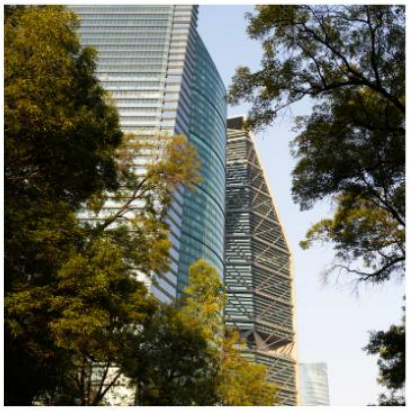
PROSPECT





Blended Finance - Learning Handbook at a Glance

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About the project

PROSPECT aims to strengthen the capacity of local and regional authorities (LRAs) across Europe to implement sustainable energy and climate actions by reducing reliance on public funding and increasing the use of innovative financing schemes (e.g., one-stop-shops, energy agencies, energy communities). The project offers a peer-to-peer Capacity Building Programme (CBP) tailored to the needs and time constraints of LRAs, available in multiple languages and structured in adaptable learning modules. Through large-scale outreach, including very small and remote LRAs, PROSPECT CUBE acts as an entry point to EU programmes and financing opportunities for authorities with limited experience in the field.

PROSPECT CUBE builds upon two successful Horizon 2020 initiatives: PROSPECT (2017–2020) and PROSPECT+ (2022–2025).

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1. About this guide

This concise guide presents the key concepts, practical applications and main takeaways of the full PROSPECT CUBE Learning Handbook on Blended Finance, an approach that combines different sources of capital to mobilise investment in sustainable energy and climate initiatives. It explores how local and regional authorities (LRAs) can use blended finance to overcome financing barriers, attract commercial investment and maximise the impact of limited public resources.

Drawing on the experience of the PROSPECT initiative and the European and international sustainable finance guidance, the publication introduces the main financing structures, instruments and practical considerations involved in designing and implementing blended finance schemes.

1.1. What the full learning handbook covers?

The full learning handbook is structured as a learning and reference resource covering:

- The principles, operational logic and key characteristics of blended finance
- Financing arrangements, supporting mechanisms and commonly used instruments
- Sectoral applications and the main stakeholders involved
- Benefits and added value for LRAs
- A step-by-step implementation roadmap and decision-support tools
- EU-level practical experience, success factors, barriers and risks

Combining conceptual explanations with practical guidance and real-world examples, the handbook helps readers assess the suitability of blended finance and identify appropriate financing approaches for sustainable energy and climate investments.

1.2. Who should use the full learning handbook?

The full learning handbook is designed for both newcomers and experienced practitioners involved in energy-related investments. Developed within the framework of PROSPECT initiative, it primarily targets LRAs, particularly municipal finance departments, investment planning units and public officials responsible for energy transition and infrastructure development. It also addresses energy agencies, public utilities, housing authorities, financial institutions, Energy Service Companies (ESCOs), consultants and project developers involved in preparing, financing and implementing sustainable investments.

Overall, the handbook provides a practical reference for understanding blended finance opportunities, selecting suitable financing arrangements and navigating the key considerations involved in their implementation.

2. What is blended finance?

Blended finance is a strategic financing approach that combines public, concessional and commercial capital to mobilise investment in projects that deliver environmental, social and economic benefits but face difficulties accessing conventional finance.

Rather than being a standalone financial instrument or a single universal model, it brings together different funding sources and financing mechanisms to improve investment conditions, reduce perceived risks and attract additional commercial capital. Its core principles include additionality, whereby public or concessional resources enable investments that would otherwise not take place or achieve greater scale, speed and impact than conventional financing alone, alongside private capital mobilisation, targeted concessionality, risk-sharing and leverage.

2.1. How does blended finance work in practice?

Blended finance uses targeted public or concessional support to address investment barriers and encourage commercial investors to participate. Depending on project needs and market conditions, this support operates through three main mechanisms:

- Technical assistance (e.g. ELENA) to support project preparation, feasibility studies and capacity building, helping develop investment-ready projects.
- Risk underwriting to mitigate investment risks through mechanisms that protect investors against potential losses.
- Market incentives to address market barriers by improving financing conditions and enhancing project viability.

These mechanisms draw on a range of financial instruments, including grants, guarantees, concessional loans, first-loss capital, equity investments and subordinated debt or mezzanine finance.

These instruments are rarely used in isolation. Depending on how capital and risks are allocated, they are combined into layered capital structures, concessional lending, guarantee-backed arrangements or equity and risk-sharing structures. In layered structures (the “capital stack”), junior or concessional capital absorbs losses first, protecting commercial lenders. These arrangements can be applied at fund, company or project level, or linked to the achievement of predefined outcomes.

The choice of instruments and arrangements depends on the investment barriers being addressed, project maturity, market conditions and the risk profiles of participating investors.

2.2. Where can blended finance be applied?

Blended finance is particularly relevant when sustainable investments face financing barriers that cannot be adequately addressed through conventional public funding or commercial finance alone. It is most effective when viable, mature projects exist, market conditions rather than a lack of opportunities are the main obstacle, and public resources are used only to the extent necessary. Where projects are not yet mature, technical assistance and project preparation should come first. This flexibility allows financing solutions to be tailored to different sectors, project scales and local investment needs.

For LRAs, the main areas of application include:

- Public buildings, including energy efficiency renovations, renewable energy integration and municipal Energy Performance Contracting (EPC) schemes.
- Residential buildings, including home energy renovations, rooftop solar installations, heat pumps and energy poverty initiatives.
- Commercial buildings and SMEs, including energy efficiency upgrades, on-site renewables, decarbonisation investments and sustainable production processes.
- Public infrastructure, including street lighting modernisation, smart city systems, water infrastructure and public service upgrades.
- Sustainable mobility, including electric vehicle charging networks, electric bus fleets, and shared and active mobility systems.
- Renewable energy and energy communities, including solar and wind projects, community energy initiatives and local generation schemes.
- District energy and large infrastructure, including district heating and cooling, integrated energy systems, energy networks and large-scale climate infrastructure.
- Cross-sectoral investment programmes, including integrated Sustainable Energy and Climate Plans (SECAPs), climate investment pipelines, urban transition initiatives and multi-sector investment portfolios.

Across these areas, the suitability of blended finance depends on the nature of the investment barriers, the scale and maturity of projects, and the ability to combine appropriate financial instruments and stakeholders

2.3. Why does blended finance matter?

Blended finance enables LRAs to overcome financing barriers, make more effective use of public resources and accelerate sustainable energy and climate investments. Its main benefits include:

- Greater investment mobilisation through the attraction of additional commercial capital and more effective use of limited public resources.
- Improved project bankability through stronger investment readiness and more attractive financing conditions.
- Reduced investment risks through risk-sharing among financing partners and greater investor confidence.
- Stronger market development through increased private sector participation in emerging or underserved investment areas.
- Support for complex and innovative investments, such as projects with higher perceived risks, long payback periods or limited financing track records.
- More effective project aggregation through the combination of smaller initiatives into larger, more attractive investment portfolios.
- Enhanced institutional capacity through stronger financial expertise, stakeholder collaboration and long-term investment planning.

Ultimately, blended finance offers LRAs a strategic pathway to turn ambitious climate and energy objectives into viable investments, while fostering more resilient local financing ecosystems and reducing long-term dependence on public funding alone.

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