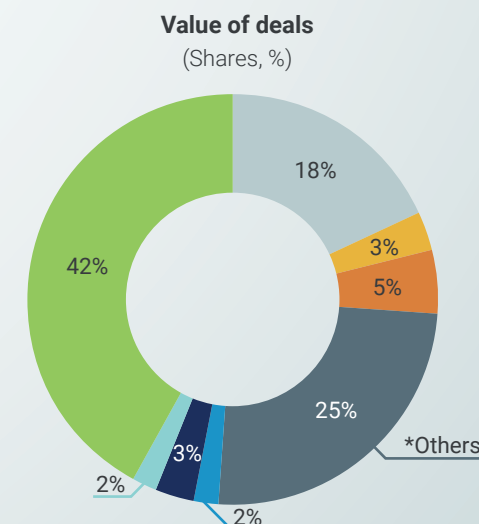
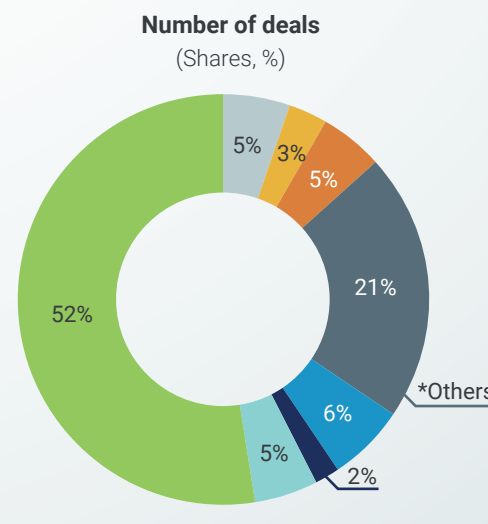
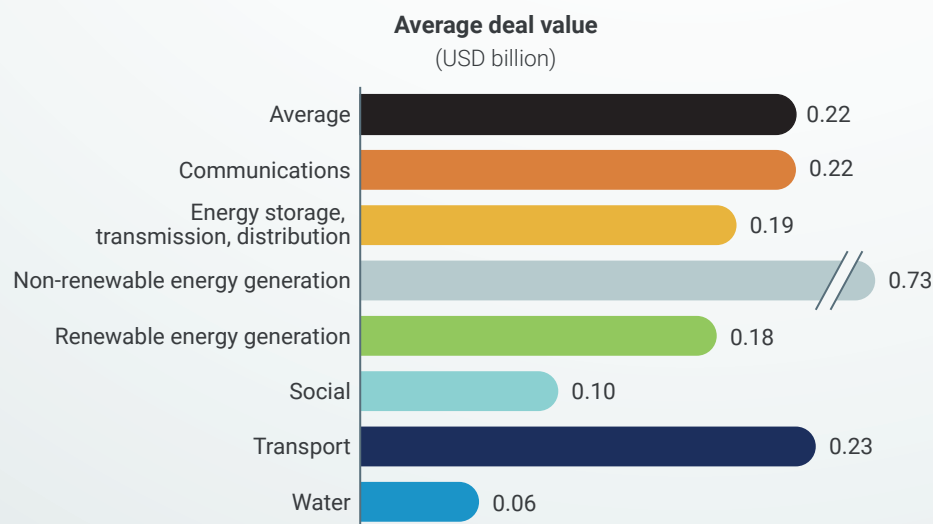
## BLENDED FINANCE IN INFRASTRUCTURE

## Blended finance deals were concentrated in the renewable energy sector, but most of the renewable energy deals were of lower value compared to the non-renewable energy deals.

About half of the blended finance infrastructure deals were in renewable energy generation sector, but the average size of deals in the sector was lower at USD 0.18 billion, so the sector's share in total value of deals was 42% - still the highest of all infrastructure sectors. In contrast, the non-renewable energy generation sector had a significantly higher average deal size at USD 0.73 billion, so its share in total value of deals was 18% while its share in total number of deals was 5%.

Blended finance infrastructure deals in the social and water sectors had lower deal values than other infrastructure sectors, which translated into lower shares in the total deal value. Social and water sectors had an 11% share in total number of deals, but only 4% share in the total value of deals.

Blended finance infrastructure deals by sector



Source: Global Infrastructure Hub analysis based on Convergence database.

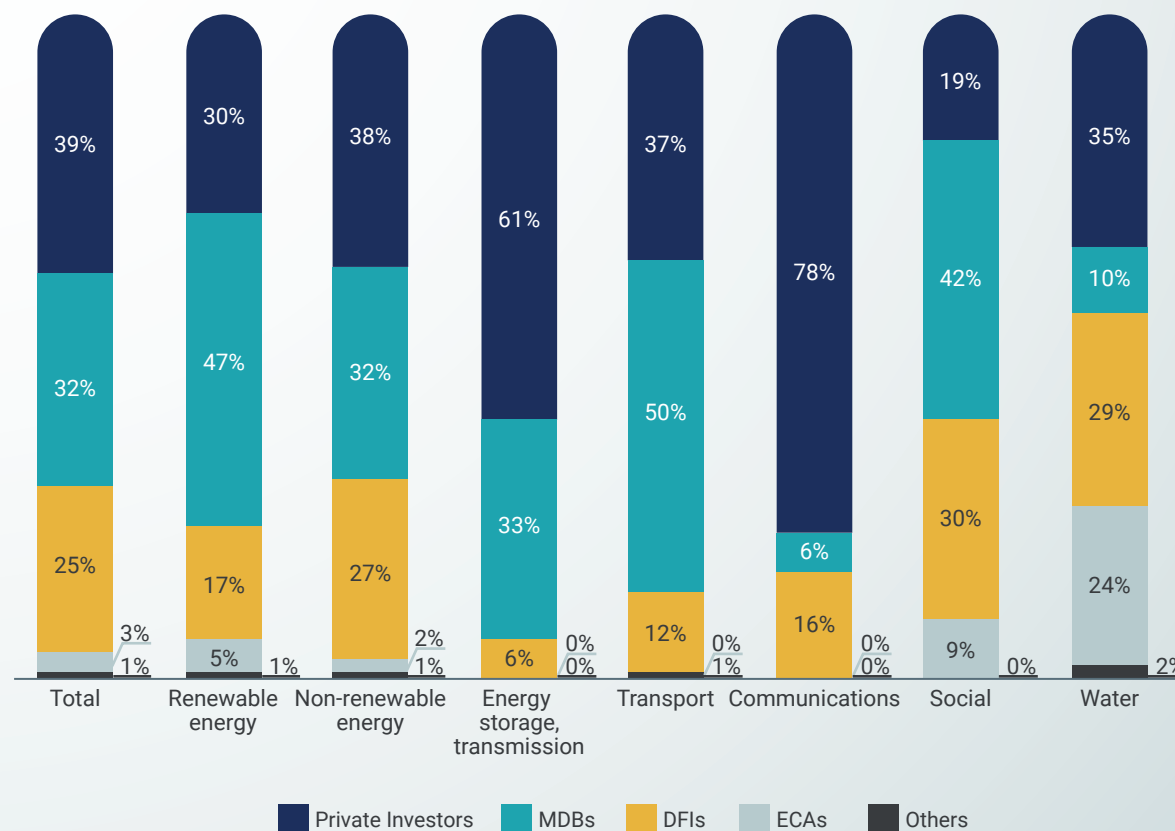
Note: Others include deals focusing on multiple sectors e.g. environment, broader energy sector or for which the sector is not specified.

## BLENDED FINANCE IN INFRASTRUCTURE

**In total deal value, private capital had a majority share in communications, followed by energy storage, transmission, and distribution. MDB capital had a larger share than private capital in transport, renewable energy, and the social sector.**

- Private capital was the most invested form of capital in blended finance infrastructure deals, followed by Multilateral Development Bank (MDB) and Development Finance Institutions (DFI) capital. The communications sector saw the largest amount of private capital (78% of total investment was private capital) followed by energy storage, transmission, and the distribution sector (61% of total investment was private capital).
- MDB capital accounts for half of the financial commitments in a blended finance infrastructure deal for the transport sector. DFI and Export Credit Agencies (ECAs) capital is more widely used in deals in the social and water sector.
- For deals in the renewable energy sector, MDBs had the largest share in total financial commitments, while private capital mobilisation ratio was still attractive. This is because the private sector is investing in more deals of smaller value and MDBs are leading the deals of larger value.

Blended finance infrastructure deals by sector and investor



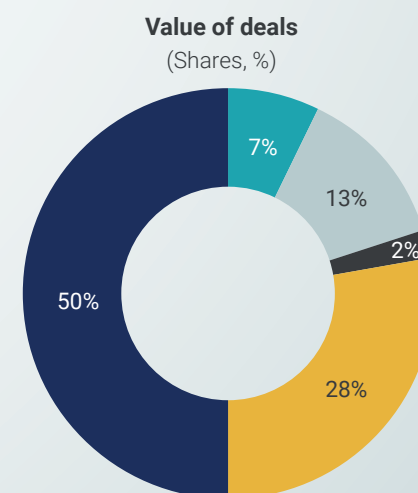
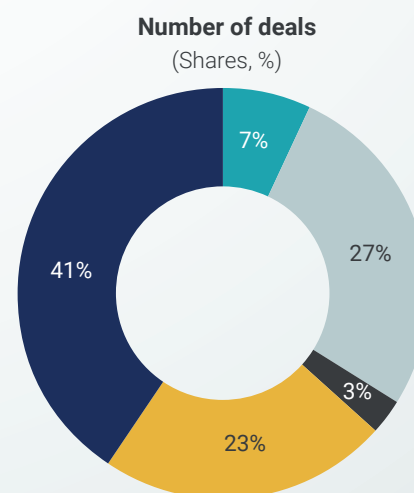
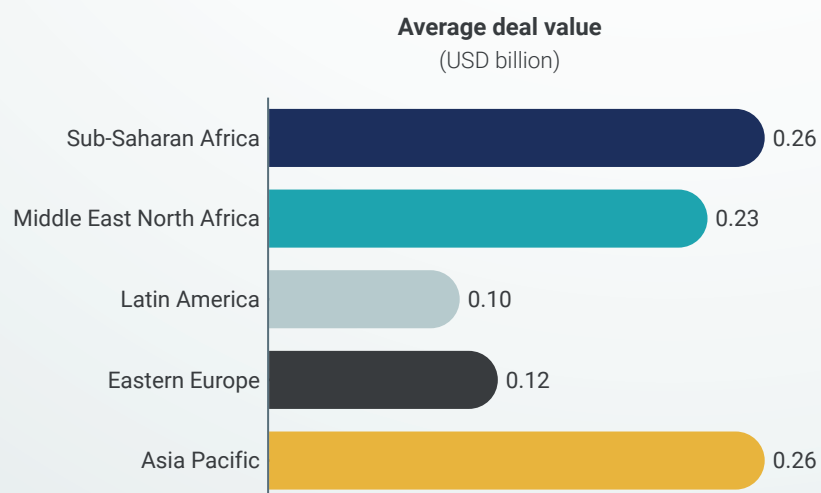
Source: Global Infrastructure Hub analysis based on Convergence database.

## BLENDED FINANCE IN INFRASTRUCTURE

## Sub-Saharan Africa attracted the largest share of blended finance infrastructure deals, followed by Latin America and the Asia-Pacific region.

- Sub-Saharan Africa attracted 41% of the global blended finance infrastructure deals with an average value of USD 0.26 billion, increasing the region's share in total value of deals to 50%.
- Latin America attracted the second largest share of deals at 27% but the average deal value was low at USD 0.10 billion, reducing its share in total value of deals to just 13%.
- The Asia-Pacific region had the third largest share in the number of deals (23%) but the second largest share in the value of deals (28%) because of higher average deal value at USD 0.26 billion.

### Blended finance infrastructure deals by region



Source: Global Infrastructure Hub analysis based on Convergence database.



## BLENDED FINANCE IN INFRASTRUCTURE

## Infrastructure deals attracted \$0.4 of private capital for every dollar worth of blended finance approaches, as measured by the central value (median). About 10% of the deals demonstrated exceptional performance mobilising more than \$2.

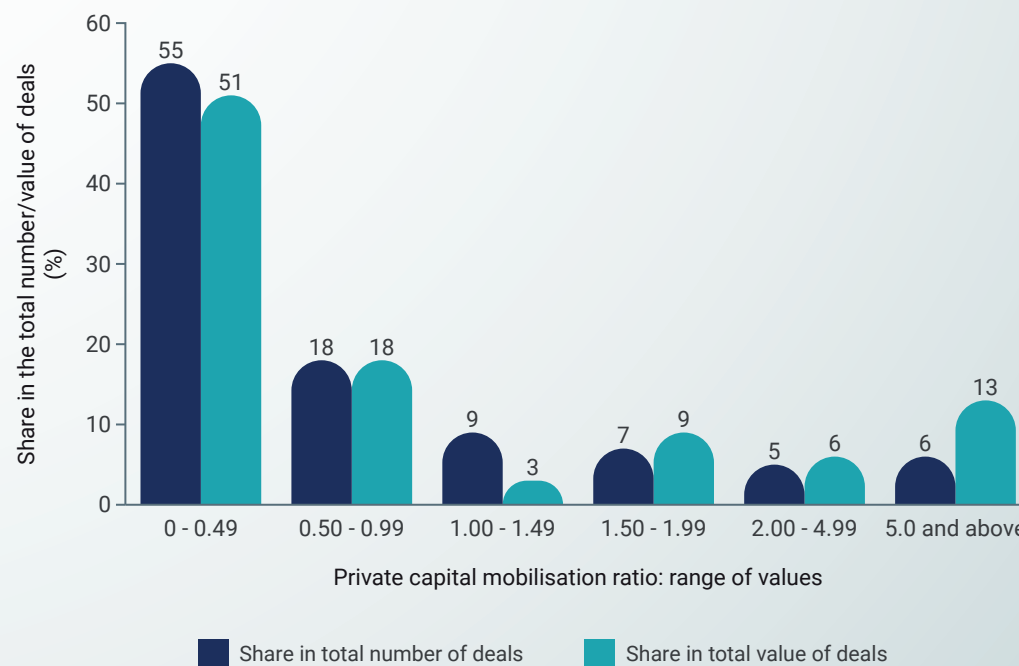
The majority of infrastructure deals attracted less than half a dollar of private capital for every dollar worth of blended finance approaches, including public or philanthropic debt or equity, grants and guarantees. For blended finance infrastructure deals, the median private capital mobilisation ratio was 0.4, while the average was 2.3 due to the exceptional success of some deals in mobilising private capital.

The notable features of successful deals include:

- Clear revenue stream broken down into affordable amounts payable by several users, by enabling recognition of future revenue streams or assets as collateral.
- Critical nature of the asset implying implicit government guarantee.
- Early-stage technical assistance, design grants or first loss equity to develop proof-of-concept, launch greenfield projects and infuse investor confidence.
- Involvement of a trusted entity, like the World Bank, through an explicit guarantee or a first-loss investment, that boosts investor confidence, participation, and investment value.

**Private capital mobilisation ratio** for a blended finance infrastructure deal indicates how much private capital was mobilised by using blended finance approaches. It is estimated by dividing capital (debt or equity) invested by private investors (commercial and impact investors) by non-private debt or equity plus grants and guarantees in a deal.

**Blended finance infrastructure deals by private capital mobilisation ratio**



Source: Global Infrastructure Hub analysis based on Convergence database

## BLENDED FINANCE IN INFRASTRUCTURE

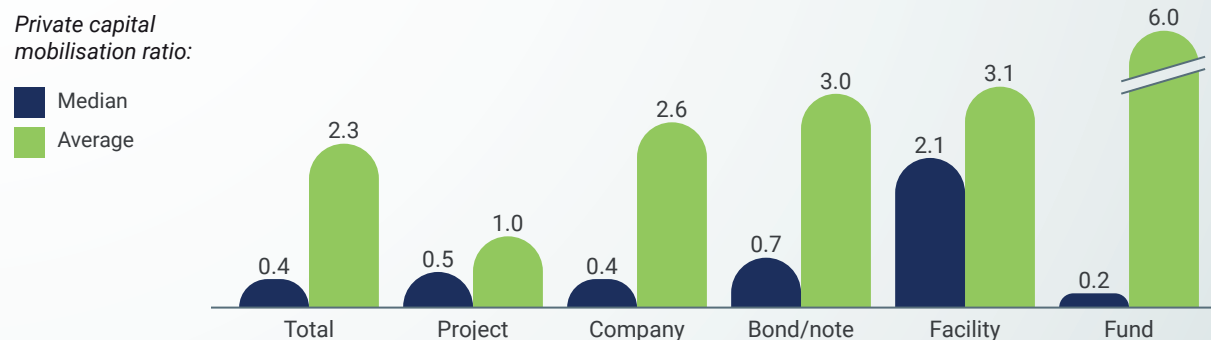
## Across structures, bonds/notes and facilities had higher private capital mobilisation ratios.

- The deals structured in the form of bonds/notes and facilities had higher median private capital mobilisation ratios at 0.7 and 2.1, respectively. For these structures, guarantees constituted the highest share in total blended finance support at 50% and 41%, respectively.
- Project finance structures were used in majority of the blended finance infrastructure deals, but their private capital mobilisation ratios were not necessarily more superior than other structures. In fact, project finance structures rarely feature among deals with exceptional private capital mobilisation ratios. Regulatory frameworks for these structures are less conducive for attracting private investment. Guarantees particularly have an unfavourable treatment in regulatory frameworks for commercial banks and MDBs. Therefore, in project finance structures, 80% of the blended finance support was in the form of non-private commercial capital or concessional debt or equity. Only 12% of the support was through guarantees.
- A few funds had extraordinary success in mobilising private capital in the presence of blended finance approaches, but the median private capital mobilisation ratio at 0.2 was quite low. 90% of blended finance was in the form of non-private commercial capital or concessional debt or equity.

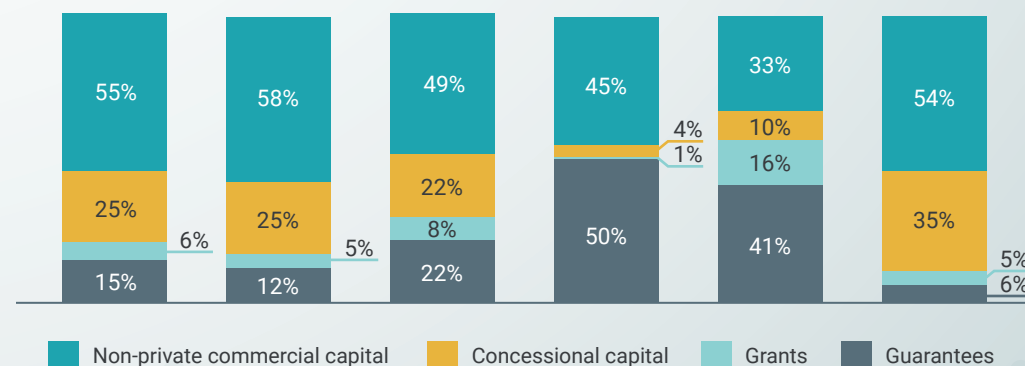
### Blended finance infrastructure deals by structure

#### Private capital mobilised for every dollar of blended finance mix

Where the mix includes non-private commercial capital, concessional capital, grants and guarantee



#### Blended finance mix in each dollar



Source: Global Infrastructure Hub analysis based on Convergence database.

Note: Average is the sum of all values divided by the total number of values. Median is the middle value from which half of the values are larger and half are smaller.

## BLENDED FINANCE IN INFRASTRUCTURE

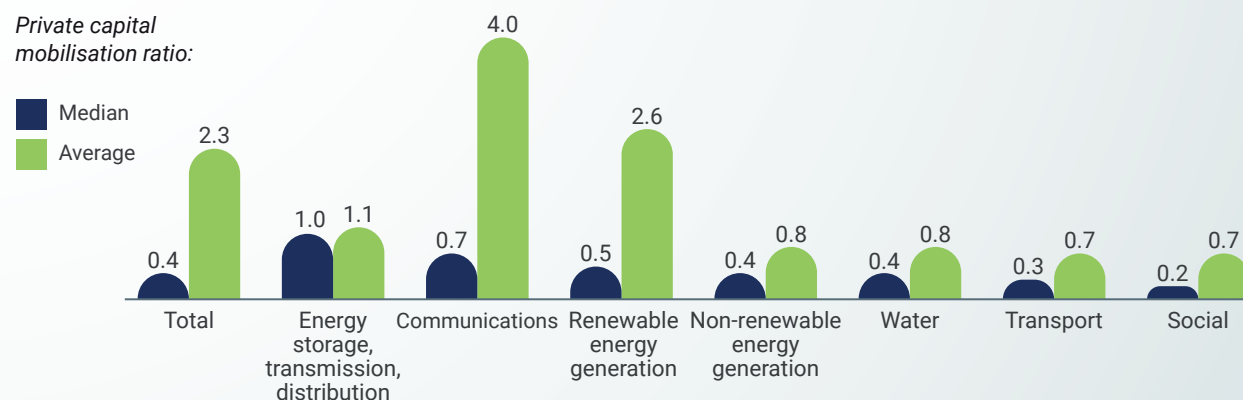
## Across sectors, energy storage, transmission and distribution, communications, and renewable energy generation had higher private capital mobilisation ratios.

- The median private capital mobilisation ratios for energy storage, transmission and distribution, communications, and renewable energy generation sectors at 1.0, 0.7, and 0.5 respectively, were higher than the median ratio of 0.4 across all sectors. These sectors also had majority of blended finance support in the form of non-private commercial debt or equity predominantly from MDBs, DFIs, and ECAs.
- Nearly half of the blended finance support for water infrastructure projects was in the form of concessional debt or equity. The water sector relied more heavily on grants than other sectors, followed by transport.
- Guarantees constituted over one-third of blended finance support in transport, non-renewable energy generation, energy storage, transmission and distribution sectors.

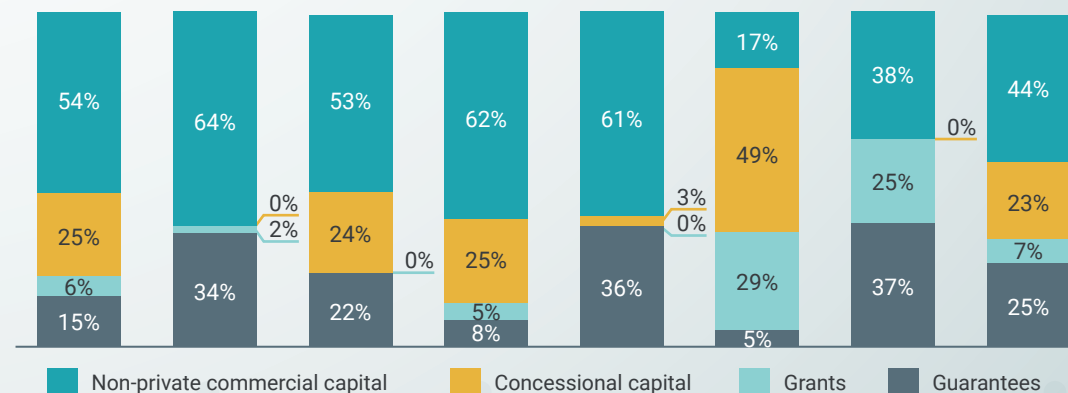
### Blended finance infrastructure deals by sector

#### Private capital mobilised for every dollar of blended finance mix

Where the mix includes non-private commercial capital, concessional capital, grants and guarantee



#### Blended finance mix in each dollar



Source: Global Infrastructure Hub analysis based on Convergence database.

Note: Average is the sum of all values divided by the total number of values. Median is the middle value from which half of the values are larger and half are smaller.

## BLENDED FINANCE IN INFRASTRUCTURE

## Across regions, Latin America had the highest private capital mobilisation ratio.

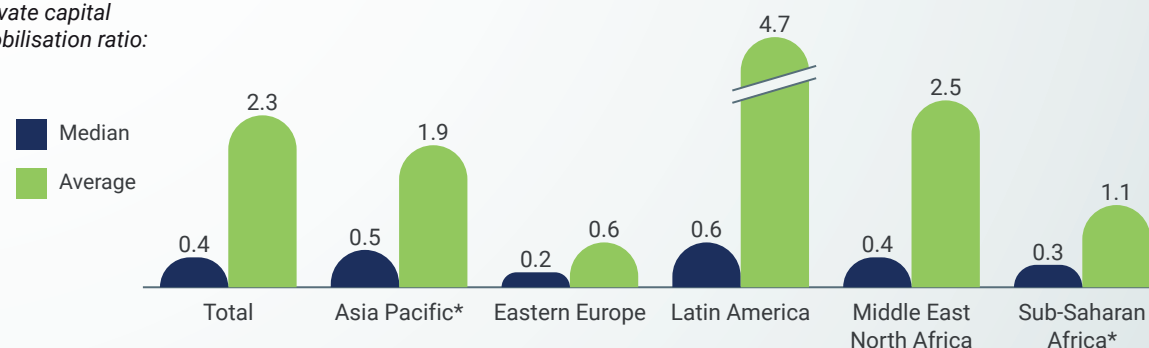
- The median private capital mobilisation ratios for Latin America and Asia Pacific at 0.6 and 0.5 respectively, were higher than the global median ratio of 0.4.
- In the Middle East and North Africa region, 74% of the blended finance support was in the form of non-private commercial debt or equity. While the median private capital mobilisation ratio in the region was close to the global median ratio, the ratios were outstanding for some deals, including the ones with project finance structure.
- Non-private commercial debt or equity had the highest share in Eastern Europe at 85% of the total blended finance support. Eastern Europe also had the lowest private capital mobilisation ratios.
- Guarantees constituted 21% and 17% of blended finance support in Sub-Saharan Africa and Asia Pacific, higher than the global average of 15%.

### Blended finance infrastructure deals by region

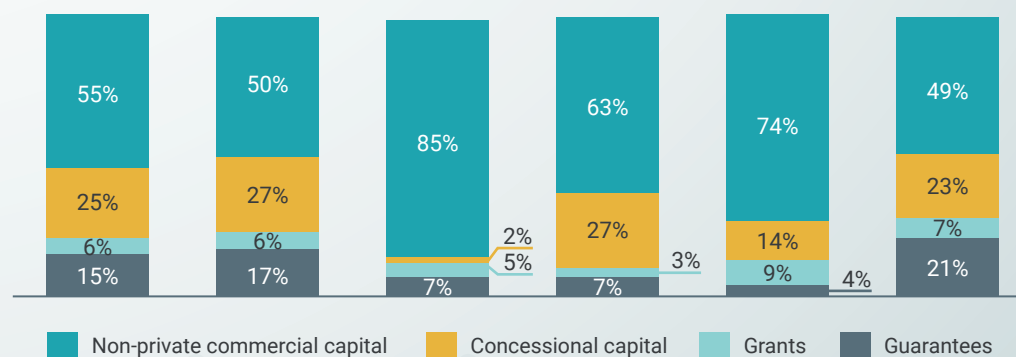
#### Private capital mobilised for every dollar of blended finance mix

Where the mix includes non-private commercial capital, concessional capital, grants and guarantee

Private capital mobilisation ratio:



Blended finance mix in each dollar



Source: Global Infrastructure Hub analysis based on Convergence database.

Note: Average is the sum of all values divided by the total number of values. Median is the middle value from which half of the values are larger and half are smaller.