

De-risking for Impact:

Instruments and Blended Finance Tools for National Infrastructure Financing Institutions



Citation

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1. From Institutional Existence to Instrument Sophistication

Public-Private Partnerships and blended finance have expanded the range of tools available for infrastructure delivery, yet neither has, on its own, mobilised private capital at the scale that current infrastructure needs require. Experience examined across this series suggests that the constraint is not primarily a shortage of capital. It is a mismatch between the risk profiles that infrastructure projects present and the risk-return thresholds that investors are willing or able to accept.

National Infrastructure Financing Institutions (NIFIs) are positioned to address this mismatch, not by replacing private capital but by deploying financial instruments that reshape a project's risk architecture and make it investable. Having established why NIFIs matter and how they are designed, this policy brief turns to what they actually do: how they select, structure and deploy instruments, and where that deployment can support or undermine the broader objective of mobilising capital at scale.

“The world does not lack PPP projects. It lacks bankable PPP projects. This is not a gap of ambition. It is a gap of instrument.” — Ziad-Alexandre Hayek

This brief draws directly on WAPPP's 2026 Webinar 3, held on 9 April 2026, which examined how National Infrastructure Financing Institutions deploy financial instruments and blended finance tools to close the bankability gap and mobilise capital at scale.

The session brought together Sanjeev Gupta, Chairman of InfraCredit and former senior executive at the Africa Finance Corporation; Saurabh Suneja, Director at India's National Investment and Infrastructure Fund (NIIF); and Seçil Yıldız, Executive Vice President at the Development and Investment Bank of Türkiye (TSKB), with strategic framing from WAPPP President Ziad-Alexandre Hayek. The discussion highlighted a range of instruments already in active use, including fund-based equity deployment at commercial return expectations, local-currency credit enhancement mechanisms for domestic institutional capital, risk-sharing structures for early-stage exploration risk, and first-loss blended capital targeted at specific, named gaps in standard risk-return profiles.

2. The Bankability Gap

Infrastructure projects can fail to reach financial close even where the underlying project has merit, because of the gap between its economic/social value and its market attractiveness. Panellists identified several risks that most commonly prevent projects from crossing this gap, including revenue uncertainty, construction and completion risk, regulatory and political risk, and currency and refinancing risk.

Practitioner experience across multiple institutional contexts pointed to two constraints as recurring in practice ahead of the others. The first is a shortage of early-stage project development and preparation capital: the riskiest form of equity, deployed before a project is bankable enough to attract other financing, and the form most often absent from the capital stack. The second is tenor, since commercial debt markets in the jurisdictions represented on the panel were described as not being structured to match the multi-decade horizons that infrastructure assets require. Addressing these two constraints was described as doing most of the work needed to bring a transaction to financial close — a menu of available instruments does not by itself close a bankability gap unless the gap has first been defined precisely enough for an instrument to be matched to it.



3. Matching Instruments to Constraints

NIFIs draw on a common toolkit of debt, equity, guarantees, syndication and subordinated or mezzanine capital, but these instruments differ in what they do to a project's risk architecture, and the appropriate mix depends on the nature of the underlying constraint rather than on institutional habit or precedent.

Practice at the Development and Investment Bank of Türkiye (TSKB) illustrates a constraint-first approach to instrument selection. Before selecting an instrument, the institution asks what is preventing investment at scale in a given case. Where the underlying constraint is perceived credit risk, guarantees or first-loss structures are the more relevant tool. Where the constraint is tenor, longer-term debt or subordinated financing is more relevant. Where the constraint is market confidence in an unfamiliar sector or geography, co-investment or anchor investment tends to be the more effective lever. Instrument choice, on this account, follows diagnosis rather than preceding it.

This diagnostic discipline operates within limits that are themselves worth naming. Balance-sheet capacity, regulatory capital requirements, sector or instrument mandates, and pricing expectations all constrain what an institution can deploy regardless of what a given project needs; more mature institutions treat these constraints as design parameters to be structured around, rather than obstacles to be bypassed. A further precondition sits outside instrument design altogether: land availability, the local banking system, the policy and regulatory framework, and a country's investment reputation all shape whether capital will flow before instrument-level structuring is even considered.

4. Fund-Based Instruments: The NIIF Model

India's National Investment and Infrastructure Fund (NIIF) illustrates a fund-based model operating within the broader NIFI landscape. NIIF functions as a private-equity-style manager across several fund structures, with the Government of India anchoring 49 per cent of committed capital alongside international pension funds, sovereign wealth funds and multilateral development banks.

Two design features distinguish this model from balance-sheet lending or guarantee-based institutions. First, NIIF's government capital is deployed at the same commercial return expectations as its private co-investors, rather than as concessional or below-market capital; the institution reports competing for and losing a majority of the transactions it bids for, at a reported success rate in the region of 10 to 20 per cent. Second, NIIF describes itself as a builder and operator of businesses rather than a passive allocator of capital. In addition to taking control positions in its investments, NIIF's model involves active asset management and operational value creation, strengthening the performance and financing capacity of its assets and enabling access to debt at more competitive rates, before ultimately exiting in commercial markets.

NIIF also plays a market-development role distinct from capital deployment: working directly with government to bring new PPP segments to bankability, including the first Indian student-accommodation PPPs awarded in 2025 in a segment with no prior PPP track record. This suggests that fund-based NIFIs can contribute to bankability in ways that extend beyond the transactions they directly finance.

5. Local Currency Credit Enhancement: The InfraCredit Case

Where fund-based instruments address the equity gap, dedicated guarantee vehicles address a different constraint: the near-absence of long-term local currency debt for infrastructure. InfraCredit, established in Nigeria by the Africa Finance Corporation, InfraCo and the Nigeria Sovereign Investment Authority, was created on the premise that domestic pension and insurance funds were structurally unable to take on early-stage project or construction risk, but could participate at the point where that risk had already been absorbed elsewhere.



InfraCredit provides a guarantee on local-currency debt issued at the project-finance level, backed by a credit rating comparable to the highest available in the domestic market. This converts project debt into an instrument that pension funds can hold with confidence, while resolving currency risk and, because the debt is long-tenor by design, tenor risk simultaneously. The institution guarantees only transactions it assesses as commercially viable in their own right, on the stated basis that public credit enhancement backing an unviable project ultimately damages the credibility of both the guarantor and the broader instrument.

A secondary effect noted in this case is governance: because the capital involved is domestic and locally managed, the degree of monitoring and insight into financed projects is reported to be considerably higher than with distant international capital, adding a layer of oversight beyond the guarantee itself.

6. Managing Currency, Refinancing and Sustainability-Linked Risk

Türkiye's experience illustrates the structural difficulty of matching financing currency to project revenue currency. Where infrastructure assets generate hard-currency revenue, such as renewable energy projects benefiting from hard-currency-denominated feed-in tariffs, financing in hard currency at tenors of up to fifteen years has been achievable, and renewable capacity is reported to have tripled over the past decade on this basis.

Sectors without hard-currency revenue, including much of transportation infrastructure, require local-currency financing that multilateral and donor sources frequently do not provide directly. Converting hard-currency funding into local currency adds a cost that borrowers may be unable to absorb. TSKB's response includes increasing local-currency lending where possible, supported by a long-term local-currency facility issued by the central bank. Hedging mechanisms provide another option but remain costly and limited in availability. Where the currency exposure cannot otherwise be accommodated, Seçil described TSKB's approach in some cases as structuring products so that the currency risk is shared more evenly among the parties involved, rather than remaining entirely with the borrower.

Refinancing risk presents a related but distinct constraint: domestic capital markets may not provide the longer-term local-currency instruments needed to refinance infrastructure debt as it matures, creating a mismatch between the tenor of available financing and the needs of infrastructure projects. TSKB's reported response is to mitigate this gap by prioritising longer-term funding lines through partnerships with international financial institutions, co-financing projects, and structuring debt to reduce rollover pressure on borrowers.

A risk-sharing mechanism developed for geothermal exploration, in partnership with the World Bank, offers a further model worth noting: developers searching for geothermal resources pay a modest premium in exchange for either loan access, where resources are found and the project becomes bankable, or a grant covering roughly 60 per cent of exploration capital expenditure, where they are not. This structure is designed specifically for pre-investment, exploration-stage risk, distinct from the construction and revenue risk that guarantees and long-tenor debt more typically address.

On sustainability-linked financing, the reported experience is that regulatory incentives — tax treatment, feed-in tariff design — are a precondition for banks to expand this type of lending; the instrument alone does not generate sufficient uptake. Blending sustainability-linked terms with concessional elements such as first-loss cover, longer-tenor loans or grants was described as a way of reconciling the return expectations of commercial and impact-oriented investors within a single structure.

7. Blended Finance and the Crowding-Out Question

A recurring question in this webinar was whether NIFI and blended finance activity risks crowding out the private capital it is meant to mobilise. Practitioners from the three institutional types — a fund-based national institution, a multinational development finance corporation, and a national development bank — each reported that crowding-out had not materialised as an active risk in their own operations. This should be read as self-reported practitioner



experience from within these specific institutions, not as an independently verified finding that NIFs do not crowd out private capital in general.

For the NIIF, the reasoning was institution-specific: government capital is deployed at commercial rather than concessional return expectations, and as stated, the institution reports competing for transactions on the same terms as any other bidder. For TSKB, the reasoning centred on leverage rather than pricing: concessional or DFI capital is used to mobilise a multiple of private capital — reportedly between one and three times the amount — so that public support functions as a lever that draws private capital in rather than a substitute that displaces it. At the multinational and continental scale, the reasoning offered was structural rather than institution-specific: private-sector-led, commercially structured infrastructure financing in Africa is a comparatively recent phenomenon, spanning less than two decades, against an infrastructure financing gap large enough that practitioners described the environment as one of crowding in rather than crowding out, with cooperation preferred over competition among the growing number of African development finance institutions.

A more specific caution was raised regarding dependency rather than crowding-out as such: sustained public support extended without accountability was described as a risk in its own right, on the reasoning that it can make private capital less rigorous over time, and that no amount of structuring changes the underlying creditworthiness of a project that lacks it. A related caution concerned duplication of specific infrastructure types — port, logistics and energy assets were named — across neighbouring, individually small African markets, on the reasoning that public and local institutional support is better assessed at a regional rather than a purely national level to avoid financing duplicate capacity in these sectors.

A concrete illustration of deliberately bounded blended finance design came from a dedicated climate resilience and adaptation fund, structured with a twenty per cent first-loss layer provided by the Green Climate Fund and private commercial capital layered on top. This was designed specifically because standard project finance structures were not adequately compensating for climate resiliency and adaptation risk, illustrating first-loss capital used to correct a specific, named gap in the standard risk-return profile rather than as a general subsidy.

8. Policy Directions for Governments

1. Diagnose before deploying Diagnose the specific constraint — credit risk, tenor, or market confidence — before selecting an instrument, rather than defaulting to a standard instrument mix.	2. Dedicated preparation capital Treat early-stage project development and preparation capital as a dedicated facility in its own right, rather than assuming it will be supplied incidentally by general equity or debt provision.
3. Local-currency credit enhancement Design local-currency credit enhancement vehicles deliberately, backed by credible shareholder capital and disciplined project selection, to mobilise domestic pension and insurance capital that cannot absorb early-stage or construction risk directly.	4. Price anchor capital commercially Where the objective is market credibility rather than concessionality, price government anchor capital at commercial rates so that it demonstrates discipline rather than distorting return expectations.
5. Build in structural discipline Build explicit discipline into blended and first-loss structures — competitive project selection, defined sizing limits, and clear eligibility criteria — to guard against dependency rather than relying on the absence of crowding-out to date.	6. Coordinate regionally Coordinate infrastructure planning regionally where individual domestic markets are small, to avoid financing duplicate capacity across neighbouring jurisdictions.

7. Pair instruments with regulatory incentives

Pair sustainability-linked and blended finance instruments with the regulatory incentives — tax treatment, tariff design — needed to make them commercially attractive, rather than treating labelling alone as sufficient.

9. Conclusion

Institutional existence and institutional design, examined in the earlier stages of this series, are necessary but not sufficient conditions for mobilising infrastructure capital at scale. The experience examined in this brief suggests that a NIFI's practical effectiveness rests on instrument sophistication: the discipline to diagnose the specific constraint a project faces, the willingness to design instruments around genuine balance-sheet and mandate limits rather than in spite of them, and enough structural discipline within blended and guarantee mechanisms to remain catalytic rather than becoming a source of dependency. None of the models examined here — fund-based, guarantee-based, or balance-sheet development banking — is transferable wholesale; each reflects the specific fiscal, regulatory and capital market conditions in which it operates. What appears to transfer is the underlying discipline of matching instrument to constraint.