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A landscape photograph showing rolling hills under a dramatic sky with a rainbow. In the distance, several wind turbines are visible on the horizon. The foreground shows a dirt road winding through the hills.

From Promise to Performance: Reforming Blended Finance for Scale

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Executive Summary

While blended finance continues to gain momentum, its potential to help close the Sustainable Development Goals (SDGs) financing gap in Emerging Markets and Developing Economies (EMDEs) is hindered by entrenched structural constraints. Without fundamental reform, blended finance will remain a niche tool, promising, but for now, not yet well positioned to be integrated with mainstream capital markets and conventional finance. This report draws on 65 expert interviews, a comprehensive literature review, and an attempt at simulated portfolio-level structuring. It diagnoses the systemic barriers holding back scale, proposes a path forward, and assigns clear roles and responsibilities to key actors across the ecosystem to drive meaningful reform.

Structural Opportunities and Priority Reform Areas

1. Enhancing Transparency and Standardization

A core constraint on scaling blended finance is the systemic lack of transparency. Data on pricing, capital structure, risk-sharing arrangements, and returns is either withheld under confidentiality agreements or presented in inconsistent formats, undermining comparability. This informational opacity creates uncertainty for investors, drives up transaction costs, and reduces overall market confidence. Furthermore, excessive complexity in deal structuring has introduced what stakeholders commonly describe as a 'complexity premium' translating transaction friction and design inefficiencies into a higher cost of capital.

To address this, full transaction-level disclosure should be required for all blended finance transactions. A centralized, open-access database capturing deal-level information—including financial performance, risk parameters, structuring templates, concessionality levels, and realized impact—should be developed to facilitate due diligence and improve market functionality. In parallel, standardized templates for reporting, term sheets, and key financial and impact metrics must be adopted across institutions to support data comparability and investment benchmarking. Aggregation platforms should be pursued by catalytic and private investors alike to introduce greater structuring efficiency into the system.

2. Advancing Regulatory Innovation and Accurate Risk Pricing

Blended finance is constrained by regulatory and institutional frameworks that misprice risk in EMDEs investments. Prudential regulations (e.g., Basel III, Solvency II), conservative credit rating methodologies, and outdated risk perceptions by private investors tend to reinforce risk aversion, even when real-world performance data suggests otherwise. This results in inflated cost of capital and restricted investment flows to otherwise viable opportunities in EMDEs.

Reform is essential. Both prudential rules and credit rating methodologies should be updated to reflect the risk-mitigating features of blended finance structures, including guarantees, subordinated tranches, and political risk insurance. While waiting for the reforms, private sector investors are invited to adopt a bottom-up strategy that begins with the company's business model, identifies specific geopolitical risk events that could affect it, and applies targeted mitigation measures. In line with this strategy, practitioners identified six effectiveness strategies to overcome institutional conservatism and invest in EMDEs through blended finance. First, risk mitigation tools must be more widely leveraged to address persistent real and perceived risks. Second, financial structures should be tailored to local contexts, including models that embed national ownership to reduce political risk. Third, engaging local financial institutions strengthens market knowledge, reduces costs, and enhances sustainability. Fourth, aligning blended finance with national priorities helps create a more stable enabling environment. Fifth, investors should adopt flexible definitions of bankability, recognizing that innovative models can become investable with the right structuring. Finally, strong fund managers and project sponsors are critical to navigating regulatory complexity, aligning stakeholders, and building credibility. Together, these approaches offer a bottom-up roadmap to mobilize private capital more effectively in EMDEs.

3. Strengthening Liquidity and Expanding Exit Options

A major deterrent for institutional participation in blended finance is the lack of liquidity and viable exit strategies. Most blended finance structures involve long-duration and illiquid instruments, and the absence of functioning secondary markets restricts capital recycling. In addition, development institutions frequently originate-to-hold assets on their own books, limiting both the broader circulation of capital and their ability to de-risk private capital.

Targeted reforms should include the creation of dedicated exit-enabling liquidity facilities, dynamic secondary markets, and infrastructure for asset transfer. There are very few mechanisms in the ecosystem and philanthropies have a key role to play to see them. MDBs and DFIs must be incentivized to originate-to-distribute, building up their capabilities to deploy securitization and co-financing at scale and strategically.

4. Building a Robust Project Pipeline

A recurring constraint across geographies is the shortage of bankable projects. Many proposals lack adequate structuring, risk mitigation, or alignment with investor requirements. This reflects a persistent underinvestment in early-stage project development, compounded by fragmented technical assistance (TA) mechanisms and limited coordination between financiers and implementing agencies.

To resolve this, significantly more emphasis must be placed on project preparation. This includes expanding and streamlining project preparation facilities, increasing TA funding for upstream design, and systematically involving private investors earlier in the project lifecycle to ensure financial viability and structural fit. Governments in EMDEs should integrate blended finance considerations into their development

strategies and pipeline generation efforts to create demand-led, bankable opportunities, as well as develop strategies to mitigate currency risk.

5. Fostering Additionality Through Market Standards and Strategic Interventions

Blended finance must be deployed in a manner that complements, rather than distorts, market dynamics. However, many transactions involve concessional support without clear demonstration of market failure or financial additionality. In some cases, competition among public actors leads to the erosion of the additionality principle, diminishing catalytic impact and deterring commercial replication.

To restore integrity and discipline, blended finance should be strategic, targeted, temporary, and subject to strict additionality and impact criteria, country platforms should be established to drive blended finance where it is needed, and additionality metrics should be clearly defined to guide project structuring. Moreover, coordination mechanisms of catalytic investors should ramp up to ensure coherence and complementarity across institutions throughout the project cycle, better alignment with country priorities, and the formation of pools of first-loss capital.

Who Must Lead and How

Scaling blended finance demands bold action from the institutions that hold power, capital, and influence across the financial system. This is not a time for minor fixes. Closing the gap requires a systemic reset, built on role clarity, coordinated action, and real accountability.

To unlock real impact, Advanced Economy (AE) governments must go beyond signaling support and embed blended finance into the operational mandates of the public institutions they govern. They have the leverage to push for systemic transparency, performance accountability, and mindset shift from development institutions. They must overhaul prudential regulations—particularly Basel III and Solvency II—that disincentivize bank and insurance investment in EMDEs, even when risks are well-managed. They also should seed pools of first-loss capital making catalytic capital largely more accessible than it is today.

Multilateral Development Banks (MDBs), Development Financial Institutions (DFIs) and other donor agencies (e.g. vertical and multilateral trust funds) must shift their institutional priorities from maximizing lending volumes to crowding in private investors. This requires publishing transaction-level data, streamlining operational processes, mobilizing their de-risking abilities, hiring additional adequate investment structuring capabilities, and incentivizing the creation of a secondary market by originating to distribute. The focus must shift from overengineered bespoke deals to scalable, replicable platforms that align with investor needs. These actions should be articulated in a private mobilization roadmap, providing required visibility to investors.

Private investors have to engage earlier and more strategically. Investors already involved in blended finance should co-develop standardized transaction templates, advocate for better data infrastructure, push for blended structures that reflect real (not perceived) risk, and communicate on successful investment strategies, enabling risk perceptions to adjust to realities over time.

EMDE governments play a critical role in setting the enabling environment. They must articulate how blended finance could align with national development priorities, fast-track permitting, developing country platforms, enhancing data transparency, and take initiatives to contain the currency risk. Enabling institutional and legal frameworks for bankable offtake agreements, and incentivizing partnerships with local financial institutions can dramatically shift the risk calculus for private investors.

Philanthropic foundations must embrace their role as ecosystem architects. Their concessional funding is often the only capital flexible enough to support high-risk, high-impact innovation. They can finance open data platforms, seed aggregation vehicles, and subsidize early-stage technical assistance. But more than that, they should demand rigor in impact and market outcomes, making concessional capital contingent on transparency, replicability, and financial additionality.

CRA and export credit agencies (ECAs) must modernize. CRAs must develop new methodologies that reflect the realities of EMDEs and recognize blended finance and the de-risking power of MDB guarantees and first-loss capital. ECAs, meanwhile, should play a more active role in blended finance, collaborating with catalytic capital providers along the project cycle financing while expanding the coherence and completeness of guarantee packages to address multiple risks depending on specific project needs and project stages.

The obstacles to scale blended finance are structural, but they are not insurmountable. The evidence and recommendations outlined in this report point the way forward. Coordinated leadership across public, private, and philanthropic sectors, paired with the political will to implement reforms that align market incentives with development outcomes is now required. Only then can blended finance realize its promise as a powerful enabler of sustainable investment at scale.



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