



## INTRODUCTION

National Development Banks (NDBs) and domestic financial institutions play a strategic role in the financing of infrastructure. Collectively managing nearly USD 20 trillion in assets, compared with less than USD 3 trillion by Multilateral Development Banks (MDBs), they are uniquely positioned to mobilize capital, provide local-currency lending and support national development priorities. They already provide around 10% of global annual investment and are major providers of local-currency financing, with approximately 81% of their portfolios denominated in domestic currency.

Despite their scale and mandates, PPPs and climate-aligned infrastructure currently represent only a modest share of NDB portfolios. Developing countries face rising demand for infrastructure under tight fiscal and debt constraints. Blended finance, combining concessional public or philanthropic resources with commercial investment, provides a pathway to close this investment gap. NDBs already account for close to one-fifth of global climate finance, but green assets remain underrepresented in their portfolios, signalling a significant opportunity to accelerate climate-resilient and just transitions.

This policy brief builds on the WAPPP 2025 webinar on “The Role of Public Development Banks and Domestic Financial Institutions in Blended Finance PPPs.” It highlights how NDBs and domestic financial institutions, when equipped with the right mandates, governance systems and instruments, can originate, structure and scale blended-finance-enabled PPPs that attract domestic and international private capital.

## KEY CHALLENGES

### Underdeveloped PPP ecosystems

In many countries, PPPs and climate infrastructure are not yet core segments of NDB portfolios. NDBs often inherit weak project pipelines developed without strong feasibility analysis, appropriate risk allocation, or alignment with sector regulations, limiting their ability to deploy capital effectively.

### Fragmented concessional finance and limited internal capacity

Many NDBs have not yet positioned themselves as drivers of change in infrastructure finance. Consequently, they have not developed their instruments or mechanisms to systematically blend capital and promote domestic resource mobilization and private sector development. Donors and climate funds increasingly channel resources through NDBs, but financing remains arranged on a project-by-project basis, limiting scale and raising transaction costs.

### Local currency and capital market constraints

Most NDBs lack the long-tenor local currency loans and guarantee products needed to finance PPPs. Without credit enhancement mechanisms or bond platforms to mobilize domestic institutional investors, PPP financing remains dependent on scarce foreign currency debt, exposing projects and governments to exchange rate volatility.

### Absence of systematic SME and local contractor support

Despite their development mandates, most NDBs lack dedicated programs for performance bonds, working capital facilities, or guarantee schemes that would enable domestic firms to compete for PPP contracts. This perpetuates reliance on foreign contractors and misses a critical opportunity to build local construction and services capacity.

## NATIONAL DEVELOPMENT BANKS AND DOMESTIC FINANCIAL INSTITUTIONS

NDBs are mandated to support national development strategies and are closely aligned with government policy priorities. They are well placed to:

- Originate project pipelines anchored in national development plans and sector strategies.
- Blend concessional resources from donors, climate funds and governments with their own balance sheets.
- Provide local currency lending and risk-sharing instruments tailored to domestic conditions.
- Work with commercial banks, institutional investors and MDBs to mobilize additional capital.
- Encourage development of domestic private sector financing and contractor capacity

Domestic commercial banks provide complementary market depth and local knowledge. When supported by portfolio guarantees, risk-sharing facilities and clear policy signals, they can expand lending to PPPs and climate-aligned infrastructure.

However, in practice NDBs and DFIs have often played a relatively passive, intermediary role in PPPs, acting mainly as conduits for external or public finance than as active originators of bankable projects. The webinar showed that they can be engaged as de-risking agents much earlier in the project cycle, including project identification, preparation, policy dialogue and market design.

### PANEL INSIGHTS

**Aakif Merchant (Convergence):** *NDBs are natural partners for concessional capital providers and can blend donor, climate and government resources with their own balance sheets to mobilize private investment.*

**Rosemary Ong (Asian Development Bank):** *Blended finance instruments should be tailored to each country's sector needs and capital-market maturity, combining sovereign and private-sector windows to improve bankability.*

**Francis Mwesigye (Uganda Development Bank):** *Strong governance, risk systems and portfolio discipline are prerequisites for accessing climate and concessional funds and expanding into climate-resilient infrastructure and small-scale PPPs.*

**Enrique Cadena Rincón (Financiera de Desarrollo Nacional):** *Project preparation and regulatory alignment determine bankability; blended capital and capacity-building for authorities are essential to achieve this.*

**Kishore Nuthalapati (PPP Advisor):** *Viability gap funding, take-out financing and clear PPP guidelines are critical for long-term PPP markets, with DFIs anchoring and crowding-in commercial lenders.*

**Ziad-Alexandre Hayek (WAPPP):** *NDBs can plug specific gaps in PPPs through targeted guarantees, take-out financing, forex risk mitigation and SME support, leveraging their public mandate to accelerate project delivery*

## CASE STUDIES IN PRACTICE

### India – Evolving Development Finance Institutions and PPP Ecosystem

India has developed one of the world's largest PPP markets. Earlier generations of DFIs such as ICICI, IDBI and IDFC played an important role in long-term project finance before some transitioned into commercial banks. New institutions, including the National Bank for Financing Infrastructure and Development (NaBFID) and India Infrastructure Finance Company Limited (IIFCL), continue to anchor long-tenor, risk-bearing capital.

These institutions, together with commercial banks and central government support schemes, have backed PPPs through viability gap funding, long-tenor loans and emerging take-out structures. States such as Maharashtra, Gujarat, Karnataka and Telangana have implemented numerous PPPs, including metro rail projects like Hyderabad.

### Uganda Development Bank – Program-Based Project Preparation and Blended Finance

Uganda Development Bank (UDB) is the national development finance institution, fully owned by the Government of Uganda and aligned with the National Development Plan. UDB has shifted from a passive “demand capture” model to a proactive, program-based approach anchored in national priorities.

- Works with ministries and implementing agencies to identify priority PPPs in energy, climate resilience and waste management, and address enabling policy needs.
- Developed a dedicated climate-smart financing window, providing targeted incentives for low-carbon and resilient infrastructure projects.

UDB co-finances project preparation using its own resources and concessional funds from partners such as Africa50 and climate finance institutions. Preparation costs are capitalized at financial close. UDB then crowds in domestic banks and development finance institutions. Its strong governance and national credit rating support accreditation with climate and concessional financing partners.

### Financiera de Desarrollo Nacional (FDN), Colombia – PPP Structuring and Liquidity Solutions

Financiera de Desarrollo Nacional (FDN) is Colombia's specialized infrastructure development bank. It supports PPP structuring and financing across sectors and levels of government. FDN provides technical assistance, project preparation resources and donor support to reduce the burden on subnational authorities.

On the financing side, FDN provides long-term loans, guarantees and liquidity facilities that improve resilience and bankability. Liquidity lines can bridge temporary payment delays, while subordinated debt and guarantee structures improve cash-flow profiles and facilitate participation by commercial lenders and capital markets.

### NAIA Airport PPP, Philippines – Asset Monetization with Domestic Banks

The Ninoy Aquino International Airport (NAIA) PPP in the Philippines combines asset monetization with long-term investment. The Asian Development Bank acted as transaction adviser to the government. The PPP included an upfront concession fee, recurring annuity payments and a high revenue share for the government, while mobilizing substantial private capital for terminal and airside upgrades.

The concession is based on projected cash flows rather than a sovereign guarantee. The Development Bank of the Philippines participated as one of several domestic lenders in an oversubscribed financing package, demonstrating the capacity of domestic banks to fund major PPPs in local currency when structural and regulatory clarity is in place.

## POLICY RECOMMENDATIONS

- 1** **Strengthen mandates for PPPs and climate-resilient infrastructure**  
 Governments should explicitly reflect PPPs and climate-resilient infrastructure in NDB and domestic bank strategies with clear objectives and portfolio targets.
- 2** **Establish program-based project preparation platforms within NDBs**  
 Permanent facilities should support feasibility studies, financial structuring and regulatory alignment, with costs capitalized at financial close.
- 3** **Use NDBs as blending hubs for concessional and commercial capital**  
 Layered structures using concessional funds alongside NDB capital and domestic banks can crowd in commercial lenders while maintaining risk-sharing discipline.
- 4** **Expand local currency solutions and capital-market access**  
 Local currency guarantees, long-tenor facilities and take-out mechanisms should align PPP liabilities with revenue streams and attract institutional investors.
- 5** **Support domestic firms and SMEs in PPP participation**  
 Guarantee schemes, performance bond support and working-capital lines can expand domestic participation — especially in municipal and small-scale PPPs.
- 6** **Formalize coordination between NDBs, PPP units and MDBs**  
 Joint pipeline reviews and standardized transaction approaches can accelerate implementation and reduce transaction costs.

## CONCLUSION

NDBs and domestic financial institutions are essential actors in blended finance for PPPs. Their proximity to governments, understanding of national priorities and ability to lend in local currency position them to play a leading role in originating, structuring and financing sustainable infrastructure. Scaling their mandates, strengthening project preparation capabilities, blending concessional and commercial capital systematically and supporting domestic suppliers can turn them into long-term drivers of inclusive and climate-aligned PPP programs.



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