BRIEFING
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METHODOLOGY AND ANALYSIS:
Assessing the performance of blended finance for delivering a just energy transition

Introduction

In this analysis, we look at blended finance's track record for energy transition-related projects in the Global South.[1] Blended finance is the use of public finance on concessional (subsidized) terms with the goal of mobilizing private finance that would not be invested under conventional commercial terms.

This methodology and analysis document is part of a larger report, ***Private Fantasies, Public Realities: Why private finance isn't delivering an energy transition and the case for public sector leadership***. The report shows that the private-sector-led approach, relied on by rich countries and international institutions to fund a just transition to renewable energy, risks setting up major shortfalls in needed finance.

Energy transition investment is the area of climate finance where Global North governments are emphasizing the reliance on the private sector for the bulk of the climate finance they owe. As one example, ahead of the 2023 United Nations International Climate Conference, COP28, the US Climate Envoy John Kerry highlighted that blended finance was key to unlocking the private finance he argued was needed to finance the energy transition.[2] Compared to loss and damage, adaptation, and other areas of mitigation, it is true that more projects within the energy transition are potentially profit-generating. In comparison to climate adaptation finance, the International Monetary Fund has noted: "The private sector is more comfortable with mitigation because of its clearer metrics and financial returns."[3] However, the extent to which the private-sector-first approach is unlocking the amounts of investment suggested by major models has been understudied. The existing evidence suggests that this approach is failing to deliver on both the quantity and quality of finance where it is needed most.[4]

In 2024, Convergence found blended finance deals totalled USD18.3 billion in financing, with climate finance representing about half of these deals.[5] Over the past 5 years (2020 to 2024), the overall blended finance market has averaged around $17 billion.[6] Overall, across all deals in their dataset (which is not limited to climate finance), Convergence has found that every concessional dollar, including guarantees and insurance, mobilized $1.99 in non-concessional private finance.[7]

A 2019 study from the Overseas Development Institute (ODI), which looked at sustainable development finance, found that Multilateral Development Banks (MDBs) and bilateral development finance institutions (DFIs) mobilized just 75 cents of private investment in low and middle-income countries for every public dollar. This fell to 37 cents in low-income countries.[8] A July 2024 World Bank working paper, co-authored by the bank's chief economist, suggests that there is little evidence that concessional guarantees or MDB participation in blended finance portfolio approaches are mobilizing additional private finance.[9]

The major studies and proposals that Global North governments point to typically assume every $1 of concessional public finance will attract, or "crowd in," $4 to $7 in private finance for the energy transition in the Global South.[10] But, to date, there has been no comprehensive analysis of whether this assumption is borne out by the evidence for energy transition finance. Due to a lack of data, most available studies have looked at all public finance compared to private finance, rather than what these models set out as targets for concessional public finance to private finance mobilized.

Blended finance is promoted as a critical tool by mainstream development and financial institutions to fund the energy transition. Despite this, there is neither a commonly agreed-upon definition for what constitutes blended finance nor a common methodology for measuring its impact. This lack of standardised definition, coupled with a lack of transparency and reporting, particularly on the private finance portion of blended finance transactions, poses significant challenges to understanding its effectiveness in practice.[11]

Methodology

In order to analyze the effectiveness of blended finance for the energy transition, we built our own dataset, which covers blended energy transition finance transactions (defined below) from public bilateral and multilateral development banks between 2015 and 2024.

To do this, we drew on energy transaction reporting from the Infrastructure Journal Global (IJGlobal) and Convergence databases,[12] in addition to information made available by the public financial institutions involved in blended finance transactions and other publicly available news stories on the project's finance. Convergence describes itself as "the global network for blended finance," adding that it "maintains the largest and most detailed database of historical blended finance transactions to help build the evidence base for blended finance."[13] It includes both project and portfolio-level transactions.

Scope: Our dataset includes 162 projects with an average total public and private investment value of $133 million each, that are either explicitly part of a blended finance initiative (ex., Private Infrastructure Development Group, Canadian Climate Fund for the Private Sector in the Americas) or were identified as a blended finance project by Convergence; we exclude transactions that did not have private sector investment involved. This follows conventional blended finance definitions, such as the definition used in the United Nations Addis Ababa Action Agenda: "financing that combines concessional public finance with non-concessional private finance."[14]

The dataset for our analysis does not include any projects financed in high-income countries or China. This, then, aligns with the same countries the IEA uses in their models for "emerging and developing economies." While we did aim to track projects from high-income countries to compare crowd-in rates with low, low-middle, and middle-income countries, we were not able to find enough data to do so meaningfully.

- Overall, 68 projects were in Africa, 49 were in Asia, 30 were in Latin America and the Caribbean, 6 were in the Middle East, 2 were in Europe, 2 were in Oceania, and 5 were global, or across multiple regions.

- 75 projects were in lower-middle income countries, 44 were in upper-middle income countries, 29 were in low-income countries, and 14 were across different income categories according to World Bank classifications.

The initial scope for our dataset was any project that contributes to the energy transition. This includes solar, wind, grids, storage, geothermal, and small-scale hydropower projects (under 30 megawatts [MW]). "Large hydro" (over 30 MW) was excluded because, without project details that are not available, we cannot verify if they are low carbon. Our dataset includes transactions where all or most of the financing was for energy that is both low-carbon and has negligible impacts on the environment and human populations, if implemented with appropriate safeguards. This scope is in line with the definition of clean energy that Oil Change International uses for our longstanding Public Finance for Energy Database (energyfinance.org) and in line with many others.[15]

We also searched for blended finance transactions related to public transportation, and fair fossil fuel phase-out measures such as worker retraining, though we did not identify any. We looked for all possible blended project finance data related to energy by looking through IJGlobal and Convergence. We omitted 18 fossil fuel projects, 2 waste-to-energy projects, 3 biomass projects, and 14 "large hydro" projects from our main "energy transition" blended finance dataset. We did, however, collect data on these types of projects where available to compare their crowd-in rates against the energy transition projects in our dataset.

For finance type, we excluded projects where the only concessional financing was

technical assistance grants (often labeled project design grants), as these are not part of common blended finance mobilization methodologies, and oftentimes these projects included only small amounts (under $1 million) in concessional public finance.[16] We also excluded projects from our main analysis where guarantees were the only form of concessional finance, and excluded any non-concessional guarantees from the sums of public finance mobilized, as the leverage cannot be measured in the same way. We noted projects that only received concessional guarantees so that we can assess how these project types perform, and do so in our results below.

Our analysis may overstate the performance of blended finance and indicate higher rates of private sector mobilization than is occurring in practice. Due to limitations in data availability at the transaction level, particularly when disaggregating public vs. private finance and concessional vs non-concessional finance, our dataset only includes transactions that specifically aimed to mobilize private finance through a blended finance approach. This differs from the Multilateral Development Bank's widely reported private capital mobilization (PCM) rates, as not all of their financing activities aim to attract private finance (in part because of this, our mobilization rate is higher than the overall reported amounts in MDB's PCM).

Limitations: There are several important limitations due to a lack of transparency and reporting. Due to a lack of good quality, disaggregated data on blended finance, it is important to note that our dataset covers only blended finance projects where we could find disaggregated transaction-level data on the public concessional, public non-concessional, and private finance mobilized. For each project in the dataset, we sought to compare reporting on finance across publicly available sources, IJGlobal and Convergence. Where there were major discrepancies across sources, we removed projects from our database. In total, our dataset has projects with total costs of $25 billion between 2015 and 2024. For comparison, Convergence has tracked blended finance deals totaling $249 billion across all sectors and time.[17]

A further limitation is that we do not have any information about how concessional the terms of the concessional finance were. Thus, we are not able to assess whether the degree of the public finance's concessionality impacted the additional amounts mobilized across transactions. Our dataset also excludes potential indirect private mobilization from projects, which is much harder to track.

How we made the calculations: For each transaction, we recorded the public concessional finance, the public finance mobilized, and the private finance mobilized. For public concessional finance, this included grants as well as equity and loans provided at below-market rates and/or with more flexible terms.[18] This allowed us to calculate the crowd-in rates of how much concessional finance to non-concessional finance was brought in, the rates of public concessional finance to private finance, and the rates of overall public finance to private finance for each transaction. For our main finding, we used the ratio of the private finance brought in relative to the concessional public finance for each transaction. This is most relevant given the policy and political emphasis on blended finance as a tool to attract private finance. This is also in line with definitions from the United Nations,[19] previous research focused on blended finance from the ODI, and reporting from donor countries, among others.[20]

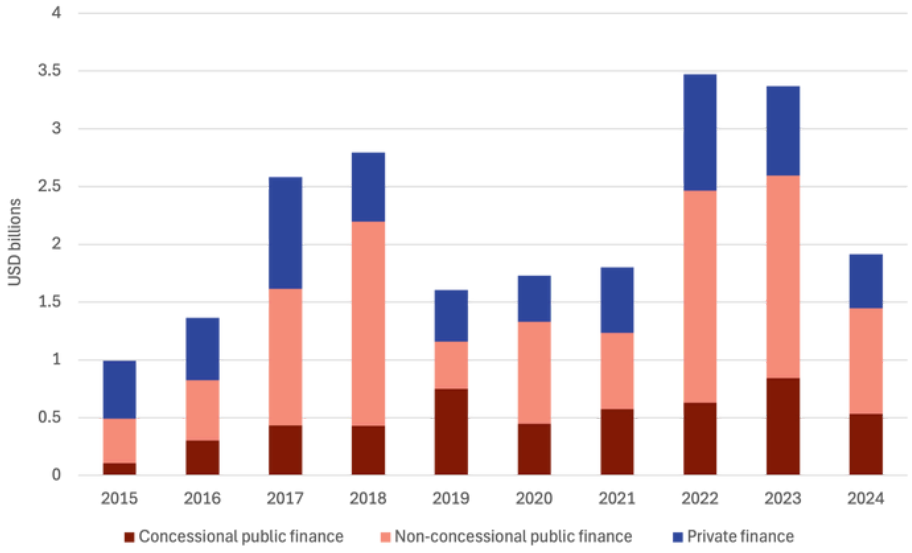
It is important to note that various organizations and institutions use other formations and labels of mobilization ratios in different settings. For example, Convergence tends to use the ratio of public and private commercial finance to concessional finance. In contrast, reporting by the OECD and multilateral development banks on "private capital mobilisation" is less focused on blended finance and so is instead a ratio of private finance leveraged to all public financing (both concessional and commercial).[21] We generally report our findings using the percentages of all three components of financing (concessional public, non-concessional public, and private finance) to allow for these different mobilization ratios to be calculated.

Results

Blended finance over the past decade:

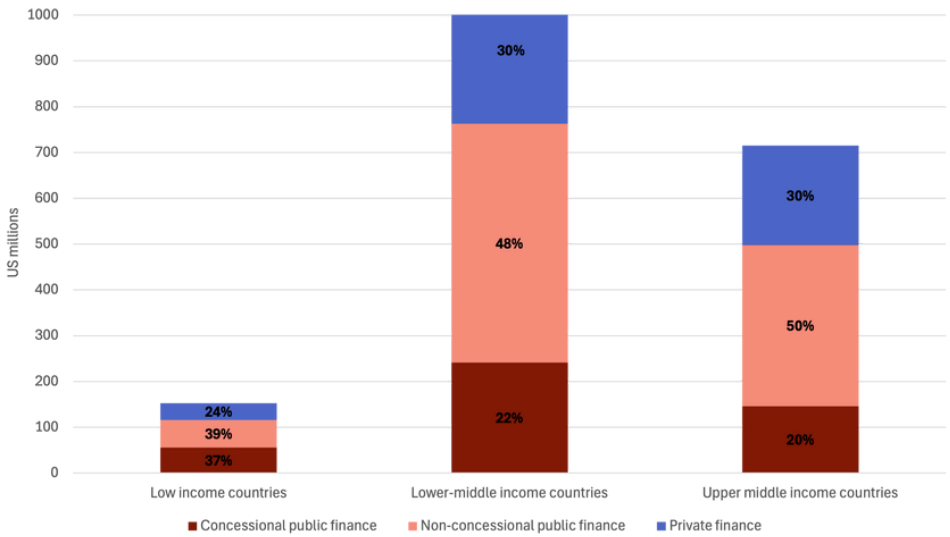
- Between 2015 and 2024, **only 29% of the finance invested came from the private sector. In low-income countries, this fell to 24%.**
- When we look over the entirety of our dataset, we see that performance has worsened. There is no clear upward trend in the overall volume of blended finance transactions, and our data shows that between 2016 and 2018, 31% of invested finance came from the private sector, compared to 27% between 2019 and 2021, and 26% between 2022 and 2024.
- The median crowd-in rate of private finance for every public concessional dollar was $0.90.

Figure 1: Blended energy transition finance, 2015-2024, USD billions, total



Source: OCI analysis of data from Convergence© and IJGlobal

Figure 2: Blended finance for energy transition projects by country category and finance type, 2015-2024, USD millions, annual average



Source: OCI analysis of data from Convergence© and IJGlobal

Putting this into same terms of the $4 to $7 assumed in most major energy finance models and policy proposals, this means that from 2016 to 2018, $1 in public concessional finance mobilized on average $1.81 in private finance, compared to $0.80 from 2019 to 2021, and $1.12 from 2022 to 2024. These are all significantly below what is expected.

The 2016 to 2018 rate is skewed somewhat by 3 large projects, which alone made up 40% of overall finance in this period and together had a crowd-in rate of $4 of private finance for every $1 in public concessional finance. Without those projects the crowd-in rate was $1.53. This is still a notably higher amount than the other periods, and is likely due to the "exceptional period of near-zero interest rates" seen during these years.[22] Many of the energy transition-related sectors we looked at are particularly sensitive to the cost of capital due to high upfront costs and low operating costs. As put by ODI in a paper assessing the potential for blended finance in 2024: "The context has changed significantly since 2015. We have moved from a cheap money era to an era of high inflation and interest rates, accompanied by greater geopolitical risks and a stalling, if not reversal, of global economic integration."[23]

Recipients

Our dataset comes from initiatives with the specific goal of financing projects outside of the Global North and China. And yet, only a small proportion of the finance is going to low-income countries.

- None of the top 10 recipient countries based on total project finance between 2015 and 2024 were low-income countries.
- Low-income countries received a small share of blended finance investment overall – **just 7% of all finance tracked in our database between 2015 and 2024.** This is despite blended finance frequently being named as a key tool to "catalyze renewable energy investments in low-income countries."[24]
- The top 10 countries to receive blended finance between 2015 and 2024, in order, were: India, South Africa, Uzbekistan, Egypt, Brazil, Laos, Azerbaijan, Vietnam, Mexico, and Indonesia. 5 are classified as lower-middle income countries (India, Egypt, Uzbekistan, Laos, Vietnam), and 5 are classified as upper-middle income countries (South Africa, Brazil, Azerbaijan, Mexico, Indonesia).

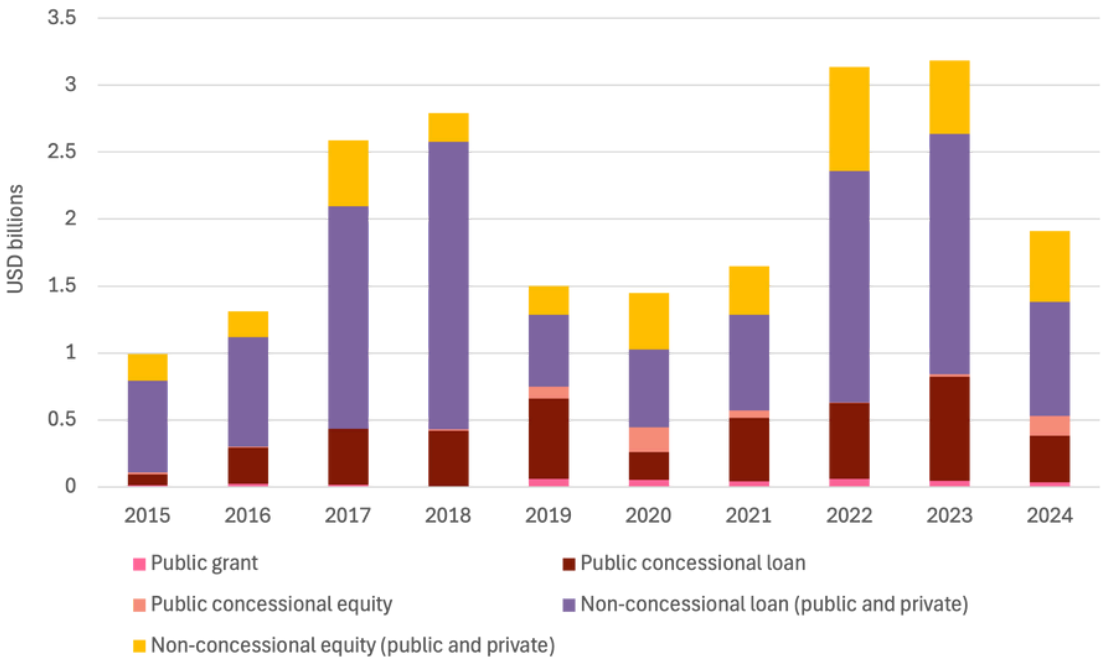
Alongside tracking which countries projects flowed to, where possible, we tracked which companies the finance flowed to and where they were headquartered. We were able to track this for 137 out of 162 transactions, or roughly 85% of all transactions.

- 88 transactions, or roughly **64% of all projects, were delivered by companies that were not headquartered in the same country as the project location**. 44 of the 88 (50%) of these projects were located in Africa. 22 projects were located in Asia, 17 were located in Latin America and the Caribbean, 3 were located in the Middle East, and 2 were Global**.**
- 49 transactions, or 36% of all projects, were delivered by companies headquartered in the same country as the project location. Of these, 18 were located in Asia, 15 were in Africa, 11 were in Latin America and the Caribbean, 2 were in Europe, 2 were in the Middle East, and 1 was in Oceania.

Finance by mechanism

Between 2015 and 2024, 55% of the private finance brought in flowed as loans, compared to 45% as equity. Figure 3 shows the breakdown of finance by mechanism. Overall, non-concessional loans, both private and public, made up 53% of all the finance.

Figure 3: Blended energy transition finance by mechanism, 2015-2024, USD billions, total



Source: OCI analysis of data from Convergence© and IJGlobal

Grants:

- Looking specifically at crowd-in rates for projects that included concessional grants, the numbers do not appear markedly different from overall trends.
- Between 2015 and 2024, the overall crowd-in rate of private finance mobilized for every public concessional dollar for projects that included a concessional grant (48 projects total) was $1.12. This is slightly lower than the overall crowd-in rate ($1.24) we found for the same period.

Funds:

- Preliminary analysis of 16 funds that were identified between 2015 and 2024 found that for every $1 in concessional public finance, $0.94 in private finance was mobilized.

Guarantees:

- Since 2022, the use of concessional guarantees as part of blended finance transactions has been increasing.[25]
- As noted above, our main analysis excludes projects where guarantees were the only form of concessional finance, and excludes any non-concessional guarantees from the sums of public finance mobilized, as the leverage cannot be measured in the same way.
- Preliminary analysis of 29 projects that received concessional finance guarantees between 2015 and 2024 found that for every $1 in concessional public finance, $1.24 in private finance was mobilized.

Funds (also called "portfolio approaches") and guarantees have received more attention as a next generation of blended finance that could make up for the initial indications of lower than anticipated performance.[26] These preliminary results suggest that neither approach has dramatically improved the amount of private sector mobilization so far.

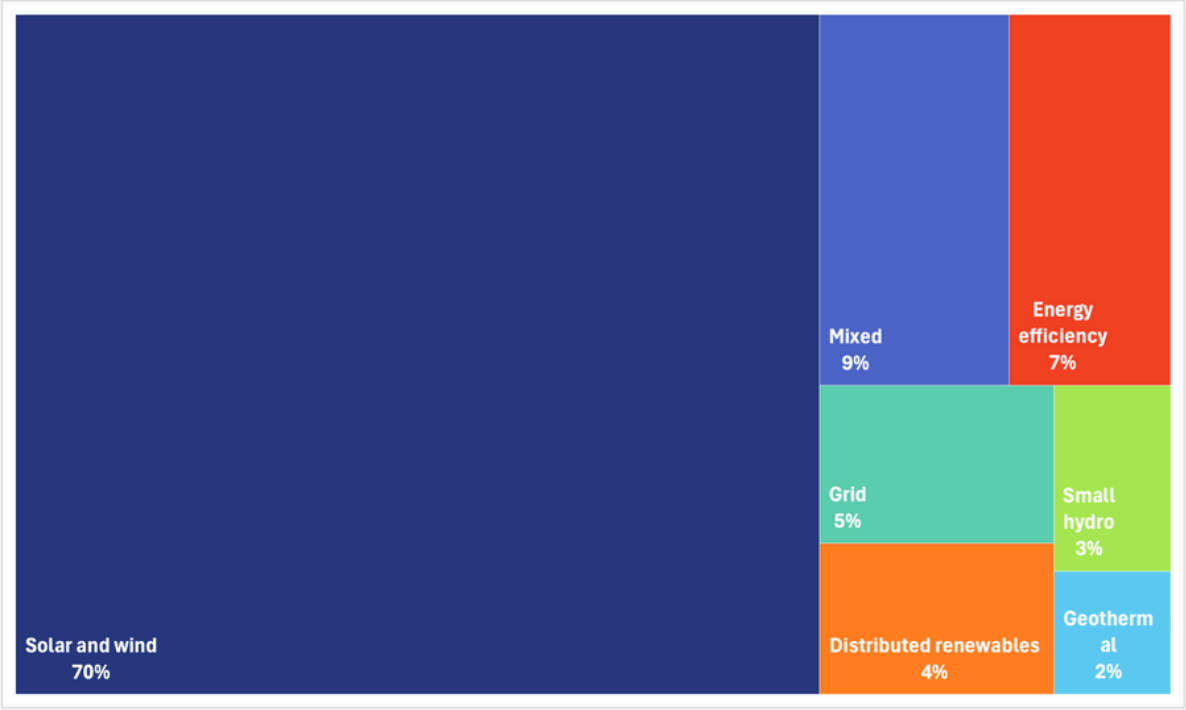
Sector analysis

As **Figure 4** illustrates, the majority of blended finance transactions went to renewable power generation, with wind and solar receiving 70% of all finance between 2015 and 2024. Overall, renewable power generation received at least 84% of all the blended energy finance tracked in our dataset. Finance for renewable energy generation is critical and needs to be scaled up.

It also needs to be accompanied by finance for other critical subsectors, like 100% renewable-ready grids, energy storage, distributed renewable energy projects needed to achieve universal energy access, housing retrofits, electrified public transit, and just transition priorities like community-led economic diversification plans in low-income regions heavily dependent on fossil fuels for livelihoods and government revenue.

Currently, these key types of public services and infrastructure are being left out of both blended finance flows and overall energy financial flows. Thus, public finance needs to be scaled specifically for grids and distributed renewables, particularly in low-income countries, where blended finance flows are limited (Figure 4).

Figure 4: Renewable energy blended finance in recipient countries by project type, 2015-2024, all finance.

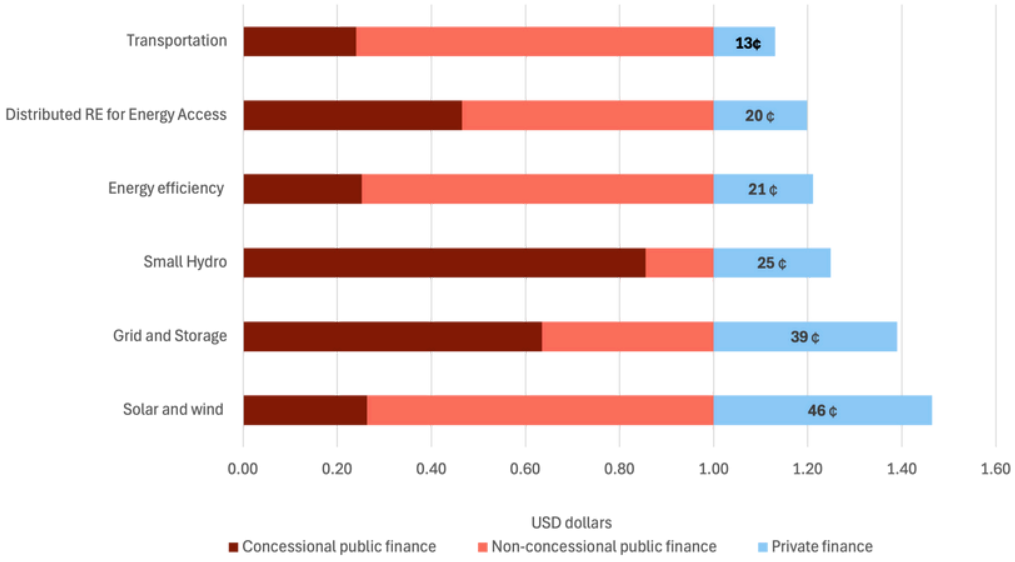


Source: OCI analysis of data from Convergence© and IJGlobal

As **Figure 5** illustrates, the private finance crowd-in rates for key energy transition sectors are all well below $1 for every public dollar (both concessional and non-concessional). These roughly matched our findings for overall finance flows, where sectors that are easier to structure as profit-generating leveraged the most private finance.

It is important to note that for many of the sectors, the crowd-in rates come from very few projects. Figure 5 only includes those with 3 or more projects; as such, geothermal projects and mixed projects were removed.

Figure 5: Blended energy transition finance by key energy transition sector per every dollar of public finance, 2015-2024, USD dollars



Source: OCI analysis of data from Convergence© and IJGlobal

How our dataset compares to the existing literature

Table 1: Comparing our dataset on blended finance for the energy transition to previous findings on private capital mobilization for all development finance or the energy transition specifically.

Source	Scope of data	Reported ratio & ratio type	OCI blended finance dataset in equivalent terms
Overseas Development Institute [27]	• 2013-2015 • All sectors • Public finance component includes multilateral and bilateral development finance for initiatives aiming to mobilize private finance in low and middle income countries.	0.75 (private finance to all public finance)	0.63
OECD Climate Finance Reporting[28]	• 2016-2021 • Energy-transition related energy policy, renewable power, storage, energy distribution, transport, and industry. • Public finance component includes bilateral and multilateral finance from Global North Annex II countries to all countries eligible for climate finance or OECD aid.	0.31 (private finance to all public finance)	0.42

Source	Scope of data	Reported ratio & ratio type	OCI blended finance dataset in equivalent terms
Multilateral Development Bank joint reporting[29]	• 2021-2023 • All sectors • All MDB finance in low and middle income countries	0.30 (private finance to all public finance)	0.34
Convergence[30]	• 2014-2023 • Renewable energy only • Latin America & the Caribbean, Sub-Saharan Africa, South Asia, Middle East & North Africa, East Asia & Pacific	4.5 (Non-concessional public & private finance to concessional public finance)	4.3

In **Table 1,** we look across previous studies that provide an estimate of the amount of private finance leveraged by public finance with a concessional component. We put our dataset in the most equivalent terms possible in terms of ratio type, years, and project sectors to allow more direct comparison. Blended finance definitions, policies, and models tend to emphasize the ratio of private finance crowd-in relative to *only* concessional public finance.[31] However, due to data limitations, most available empirical research has looked at the private capital mobilization from all public finance in their datasets. Overall, our findings are very similar to the ODI and joint MDB reporting, looking at all development finance, suggesting that energy-transition related projects are not outliers that are dramatically more effective at attracting private finance (though notable sector-level differences exist within the "energy transition" scope as seen in Figure 5). Our findings are also very similar to Convergence reporting on blended finance for renewable energy only, as well as OECD on all energy transition-related finance, helping confirm these are relatively consistent ratios for each scope.

Conclusion

Considering the evidence presented here, and the wider context laid out in ***Private Fantasies, Public Realities: Why private finance isn't delivering an energy transition and the case for public sector leadership***, it is clear that the use of blended finance should be carefully weighed against alternatives based on specific sector and country contexts.

There is also evidence that global financial architecture reforms like removing biases against Global South countries in credit gency ratings and insurance company methodologies could improve these crowd-in rates by lowering the cost of commercial loans and equity available in a country.[32]

With these broader considerations in mind, we propose the following initial recommendations for the use of blended finance in the just energy transition. These are in line with recent research by CAN Europe, Eurodad, IRENA and Boston University: [33]

- Improve transparency and reporting by publishing more open and comparable data on blended finance projects. Currently, low transparency when reporting on blended finance transactions limits our ability to fully assess whether blended finance is delivering on its aims.
- Despite blended finance programs' emphasis on attracting private money, concessional public finance brought in twice as much public investment on commercial terms than private investment. This suggests that a return to focusing on "public-public" blending, as was the norm prior to the 2000s, could be more impactful. A few particularly promising types of this are:
    - MDB onlending or political risk guarantees to national development banks (NDBs) for domestically-driven portfolios, using their stronger credit ratings to obtain better financing terms.
    - Using grants to establish shared funds across public finance institutions that are able to leverage risk mitigation instruments like guarantees and insurance without further straining the budgets of already indebted countries.
    - Public green bonds, whereby public finance institutions raise private capital and direct it towards priority projects, though credit rating agency biases and other global financial architecture risks mean the risks of this strategy are still too high for many smaller and lower-income countries in the Global South.
- Prioritize technical assistance grants for project development that are in line with national and local priorities like country platforms and nationally determined contributions (NDCs) and do not impose policy conditions.
- Blended finance should prioritize the buildup of local workforce and firms through local content requirements and targeted technical assistance to support project preparation, skills and training development. As our database shows, the majority of blended finance for the energy transition currently goes to foreign companies, limiting benefits to local communities.
- Apply best practice standards and safeguards when using blended finance to ensure accountability and transparency. This includes the OECD-UNDP Impact Standards for Financing Sustainable Development, and the DFI-enhanced principles for blended concessional finance for private sector projects.[34] For blended finance projects to be truly accountable, these standards should be transformed into legally binding legislation for all project investors.[35]

Narai Chal via Getty Images

Endnotes:

1 Throughout this document we use Global South to denote low, low-middle and middle income countries as classified by the World Bank Classifications. We also categorize countries by income classification in our data analysis. Global North countries include High income countries according to World Bank Classifications. We recognize that there are limitations in using these terms to classify countries. In the context of international climate negotiations, these classifications roughly translate into the countries that are obligated to pay climate finance, and those that are owed the finance under the UNFCCC.

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Endnotes continued

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This Methodology document looks at blended finance's track record for energy transition-related projects in the Global South based on a new blended finance dataset.

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Oil Change International *is a research, communications, and advocacy organization focused on exposing the true costs of fossil fuels and facilitating the coming transition towards clean energy*

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