

## EVENT REPORT



## INTRODUCTION

On 3 July 2025, on the sidelines of the 4th International Conference on Financing for Development in Sevilla, the SDG Impact Finance Initiative (SIFI) co-hosted a pivotal event with the Columbia Centre on Sustainable Investment (CCSI) and the Swiss Agency for Development and Cooperation (SDC).

The session brought together leading voices from across the development finance ecosystem to address one of the most pressing challenges in sustainable development: how to bridge the gap between risk perceptions and actual capital flows to emerging markets and developing economies (EMDEs). Through a combination of rigorous analysis and practical insights, the event highlighted key findings, real-world case studies, and strategic recommendations on how blended finance can address entrenched structural barriers and unlock significantly greater private investment in EMDEs.

The gathering featured an open dialogue amongst development finance institutions, private sector investors, philanthropic actors, and government representatives, all united in the common goal of identifying actionable solutions and catalysing meaningful capital flows into the markets that need them most. The collaborative nature of the discussion underscored the recognition that overcoming these challenges requires coordinated action across the entire development finance ecosystem.

## SPEAKERS

- **Patricia Danzi** – State Secretary, Director General, SDC
- **Elizabeth Kibirige Namugenyi** – Director, Partnerships & Blended Finance, IFC
- **Matt Robinson** – Associate Managing Director, Sovereign Ratings, Moody's
- **Kjell Forsberg** – Director, Trade, Private Sector & Financial Instruments, SIDA
- **Kalpana Kochhar** – Director, Development Policy & Finance, Gates Foundation
- **Tim Radjy** – Founder & Managing Partner, AlphaMundi
- **Ana M. Camelo Vega** – Senior Researcher, CCSI
- **Lisa Sachs** – Director, CCSI

## KEY INSIGHTS

### 1. The Role and State of Blended Finance

#### The EMDE Investment Gap

Emerging markets and developing economies (EMDEs) are key engines of global growth and home to a substantial share of the world's population, yet they remain significantly underinvested. The barriers to mobilising capital flows into EMDEs are numerous and multifaceted, including high risk perceptions, psychological biases, poor sovereign credit ratings, currency risks, limited knowledge, and inadequate capacity for due diligence.

#### Blended Finance as a Solution

Blended finance has emerged as a promising tool to overcome these barriers and unlock private capital flows towards EMDEs. It works by layering public, private, and philanthropic funding with varying risk-return profiles to create more attractive investment opportunities. The market has demonstrated steady growth—averaging \$1.7 billion in annual growth since 2020, reaching \$18.3 billion in 2024.

#### Structural Constraints Remain

Blended finance nevertheless remains hindered by entrenched structural constraints. Without fundamental reform, blended finance will remain a promising but niche instrument, not yet structured or scaled for integration with mainstream capital markets and conventional finance.

### 2. Five Major Barriers and Solutions

#### 1) Data Opacity and Lack of Standardisation

Blended finance data is often confidential or inconsistently reported, making deals hard to compare and hindering market development.

**Solution:** Require full transaction-level disclosure to build an open-access, standardised deal database that enables better comparison and learning.

#### 2) Risk Misperception and Institutional Conservatism

Outdated regulations and credit assessment methodologies fuel investor risk aversion, even when real-world performance data suggests otherwise. These entrenched approaches prevent capital from flowing to viable opportunities.

**Solution:** Update prudential rules and rating methodologies to reflect actual performance data, and promote bottom-up risk assessments by private investors rather than relying solely on traditional top-down approaches.

### 3) Illiquidity and Poor Exit Strategies

Blended finance often relies on long-term, illiquid instruments with limited options for secondary trading or capital recycling, deterring investors who require flexibility.

**Solution:** Develop liquidity facilities, active secondary markets, and asset transfer infrastructure to enable efficient exits and capital recycling.

### 4) Preparation Gaps

Insufficient early-stage design, risk structuring, and investor alignment hinder many proposals from reaching bankability, creating a pipeline bottleneck.

**Solution:** Expand project preparation facilities, boost upstream technical assistance (TA) funding, and engage private investors early in the project lifecycle to ensure market-ready structures.

### 5) Competition and Lack of Additionality

Concessional funding is often used without clear justification, and competition amongst public actors can dilute financial additionality, reducing overall impact.

**Solution:** Ensure blended finance is strategic, time-bound, and meets strict additionality and impact standards, with improved coordination amongst catalytic investors to avoid duplication and maximise effectiveness.

## 3. Enhancing Blended Finance Through Coordination

The panel emphasised that scaling blended finance requires coordinated leadership, shared infrastructure, and aligned incentives across the ecosystem. Fragmentation continues to drive inefficiency, dilute impact, and block scale. Speakers stressed the need to **match leadership alignment with operational coordination** by breaking down silos at the working level.

SIDA's experience illustrated the catalytic role bilateral donors can play—deploying flexible capital, co-financing with DFIs, and investing in upstream project preparation. Their work shows how public actors can align mandates around additionality, concessionality, and standardisation.

The IFC shared examples of cross-regional coordination with MDBs, including in Ukraine, highlighting the potential to **aggregate risk across sectors and geographies to build investable portfolios**. Yet guarantee mechanisms remain fragmented. Whilst countries like Denmark and Norway are active providers, broader alignment is needed to support standardised, scalable structures that enable risk-sharing and aggregation—especially in higher-risk or frontier markets.

An important insight on the current focus of bilateral donors was highlighted. Whilst donors are often asked to absorb perceived risks, **their allocations of scarce catalytic capital** increasingly target measurable and quantifiable risks. This highlights the opportunity to improve risk diagnostics and design guarantees that are more precisely aligned with actual risk profiles.

The Gates Foundation's use of guarantees for Gavi demonstrated how philanthropy can help mobilise private capital. But broader shifts are needed particularly **through philanthropic partnerships** across Asia and Europe **to reorient endowments towards impact investing**.

Data opacity and lack of standardisation continue to hinder aggregation. Participants called for **wider use of platforms like GEM and urged credit rating agencies to better reflect guarantees and concessional finance in sovereign assessments**. The example of Benin illustrated this potential: with successive issuances, the country moved from requiring guarantees to none at all—eventually achieving a credit upgrade from B2 to B1. This underscores how strategic use of blended finance can help sovereigns build track records and improve creditworthiness over time.

Impact-focused investors, such as AlphaMundi, highlighted that emerging market impact investments are already delivering strong, risk-adjusted returns—helping challenge persistent investor biases.

Coordination must be intentional and strategic—anchored in pledges of assets, pooled funding vehicles, aligned mandates, and shared platforms. When donors like SIDA, DFIs, philanthropies, governments, investors, and credit rating agencies each deliver on their roles, the promise of blended finance becomes real. The time for siloed deployment and finger-pointing is over—scaled action and shared accountability are now essential.

**Our goal is to establish the framework conditions necessary to foster a thriving ecosystem for impact investing. By aligning our efforts, we aim to propel investments towards the Sustainable Development Goals (SDGs) in developing markets at the scale required to ensure meaningful and sustainable impact**

