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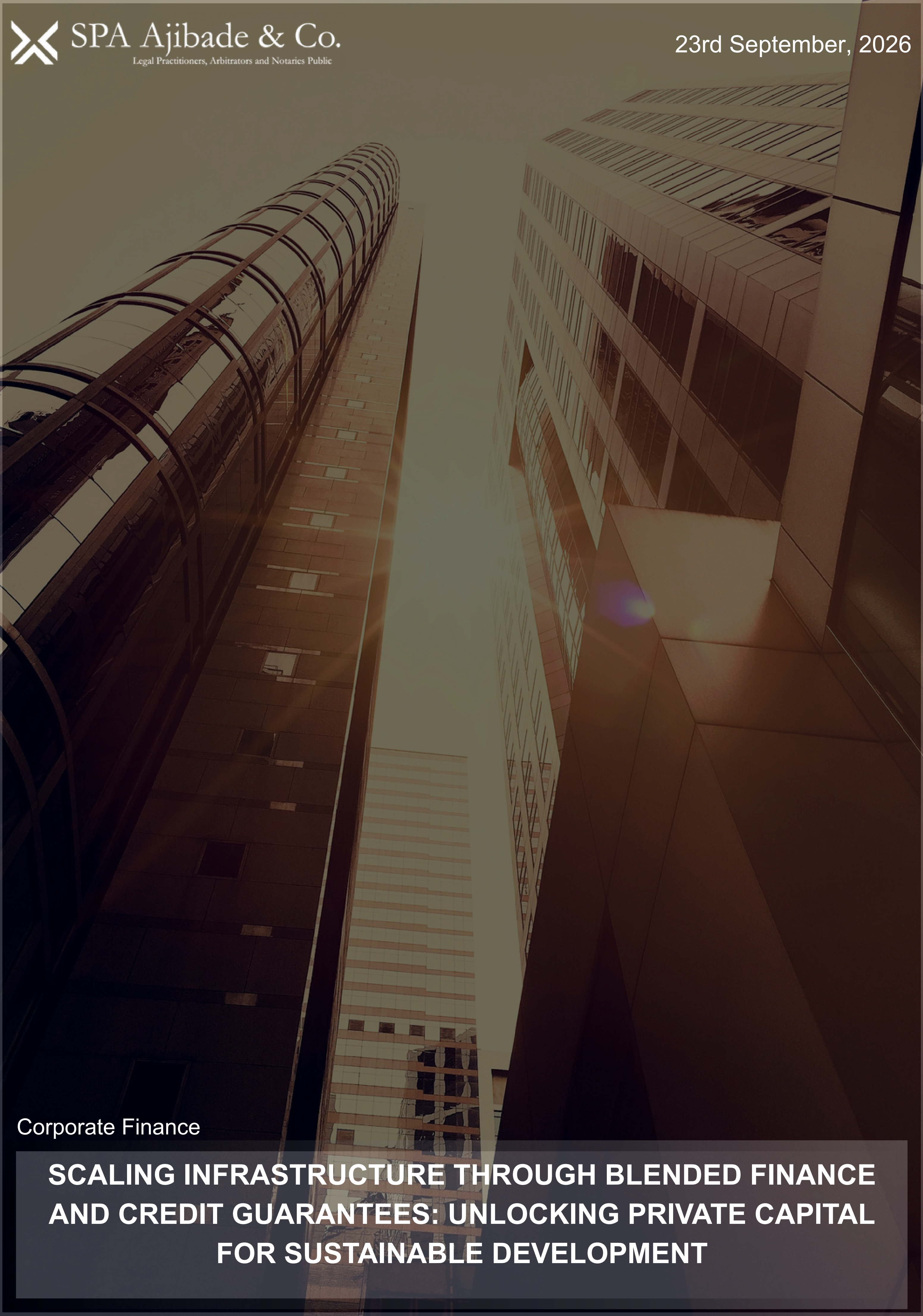

Corporate Finance

SCALING INFRASTRUCTURE THROUGH BLENDED FINANCE AND CREDIT GUARANTEES: UNLOCKING PRIVATE CAPITAL FOR SUSTAINABLE DEVELOPMENT

SCALING INFRASTRUCTURE THROUGH BLENDED FINANCE AND CREDIT GUARANTEES: UNLOCKING PRIVATE CAPITAL FOR SUSTAINABLE DEVELOPMENT[1]

1. Introduction

Blended finance, is a smart investment method that combines money from the government or charities with private business capital. Its main goal is to push private investment into "frontier" or emerging markets and places that businesses usually avoid because they seem too risky or do not offer high enough returns.

In many developing countries, there is a massive "financing gap" between the level of available funds needed to meet government's capital projects and attain projected economic goals. This means there is limited funds available to build essential infrastructure like power grids, roads, or schools. While private investors have the money, they often hesitate because these projects are expensive to start, take decades to finish, and can be affected by unstable laws or changing politics.

Blended finance solves this by using public funds to "de-risk" a project. Essentially, the public money acts as a protective cushion that makes the investment safer and more attractive for private companies. This approach turns socially important goals like fighting climate change or improving healthcare into viable business opportunities.[2]

By using a small amount of "seed" money from the public sector, blended finance creates a multiplier effect. It unlocks much larger amounts of private capital, moving vital development projects from a simple plan to a realized objective.

Blended finance is a strategic investment approach that merges funds from public or philanthropic sources with private sector capital. The primary goal is to direct commercial investment toward "frontier" or emerging market areas that private investors typically avoid due to high perceived risks or low initial returns. By using public funds to "de-risk" projects, blended finance transforms socially essential initiatives into viable commercial opportunities.

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2 World Bank Group, 'What is blended finance, and how can it help deliver successful high-impact, high risk projects?' available at <https://ieg.worldbankgroup.org/blog/what-blended-finance-and-how-can-it-help-deliver-successful-high-impact-high-risk-projects> accessed 30 April 2026.

2. Why Blended Finance Is Necessary

In many developing nations, there is a massive "financing gap" for critical infrastructure and climate goals. As already underscored, while private investors have the necessary capital, they often hesitate to invest in these regions due to:

i. **High Upfront Costs:** Infrastructure projects require massive initial capital that is difficult to recover quickly.

ii. **Long Life Cycles:** Projects often span decades, increasing exposure to political or economic shifts.

iii. **Risk Profiles:** Issues like regulatory instability, currency fluctuations, or lack of asset liquidity make projects look unattractive on a standalone basis.

Blended finance bridges this gap by adjusting the **risk-return profile**. It makes a project "bankable" by ensuring that the private sector's risk is cushioned by public or concessional participation.

2.1 Core Financial Instruments

Blended finance utilizes several mechanisms to attract private partners. These are often provided on "concessional" terms, meaning the conditions (like interest rates or repayment schedules) are more generous than standard market rates.

This model is increasingly vital for **Public-Private Partnerships (PPPs)** focused on global challenges:

Instruments	How it Works
Concessional Loans	Debt provided with Lower interest rates, longer grace periods, or extended repayment timelines.
Guarantees	A "safety net" where a donor agrees to cover losses if a project defaults, protecting the private investor's capital.
Subordinated Equity	Public investors take an ownership stake but accept lower returns or "first-loss" positions compared to private shareholders.
Grants	Direct funding that does not require repayment, often used for technical prep-work or rewarded when a project hits specific social milestones.

i. **Climate Action:** Funding renewable energy grids, nature-based solutions, and resilient infrastructure that can withstand extreme weather.[3]

ii. **Social Impact:** Improving healthcare and education systems in lower-income regions.

iii. **Fragile States:** In regions affected by conflict or extreme poverty, blended finance acts as a pioneer, creating markets where none existed and fostering economic stability.

Ultimately, blended finance is not just about moving money; it is about **catalytic impact**. It uses a small amount of public "seed" money to unlock a much larger pool of private capital, ensuring that essential development projects move from the drawing board to reality.[4]

2.2 **The Power of the "AAA" Shield**

The "AAA" Shield: Unlocking Nigeria’s Clean Energy Future

Nigeria faces a staggering energy gap, with 85 million people still living off the grid. While decentralized renewable energy (DRE) like solar mini-grids offers a solution, these projects often struggle to attract the massive private investment needed to scale. This is where the "AAA Shield" provided by InfraCredit becomes a game-changer.

In finance, an "AAA" rating is the gold standard of safety. By providing credit guarantees, InfraCredit wraps risky energy projects in its own top-tier rating. This acts as a protective shield, transforming "risky" solar projects into secure, "AAA-rated" investment opportunities for local pension funds and insurance companies.

A recent US$30 million investment from British International Investment (BII) has significantly strengthened this shield. This uses blended finance, a mix of commercial and concessional funding, to achieve three goals:

i. De-risking Debt: A US$20 million counter-guarantee reduces the risk for local lenders.[5]

[3] United Nations Capital Development Fund, 'Blended Finance in the least developed Countries' available at <https://www.uncdf.org/article/4661/blended-finance-in-the-ldcs-2019> accessed 28 July 2026.

[4] World Bank Group, 'Blended Finance' available at <https://ppp.worldbank.org/blended-finance> accessed 30 April 2026.

[5] InfraCredit, 'InfraCredit Secures a US$30 million Risk Sharing and Blended Local Currency Co-financing Facility from British International Investment to Support Decentralised Renewable Energy Projects in Nigeria' available at <https://infracredit.ng/infracredit-secures-a-us30-million-risk-sharing-and-blended-local-currency-co-financing-facility-from-british-international-investment-to-support-decentralised-renewable-energy-projects-in-nigeria/> accessed 29 April 2026.

ii. Lowering Costs: US$10 million in "first-loss" concessional financing lowers interest rates for developers, making power more affordable for low-income consumers.[6]

iii. Catalyzing Capital: By absorbing the initial risk, this facility encourages private investors to move their money into the renewables sector.

This is not just about finance; it is about real-world results. This specific facility is projected to:

a. Connect over 57,000 households to clean power.[7]

b. Create more than 2,500 jobs.[8]

c. Eliminate the need for expensive, polluting diesel generators across 564 communities.

The "AAA Shield" proves that when you use smart financial tools to protect investors, you don't just build infrastructure, you power a greener, more inclusive economy.

2.3 **<u>The Blended Finance Multiplier</u>**:[9]

Unlocking finance for sustainable development remains a central global priority, yet the African nations most in need continue to face the steepest barriers to capital. In Africa, narrow fiscal space, high perceived investment risk, and underdeveloped capital markets intersect with macroeconomic volatility and rising debt burdens. These structural hurdles erode investor confidence, leading to a cycle of chronic underinvestment despite the continent’s vast potential in clean energy, digitalization, and biodiversity.

3. The Role of Catalytic Capital

Current financial instruments rarely meet the needs of early-stage, high-impact sectors that require risk-tolerant, patient capital. To bridge this gap, **concessional finance** specifically **catalytic first-loss capital** is essential. By absorbing initial risks, these funds reshape the risk profile of frontier markets, making projects "bankable" for

6 *Ibid*.
7 *Ibid*.
8 *Ibid*
9 British International Investment, 'InfraCredit Receives US$30 Million Investment to Accelerate Renewable Energy Access in Nigeria’ available at <https://infracredit.ng/infracredit-secures-a-us30-million-risk-sharing-and-blended-local-currency-co-financing-facility-from-british-international-investment-to-support-decentralised-renewable-energy-projects-in-nigeria/> accessed 2 July 2026.

development finance institutions (DFIs), multilateral development banks (MDBs), and the private sector.

The **United Nations Capital Development Fund (UNCDF)** is uniquely positioned to lead this effort. Formally endorsed in the **Seville Outcome Document**,[10] the UNCDF is mandated to use blended finance tools such as grants, technical assistance, and credit guarantees to de-risk investments and "crowd in" private finance to Least Developed Countries (LDCs).

4. <u>The Blended Finance Multiplier</u>

A critical metric in this strategy is the **Blended Finance Multiplier**. This concept represents the ability of limited public or concessional funds to mobilize much larger volumes of private commercial capital.

i. **De-risking:** Credit guarantees act as a safety net, protecting private investors from initial losses.

ii. **Mobilization:** When a small amount of "first-loss" capital is deployed, it provides the security necessary for private partners to commit follow-on investment.

iii. **Scale:** Through this multiplier effect, fragmented commitments are transformed into aligned, large-scale infrastructure projects that would otherwise be deemed too risky for the private sector alone.

5. <u>From Commitment to Action</u>[11]

The shift from political endorsement to tangible impact requires operational collaboration and strategic pipeline development. High-level engagements, such as those at **TICAD9**,[12] bring together African Ministers of Finance, Japanese institutions, and private partners to move from risk aversion to risk sharing.

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[10] Seville Outcome Document of the Fourth International Conference on Financing for Development (FfD4), adopted in Seville in 2025, formally recognizes the catalytic role of the United Nations Capital Development Fund (UNCDF). Paragraph 33(m) encourages UNCDF to support least developed countries (LDCs) as an early-stage provider of catalytic concessional first-loss capital to de-risk investments and change the risk profile of early-stage markets, thereby creating conditions for subsequent private-sector investment through development finance institutions and multilateral development banks.

[11] Organisation for Economic Co-operation and Development (OECD), 'Making Blended Finance Work for the Sustainable Development Goals' available at <https://www.oecd.org/en/publications/2018/01/making-blended-finance-work-for-the-sustainable-development-goals_g1g88c68.html> accessed 2 July 2026.

[12] TICAD9 (the Ninth Tokyo International Conference on African Development) provides a platform for African and Japanese stakeholders to strengthen partnerships, mobilise investment, and advance practical development outcomes.

As the UNCDF prepares its **2026-2029 Strategic Framework**, the focus remains clear: scaling delivery models that prioritize African partner priorities. By utilizing credit guarantees to enhance the Blended Finance Multiplier, the global community can finally move from fragmented efforts toward a unified, sustainable investment landscape for Africa's LDCs.[13]

De-Risking the Future: Blended finance is a great way to handle financial risks, but it cannot fix everything. Even when the money is secure, other "non-financial" problems can still cause a project to fail.

To truly protect future investments, expert advice can help when the people running a project lack the experience to make it work,[14] while technical coaching and advisory services help fill these gaps.[15] Projects are also safer when governments have strong market laws and clear safety standards, as this reduces the risk of sudden policy changes or poor quality. Blended finance works best when it is used alongside these other supports. By combining funding with expert guidance and better laws, we can lower risks in even the most difficult and unstable parts of the world.[16]

6. Strengthening Nigeria's Economy: The Link Between Domestic Resource Mobilization and Blended Finance[17]

To achieve the Sustainable Development Goals (SDGs), the nation must address a widening funding gap in essential sectors like healthcare, education, and infrastructure. Two concepts are central to solving this puzzle, **Domestic Resource Mobilization (DRM)** and **Blended Finance**.

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12 UNCDF, 'Scaling Up Mobilization and Impact for Private Investments in Africa: The Role of Blended Finance' available at <https://www.uncdf.org/article/8966/ticad-9-scaling-up-mobilization-and-impact-of-private-investments-in-africa> accessed 30 April 2026.

13 World Bank, 'Nigeria Development Update: Building Momentum for Inclusive Growth' available at <https://www.worldbank.org> accessed 28 July 2026.

14 UNCDF, 'Strategic Framework 2026–2029 (UNCDF 2025) available at <https://www.uncdf.org> accessed 28 July 2026.

15 UNCDF, 'Blended Finance' available at <https://www.uncdf.org/blended-finance> accessed 28 July 2026.

16 Oxfam in Nigeria, 'Financing for Development in Nigeria: Sectoral Context and Insights for the Fourth International Conference on finance for Development' available at <https://nigeria.oxfam.org/latest/publications/financing-development-nigeria> accessed 4 May 2026.

6.1 <u>The Urgency of Domestic Resource Mobilization (DRM)</u>

For Nigeria, DRM is about unlocking internal wealth to fund public services.[18] Currently, the nation's fiscal health is under pressure. With a significant portion of earned revenue going toward debt servicing, there is very little "fiscal space" left to invest in the people.

The challenge is clear: vital sectors are underfunded.[19] For instance, while agriculture employs over a third of the Nigerian workforce, it receives a tiny fraction of the national budget. Similarly, the infrastructure deficit affecting everything from electricity to transport requires billions of dollars annually that the government cannot provide alone.

Improving DRM means more than just collecting taxes. It requires:

i. **Expanding the Tax Base:** Ensuring that more businesses and individuals contribute fairly to the national purse. According to the International Monetary Fund (IMF), broadening revenue streams requires addressing the informal economy through simplified presumptive tax frameworks while simultaneously strengthening the administrative capacity to monitor high net worth individuals (IMF Policy Papers on Domestic Resource Mobilization).

ii. **Fighting Leakages: (IFFs and Corruption)** Addressing corruption and stopping the billions of dollars lost annually to illicit financial flows. UNCTAD estimates that developing nations lose billions annually to illicit financial flows. Mitigating these losses requires robust transfer pricing regulations and multi-agency cooperation to curb customs fraud, as outlined in global tax transparency frameworks (UNCTAD).

iii. **Digital Transformation in Tax Administration:** Using technology to make revenue collection more transparent and efficient. As highlighted in World Bank and The Inter-American Center of Tax Administrations (CIAT) diagnostics on digital revenue administration, adopting Integrated Tax Administration Systems (ITAS) and real time e-invoicing significantly reduces human discretion and closes compliance gaps.

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18 British International Investment, 'InfraCredit receives US$30 million investment to accelerate renewable energy access in Nigeria' available at <https://infracredit.ng/infracredit-secures-a-us30-million-risk-sharing-and-blended-local-currency-co-financing-facility-from-british-international-investment-to-support-decentralised-renewable-energy-projects-in-nigeria/> accessed 28 July 2026.

19 United Nations, 'Addis Ababa Action Agenda of the Third International Conference on Financing for Development' available at <https://sdgs.un.org> accessed 28 July 2026.

iv. **Connecting DRM with Blended Finance**

While internal revenue is the foundation, it is often not enough to cover massive projects like climate adaptation or large-scale energy plants. This is where **Blended Finance** comes in.[20]

Blended finance is a strategic approach where "catalytic" funds (often from the government or international donors) are used to attract private sector investment.[21] In simple terms, the government uses a small amount of public money to lower the risk for private investors, encouraging them to put their capital into development projects they might otherwise find too risky.

6.2 The relationship between DRM and Blended Finance is symbiotic

i. **Public Funds as a Magnet:** Effective DRM provides the government with the initial capital needed to start "blended" projects. When a government shows it can manage its own resources well, private investors gain the confidence to partner on major infrastructure or green energy deals.

ii. **Reducing Debt Reliance:** By combining internal taxes with private investment, Nigeria can fund its growth without constantly taking on high-interest external loans that lead to debt traps.

iii. **Innovative Tools:** Solutions like **Green Bonds** and **Debt-for-Development Swaps** allow Nigeria to tackle climate change and poverty simultaneously[22] by reallocating resources that would have gone to debt servicing toward sustainable growth.[23]

6.3 The Path Forward[24]

To bridge the financing gap, Nigeria must focus on inclusive governance. This includes empowering state-level development finance units and ensuring that taxation is fair and does not overburden the poor.

By strengthening the internal engine of Domestic Resource Mobilization and using those resources to leverage private capital through Blended Finance, Nigeria can move away from aid dependency. The goal is a resilient economy that can provide quality education, modern healthcare, and sustainable energy for all its citizens.

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[20] InfraCredit, 'Annual Report 2024' available at <https://infracredit.ng> accessed 28 July 2026.

[21] World Bank, 'Private Participation in Infrastructure (PPI) Annual Report' available at <https://www.worldbank.org> accessed 28 July 2026.

[22] InfraCredit (n20).

[23] United Nations (n19).

[24] OECD (n11).

Through coordinated policy reform and transparency, the country can turn its current challenges into a blueprint for equitable growth.

7. Conclusion

Blended finance is more than just a financial strategy; it is a **catalytic tool** essential for closing the global development gap. By strategically using public and concessional funds to lower risks, it creates a "multiplier effect" that unlocks the massive amounts of private capital needed for infrastructure, clean energy, and social projects.

As seen in Nigeria with the "AAA Shield," smart financial tools can transform risky ventures into secure investments, providing clean power and jobs to thousands. However, money alone is not the answer. For these investments to truly succeed, they must be supported by expert advice, stable government regulations, and strong **Domestic Resource Mobilization (DRM)**.

When a nation manages its internal resources effectively and uses them to attract private partners, it reduces its reliance on debt and builds a more resilient economy.[25] Ultimately, by combining funding with better laws and technical expertise, the global community can turn complex challenges into sustainable opportunities, ensuring a greener and more inclusive future for all.

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25 Oxfam in Nigeria (n16).

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Thanks for reading...

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