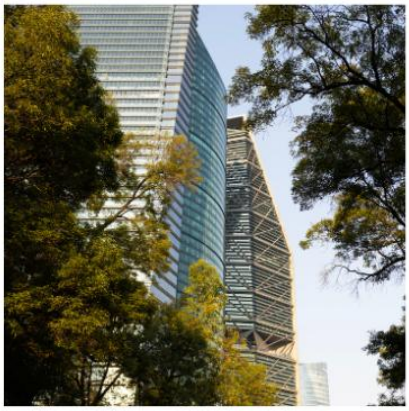
PROSPECT





Learning Handbook on Blended Finance

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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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List of abbreviations

Abbreviation	Description
CAPEX	Capital Expenditure
DAC	Development Assistance Committee (OECD)
DFI	Development Finance Institution
EE	Energy Efficiency
ESCO	Energy Service Company
EV	Electric Vehicle
LRA	Local and Regional Authority
MBD	Multilateral Development Bank
NbS	Nature-based Solution
OECD	Organization for Economic Co-operation and Development
OSS	One-Stop Shop
PDS	Project Development Service
PPP	Public-Private Partnership
PV	Photovoltaic
RES	Renewable Energy Sources
SDGs	Sustainable Development Goals
SECAP	Sustainable Energy and Climate Plan
SME	Small and Medium-sized Enterprise
SPV	Special Purpose Vehicle
TA	Technical Assistance
TEA	Tipperary Energy Agency

1. Introduction

As local and regional authorities (LRAs), public institutions, and project developers across Europe accelerate efforts to achieve climate neutrality and energy transition objectives, the need for investment in sustainable energy, renewable energy systems, buildings, mobility infrastructure, and climate resilience measures continues to grow. However, despite increasing policy ambition and the availability of public funding programmes, many initiatives struggle to move from planning to implementation due to financing constraints, perceived risks, or limited access to private capital.

In many cases, the challenge is not the lack of viable opportunities, but the difficulty of attracting the scale of funding required. Public resources alone are often insufficient to meet growing investment needs, while commercial financiers may be reluctant to support activities characterised by long payback periods, fragmented pipelines, or uncertain revenue streams.

Within this context, blended finance has emerged as an increasingly important approach for bridging the gap between public objectives and private investment. Rather than representing a single financing instrument, it combines public, concessional, and commercial sources of finance within a coordinated structure designed to improve investment conditions, facilitate the participation of additional financing actors, and mobilise capital towards sustainable energy and climate initiatives. In doing so, it contributes to the development of a stronger investment ecosystem that can help translate project ambition into implementation while maximising the impact of limited public resources.

1.1. Purpose of this handbook

The purpose of this handbook is to enhance readers' understanding of the principles, operational structures, and practical applications of blended finance. It explains how blended finance works in practice, presents the financing instruments commonly used within blended finance structures, and outlines key considerations associated with their design and implementation.

The handbook draws on experiences and lessons learned from the PROSPECT Initiative, including peer-learning exchanges between LRAs, as well as guidance developed by European and international organisations active in sustainable finance. It is intended to serve as a practical reference for stakeholders seeking to identify appropriate financing approaches and strengthen the delivery of sustainable energy and climate investments.

1.2. Target audience

This handbook is primarily intended for LRAs involved in the planning, financing, and delivery of sustainable energy and climate initiatives. It is particularly relevant for public officials and urban planners working in areas such as energy transition, infrastructure development, and public investment planning.

Typical users of this handbook include:

- Municipal finance departments and investment planning units.
- Public agencies, energy agencies, and organisations supporting project preparation and implementation.
- Municipal companies, public utilities, and infrastructure operators.
- Housing authorities and social housing providers implementing renovation programmes.
- National and regional authorities, policymakers, and practitioners interested in innovative financing approaches.

The handbook may also be useful for broader stakeholder groups, including project developers, consultants, technical assistance providers, specialised Energy Service Companies (ESCOs), and financing institutions involved in the preparation, structuring, and delivery of sustainable energy and climate investments.

1.3. How to use this handbook

This handbook is designed as a modular learning and reference tool, enabling readers to engage with its content according to their role, level of experience, and specific needs. It follows a structured progression from the fundamental concepts of blended finance to its practical application, financing structures, stakeholder roles, implementation considerations, and enabling conditions. Practical examples and case studies illustrate how blended finance can be applied across different sectors and investment contexts.

While the handbook can be read sequentially to gain a comprehensive overview of the topic, each section can also be used independently, allowing readers to focus on the aspects most relevant to their interests or responsibilities.

2. Understanding blended finance

Blended finance has emerged as an increasingly important approach for mobilising investment towards projects that generate environmental, social, and economic benefits while facing barriers to accessing commercial finance. Although the concept has gained significant prominence in recent years, particularly in the fields of sustainable development, climate finance, and energy transition, there is no single universally applied blended finance model (IFC, 2025; OECD, 2025).

Instead, blended finance encompasses a broad range of financing structures designed to align public objectives with private investment opportunities.

2.1. What is blended finance?

According to the OECD Development Assistance Committee (DAC), blended finance describes the strategic use of development finance to mobilise additional capital flows towards investments that contribute or accelerate the progress towards Sustainable Development Goals (SDGs), particularly in developing countries (OECD, 2018). Within this framework, development finance, refers to the public or private capital deployed with an explicit development or policy mandate, while additional finance, refers to the commercial capital that operates without a development mandate and would not otherwise be directed towards such investments without external intervention (OECD, 2025).

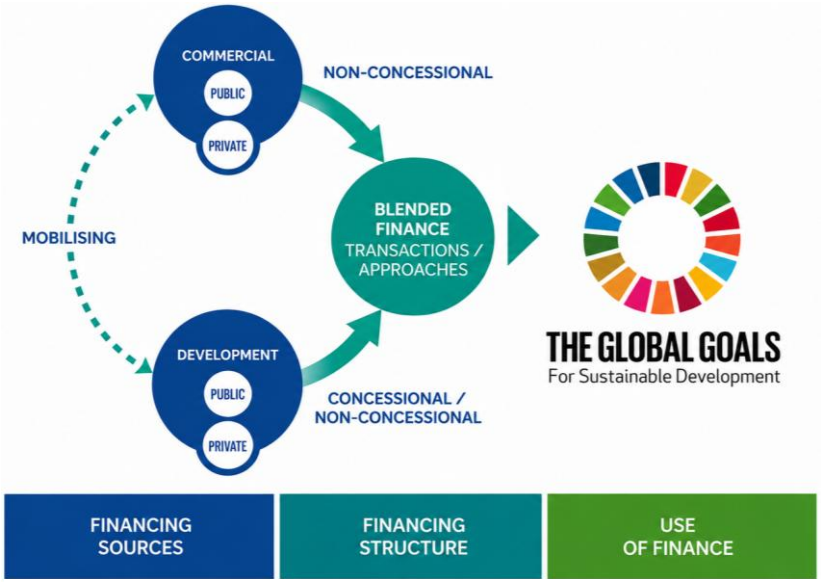


Figure 1. Key elements of blended finance (Source: OECD, 2018)

With the growing global emphasis on climate action, the concept has evolved beyond its niche position into a mainstream mechanism for supporting broader urban energy transitions across a wider range of sectors and market conditions. In this context, blended finance is uniquely suited for situations where sustainable energy and climate projects generate high environmental and social value but fail to attract sufficient additional funding due to high perceived risks, limited returns, or other structural barriers that may equally affect or limit investors' decisions and interest (Iezza et al., 2025; IFC, 2025; World Bank, 2026).

In such situations, blended finance seeks to create the conditions necessary for additional capital to participate alongside public actors by deploying targeted interventions which - depending on project needs and market conditions - may provide financial protections or financing terms more favourable than those typically available through commercial finance. These may include below-market interest rates, longer maturities, grace periods, or more flexible repayment schedules, with the specific combination varying according to the challenges being addressed, the maturity of the investment opportunity, and the profile of participating investors. However, the underlying objective remains the same: to de-risk investments and catalyse private capital towards projects that may be deemed too risky or commercially unattractive to proceed under normal market conditions (Convergence Blended Finance, 2024; IFC, 2025; MDB/DFI Working Group, 2021; World Bank, 2026).

Focus Box 1: Key concepts underpinning blended finance

Several core concepts underpin the design and implementation of blended finance structures:

- Additionality refers to the extent to which public or concessional finance enables investments that would not otherwise take place, or helps achieve greater scale, speed, or impact than would be possible through commercial financing alone.
- Mobilisation describes the process of attracting additional private capital alongside public or concessional resources. A key objective of blended finance is to maximise the volume of private investment mobilised relative to the public resources deployed.
- Concessionality refers to financial support provided on more favourable terms than those available in the market. This may include grants, below-market interest rates, subordinated financing, or other forms of support designed to address specific investment barriers.
- Risk-sharing involves the allocation or mitigation of risks among different financing partners. Instruments such as guarantees, first-loss capital, or subordinated debt can help reduce investor exposure and improve the attractiveness of investments.
- Leverage describes the relationship between public resources committed and the total volume of investment generated. Blended finance aims to maximise the overall investment impact achieved through limited public funding.

Together, these concepts help explain how blended finance structures are designed to improve investment conditions, attract commercial capital, and accelerate the implementation of sustainable development objectives, including energy and climate.

2.2. How blended finance works in practice?

Under its broadest interpretation, blended finance is emerging as an approach to help bridge the financing gap for sustainable development by using public support to mobilise commercial investment. At its core, it strategically combines public and other resources (e.g. philanthropic or donor funds) - either concessional or non-concessional - to catalyse non-concessional finance from public and/or private actors (OECD, 2025). In this way, rather than representing a single financing instrument, it creates a strong investment ecosystem in which different investors with different investment priorities are encouraged to participate or co-invest (GEF, 2020).

Within this ecosystem, blended finance transactions are supported by three broad categories of mechanisms, which depending on the funding gap being addressed, offer different rationales for and approaches to the use of a variety of financial instruments that can be eventually applied (Convergence Blended Finance, 2024; Pereira, 2017; WEF & OECD, 2015).

Table 1. Main supporting mechanisms and typical instruments used in blended finance structures

Supporting mechanism	Purpose	Typical instruments
Technical Assistance	Supports project preparation, feasibility studies, advisory services, and capacity-building activities. By reducing information gaps, technical uncertainty, and project development costs, it helps strengthen investment readiness and develop bankable project pipelines.	• Grants • Technical assistance facilities
Risk Underwriting	Reduces specific risks associated with a project or transaction through mechanisms that protect investors against potential losses. Such arrangements can improve investor confidence and facilitate participation in projects that may otherwise be considered too risky.	• Guarantees, • First-loss capital, • Equity, • Subordinated debt (e.g. Mezzanine Finance)
Market Incentives	Addresses market barriers that limit investment in emerging or underserved sectors by improving financing conditions and enhancing project viability.	Concessional financing/ Concessional loans

Through these mechanisms, blended finance can help to:

- Improve risk-return profiles, making projects more attractive to commercial investors.
- Provide credit enhancement and risk protection, reducing exposure to specific investment risks.
- Address market failures, overcoming barriers that may discourage private sector participation.
- Strengthen investment readiness and project bankability, supporting project preparation capacity.

In particular, in the context of sustainable energy and climate action, they can help unlock investment for initiatives contributing to decarbonisation, energy efficiency (EE), renewable energy (RES) deployment, sustainable mobility, and climate resilience. Their importance is highly relevant for early-stage and innovative projects, such as energy-sharing platforms or nature-based solutions (NbS), where long development cycles, fragmented returns, and technical novelty often deter traditional investors (McManus, 2025; OECD, 2022; Todeschi et al., 2025).

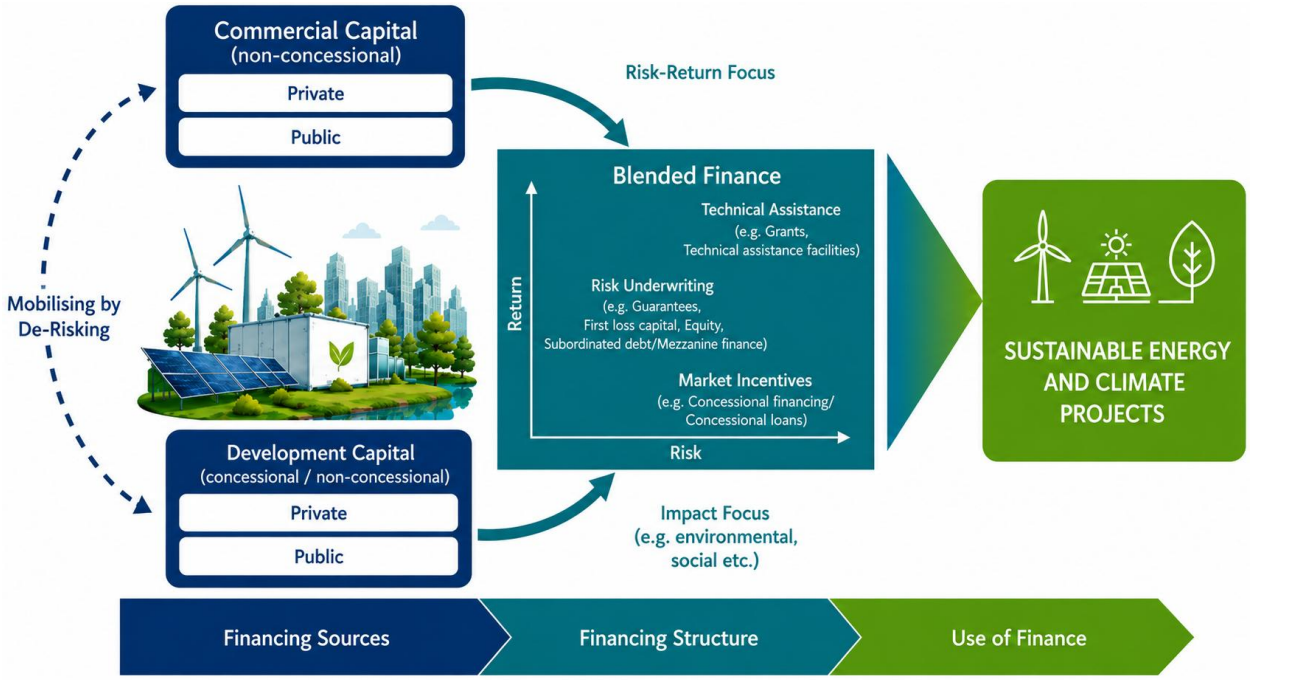


Figure 2. Simplified representation of the operational logic of blended finance for sustainable energy and climate projects (Source: Authors' own elaboration based on OECD, 2018) and WEF & OECD, 2015 / AI-enhanced)

2.3. Arrangements, types and characteristics

While the underlying objective of blended finance remains consistent across applications, its implementation can take a variety of forms depending on the context in which it is applied. As a result, blended finance encompasses a broad range of financing structures, each designed to address specific investment challenges while contributing to wider sustainability and climate objectives.

2.3.1. Arrangements

When considering how blended finance can be used to generate impact, it is helpful to recognise that different structures are used to deliver the most optimal financing arrangements for both the investees and investors. In practice, this diversity can be explored from two complementary perspectives:

(i) how capital, risks, and financial instruments are organised within a financing structure, and
(ii) the level at which blended finance interventions are deployed.

With regard to the first one, the most common arrangements include layered capital structures, concessional lending structures, guarantee-backed arrangements, and equity-based or risk-sharing structures (IFC, 2025; MDB/DFI Working Group, 2021; OECD, 2025). Their key characteristics, practical implications and the instruments typically used within each structure are presented in Table 2.

Table 2. Typical blended finance arrangements

Arrangement	Practical implications and typical instruments
Layered capital structures	Combine different layers of capital with varying risk-return profiles, allowing public or concessional investors to absorb higher risks and attract commercial investors.
	• Practical implications: Public or concessional investors assume higher-risk positions, helping protect commercial investors and mobilise private capital towards projects or sectors perceived as too risky under conventional financing conditions. • Typical instrument s: First-loss capital, Equity, Subordinated debt
Concessional lending structures	Improve financing conditions through below-market lending terms that enhance project affordability and bankability.
	• Practical implications: Lower financing costs can improve project viability and support investments that generate environmental or societal benefits but may struggle to secure conventional financing. • Typical instruments: Concessional (soft) loans
Guarantee-backed arrangements	Reduce investor exposure by providing protection against specific risks associated with projects, sectors, or markets.
	• Practical implications: By reducing the likelihood or impact of potential losses, guarantees can improve investor confidence and facilitate access to finance. • Typical instruments: Guarantees, Risk-sharing facilities
Equity and risk-sharing structures	Public or development investors take a higher-risk position within the capital structure to improve the attractiveness of investments for private investors.
	• Practical implications: Risk-sharing arrangements help improve investment conditions for commercial investors and can unlock additional capital for projects with higher perceived risks or longer payback periods. • Typical instruments: Equity, Subordinated debt/Mezzanine finance

With regard to the second perspective, the CFO Coalition for the SDGs proposes a complementary framework that distinguishes blended finance structures according to their point of application, ranging from investment funds and companies to individual projects and outcome-based financing mechanisms.

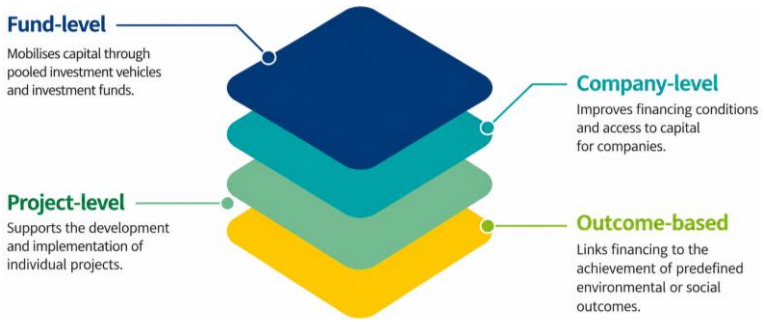


Figure 3. Blended finance structures across different intervention levels (Source: Adapted from Impact Investing Hub, 2026)

The suggested layers provide a useful way of understanding how blended finance can be applied across different financing ecosystems and levels of intervention, depending on the objectives pursued and the actors involved.

Fund-level blended finance

DESCRIPTION. Fund-level blended finance brings together different categories of investors within a common investment vehicle, enabling capital to be pooled and allocated across a portfolio of projects, companies, or assets. Rather than financing individual projects directly, investors participate through a fund structure that provides diversified exposure while supporting broader sustainability and climate objectives.

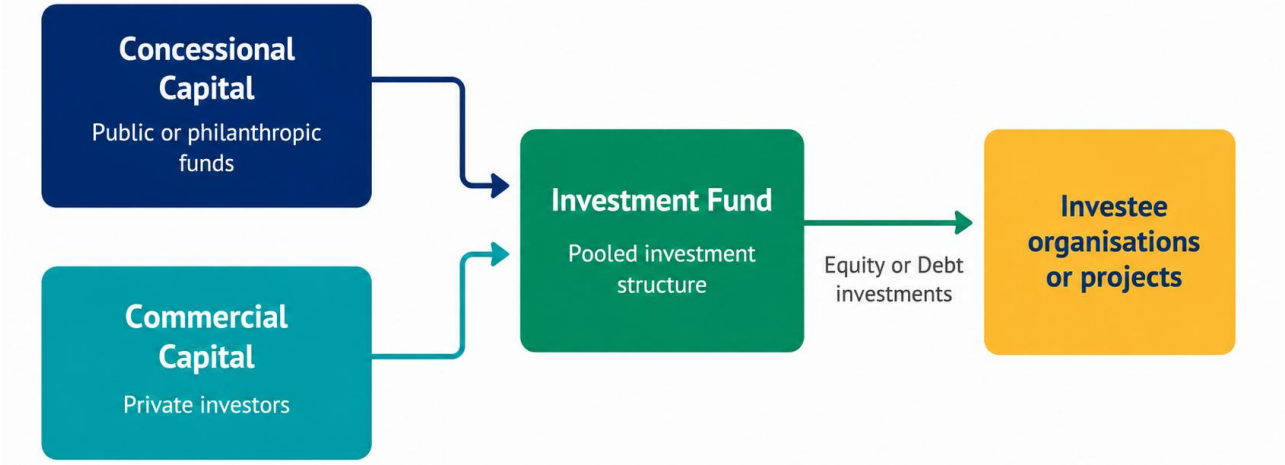


Figure 4. Simplified representation of fund-level blended finance (Source: CFO Coalition for the SDGs, 2024)

PRACTICAL IMPLICATIONS. This approach can facilitate investment at scale by aggregating multiple investment opportunities within a single structure. It can also improve portfolio diversification, reduce transaction costs, and enable investors to access sectors, technologies, or markets that may otherwise be difficult to reach through direct investment

TYPICAL ARRANGEMENTS /INSTRUMENTS.

- Layered capital structures
- Equity investments

Company-level blended finance

DESCRIPTION. Company-level blended finance focuses on improving the financing environment for individual organisations by reducing barriers that may limit their ability to access capital. Rather than investing through a fund structure or financing a specific project, blended finance interventions are directed towards strengthening the financial profile of companies and other entities seeking to develop or scale their activities.

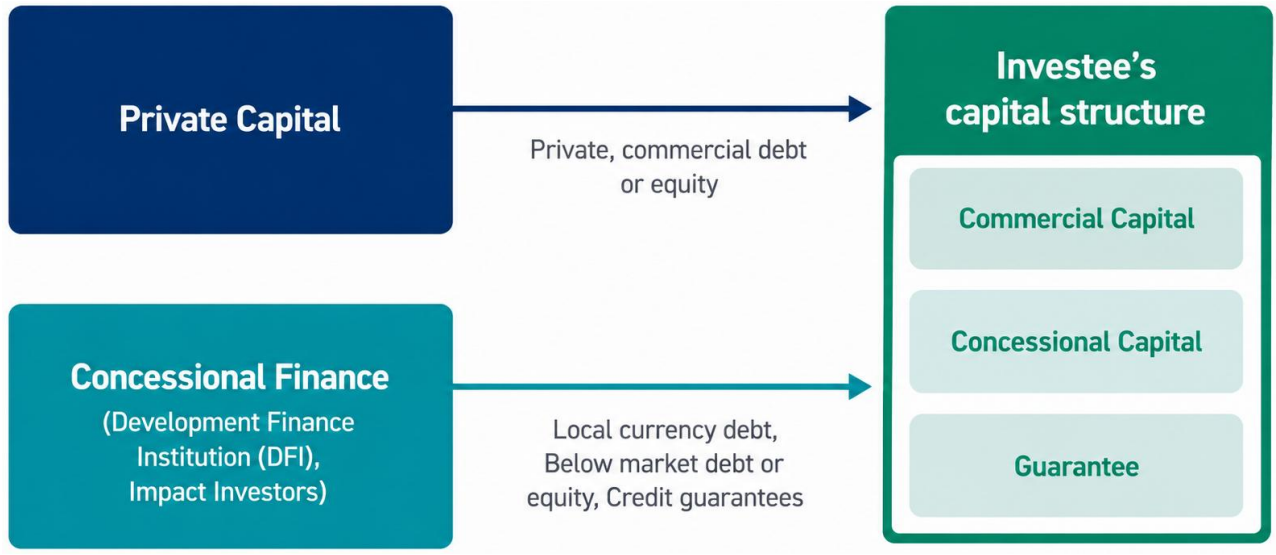


Figure 5. Simplified representation of company-level blended finance (Source: CFO Coalition for the SDGs, 2024)

PRACTICAL IMPLICATIONS. This approach can facilitate access to financing for organisations operating in sectors or markets perceived as higher risk, enabling them to secure capital under more favourable conditions and undertake investments that might otherwise be delayed or remain unrealised.

TYPICAL ARRANGEMENTS /INSTRUMENTS.

- Guarantee-backed arrangements
- Concessional lending structures
- Guarantees
- Concessional loans

Project-level blended finance

DESCRIPTION. Project-level blended finance supports the preparation, financing, and implementation of individual investment projects. Financing is directed towards specific initiatives rather than organisations or investment funds, with blended finance mechanisms helping to address project-specific risks, preparation needs, or financing gaps throughout the project lifecycle.

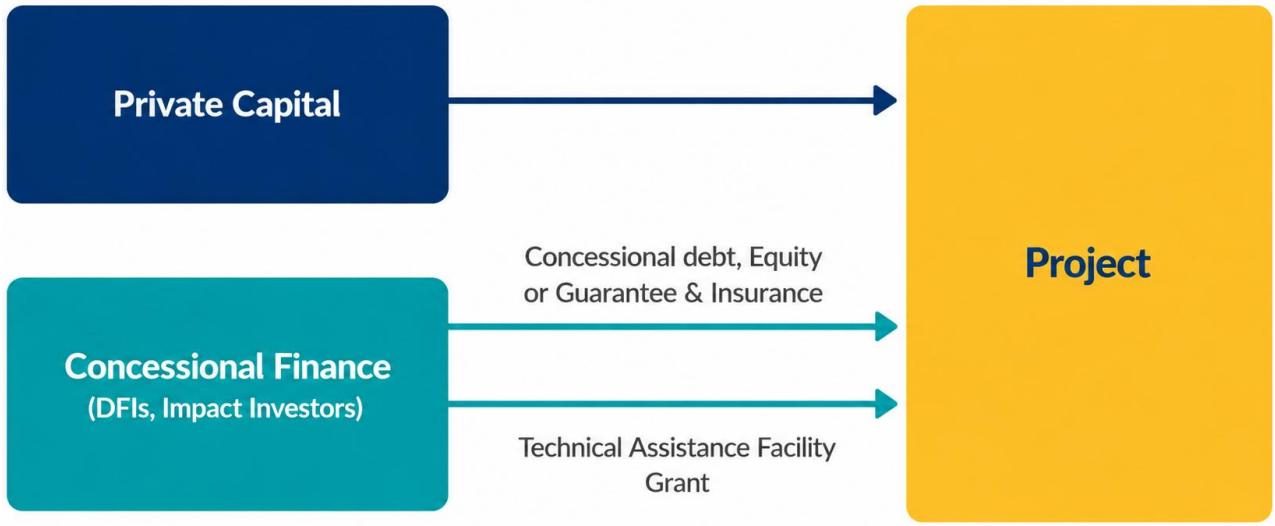


Figure 6. Simplified representation of project-level blended finance (Source: CFO Coalition for the SDGs, 2024)

PRACTICAL IMPLICATIONS. This approach can help transform project concepts into investment-ready opportunities, improve project bankability, and mobilise additional capital for projects that deliver environmental, social, or economic benefits but may face difficulties attracting sufficient commercial financing on their own.

TYPICAL ARRANGEMENTS /INSTRUMENTS.

- Grants
- Technical assistance
- Guarantees
- Concessional loans
- Equity investments

Outcome-based blended finance

DESCRIPTION. Outcome-based blended finance links the provision of financing to the achievement of predefined results rather than solely to the implementation of activities or investments. Funding is typically tied to measurable environmental, social, or development outcomes, creating incentives for performance and impact delivery.

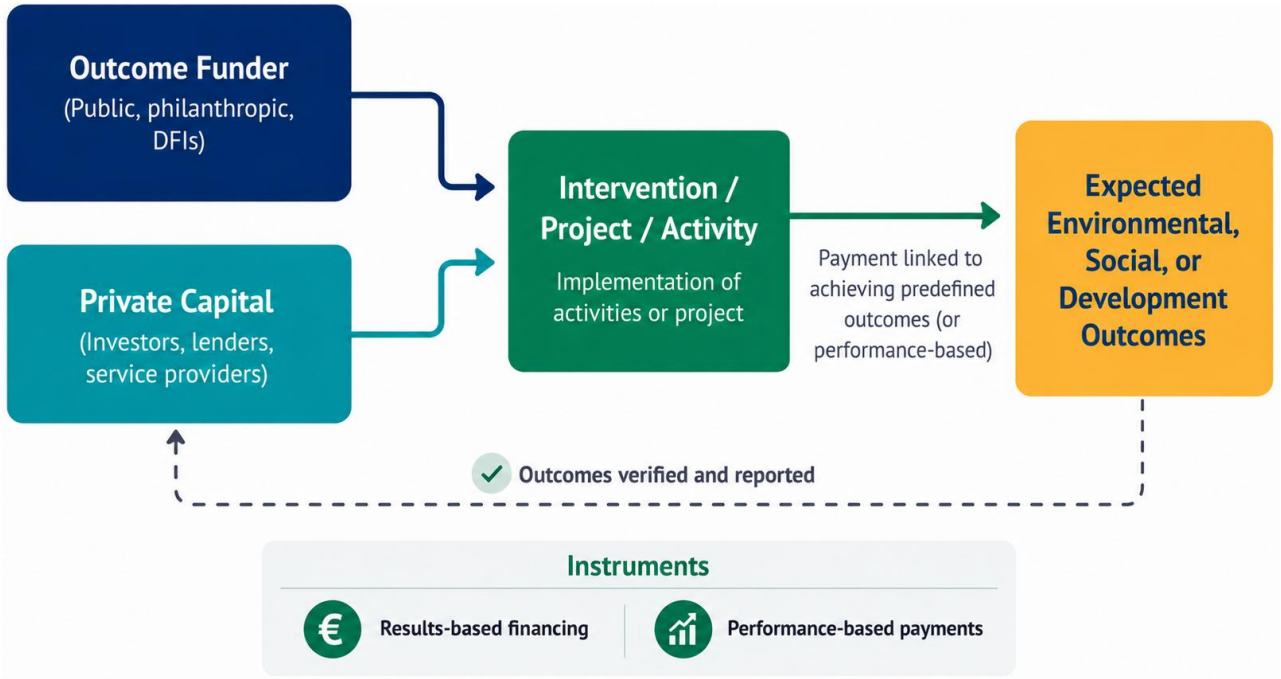


Figure 7. Simplified representation of outcome-based blended finance (Source: CFO Coalition for the SDGs, 2024)

PRACTICAL IMPLICATIONS. This approach can strengthen accountability, improve the effectiveness of resource allocation, and encourage innovation by rewarding the successful achievement of agreed outcomes rather than simply funding inputs or activities.

TYPICAL ARRANGEMENTS /INSTRUMENTS.

- Results-based financing
- Performance-based payments

2.3.2. Common types of blended finance instruments

Blended finance is not a single financing instrument or a standardised investment structure. Rather, it relies on a range of financial instruments each of which serves a distinct purpose within a blended finance structure, targeting particular market failures or mitigating project-specific risks and critical funding gaps.

Commonly applied instruments include:

(i) Grants and Technical Assistance, used primarily for project preparation, capacity building, and feasibility studies.
(ii) Guarantees, designed to protect commercial lenders against potential defaults or losses.
(iii) Concessional financing/loans, provided on more favourable terms (e.g., lower interest rates or longer maturities) than market standards.
(iv) First-loss capital, public or concessional capital that absorbs the initial layer of loss, providing a safety buffer for commercial investors.
(v) Equity investments often structured as "junior equity" to enhance projects' risk profile.
(vi) Subordinated debt and mezzanine finance, capital that ranks below senior debt in the repayment hierarchy, offering flexibility to project developers.

These instruments can be deployed individually or combined within the same financing structure, creating "greater protection" for private investors. Figure 8 below illustrates this concept by comparing a conventional financing structure with a blended finance approach. In particular, it highlights how the strategic layering of junior capital and guarantees (the "capital stack") enhances the seniority and security of the commercial debt, effectively transforming an otherwise non-bankable project into an attractive investment opportunity.

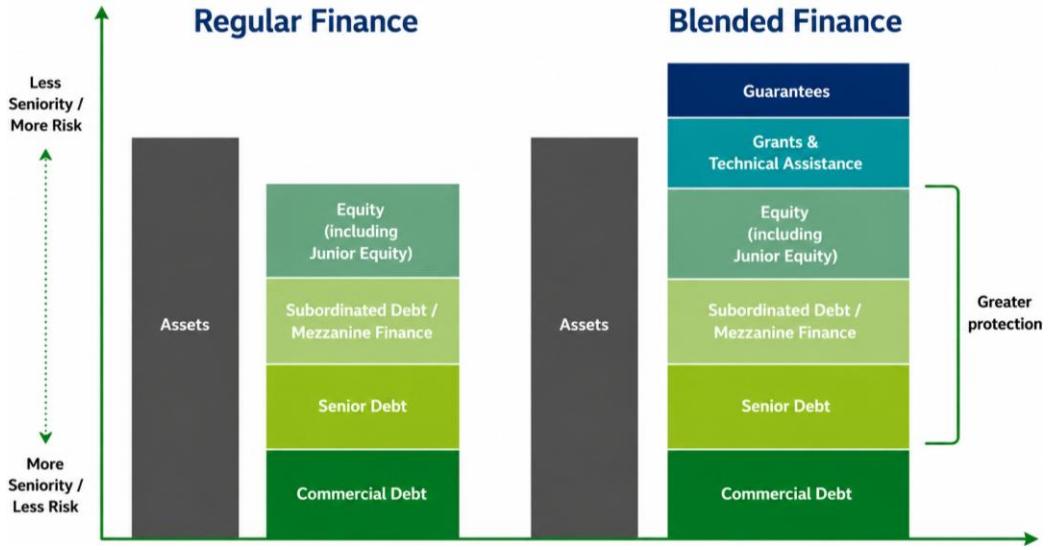


Figure 8. Illustrative example of risk allocation and capital layering in blended finance structures (Source: Impact Investing Hub, 2026)

2.3.2.1. Grants and Technical Assistance

Grants are non-repayable financial contributions provided by public authorities, development finance institutions (DFIs), philanthropic organisations, or other funding bodies to support activities that generate public value but may not be commercially viable on their own. Within blended finance structures, they are commonly used to address early-stage financing barriers, reduce project development costs, and improve the overall attractiveness of investments for commercial actors (OECD, 2022).

Technical Assistance (TA) refers to the provision of financial and non-financial support aimed at strengthening the technical, operational, financial, or institutional capacity of project promoters and investee organisations. Rather than financing infrastructure or assets directly, TA primarily support the activities required to transform ideas into investment-ready projects. These may include feasibility studies, business planning, energy audits, legal and financial advisory services, stakeholder engagement, procurement preparation, market assessments, capacity-building activities, and investment readiness support (McManus, 2025; Rezessy & Bertoldi, 2010; Todeschi et al., 2025).

In practice, TA is frequently funded through grants and is therefore often considered alongside grant-based support mechanisms within blended finance structures (WEF & OECD, 2015).

How they work in blended finance?

Within blended finance structures, grants and TA are typically deployed during the early stages of project development, where uncertainty, information gaps, and transaction costs are often highest. By funding preparatory activities and reducing development risks, they help create a pipeline of bankable projects capable of attracting commercial investment at later stages, particularly in sectors characterised by fragmented markets, emerging technologies, limited institutional capacity, or innovative business models. In this way, they improve project quality, reduce information asymmetries between project promoters and investors, and strengthen the investment conditions for project delivery (McManus, 2025; Todeschi et al., 2025).

What are the typical applications?

Common applications include:

- Project preparation activities, including feasibility studies, early audits and technical assessments.
- Financial modelling and business plan development.
- Legal, procurement, and transaction advisory services.
- Capacity building and institutional strengthening.
- Stakeholder engagement and market development activities.
- Investment readiness support and pipeline development.

What are the main advantages?

- Reduce project development risks and transaction costs.
- Improve project quality and bankability.
- Strengthen investment readiness.
- Support capacity building and institutional development.
- Facilitate the mobilisation of commercial investment.
- Particularly useful for innovative, early-stage, or complex projects.

Want are the main limitations?

- Do not provide long-term capital for project implementation.
- Impact depends on the quality and effectiveness of the supported activities.
- Can require significant administrative effort and coordination.
- May not be sufficient to overcome financing barriers without complementary financial instruments.
- Benefits can be difficult to quantify directly in financial terms.

Who should use them?

Beyond LRAs, grants and technical assistance are commonly used by:

- Public sector organisations and utilities.
- Energy agencies and intermediary organisations.
- Project developers and infrastructure promoters.
- Energy communities and citizen-led initiatives.
- Small and medium-sized enterprises (SMEs) and organisations entering new or emerging markets.
- Investors and financial institutions seeking to develop project pipelines.

2.3.2.2. Guarantees

Guarantees are risk-sharing instruments through which a public authority, DFIs, multilateral development banks (MDBs), or other third-party investors commits to compensate lenders or investors for part of their losses if predefined events occur. Rather than providing direct funding, guarantees improve the risk profile of an investment by reducing the exposure of private financiers to specific project, market, or counterparty risks (McManus, 2025; Todeschi et al., 2025).

Within blended finance structures, guarantees are among the most widely used instruments for mobilising private capital, particularly in sectors or markets perceived as too risky under conventional financing conditions (Garbacz et al., 2021; Pereira, 2017).

How they work in blended finance?

Guarantees help attract commercial finance by transferring part of the investment risk from private investors to a public or concessional actor. By reducing expected losses, they can improve access to financing, lower borrowing costs, increase lending volumes, and facilitate investment in projects that might otherwise struggle to secure funding. In doing so, they can cover different types of risks, including credit risk, political risk, performance risk, currency risk, or portfolio-level risks, depending on the structure of the transaction (Garbacz et al., 2021; OECD, 2025; WEF & OECD, 2015).

What are the typical applications?

- EE programmes.
- RES investments.
- Sustainable mobility projects.
- SME financing schemes.
- Energy communities and citizen-led initiatives.
- Infrastructure and climate-related investments.

What are the main advantages?

- Reduce investor and lender exposure to risk.
- Mobilise additional private capital.
- Improve financing conditions.
- Can lower the cost of borrowing.
- Particularly effective in emerging or underdeveloped markets.

What are the main limitations?

- Do not provide direct project funding.
- Can be complex to structure and negotiate.
- May require extensive due diligence.
- Risk coverage is often limited to predefined events.
- Public liabilities may arise if guarantees are called.

Who should use them?

Beyond LRAs, guarantees are commonly used by:

- Project developers and infrastructure promoters
- Energy communities and citizen-led initiatives.
- Financial institutions and investors seeking to reduce exposure to specific risks.

2.3.2.3. Concessional Financing/Loans

Concessional financing refers to capital provided on terms that are more favourable than those available in commercial markets. Such support may involve lower interest rates, longer repayment periods, grace periods, reduced collateral requirements, or more flexible repayment conditions. Concessional loans are the most common form of concessional financing within blended finance structures (OECD, 2022; Todeschi et al., 2025).

The purpose of concessional financing is to improve project affordability and bankability, thereby enabling investments that may not proceed under purely commercial financing conditions.

How they work in blended finance?

Concessional financing helps bridge the gap between project economics and investor expectations. By improving financing conditions, it reduces overall financing costs and strengthens project viability, making investments more attractive to commercial lenders and investors (OECD, 2025; Pereira, 2017).

Concessional loans are often combined with commercial debt, guarantees, or technical assistance to create financing structures capable of mobilising larger volumes of private capital.

What are the typical applications?

- Building renovation programmes.
- RES deployment.
- Sustainable transport projects.
- Energy poverty alleviation initiatives.
- Municipal infrastructure investments.
- Climate adaptation projects.

What are the main advantages?

- Improve project affordability.
- Reduce financing costs.
- Supports projects with long payback periods.
- Facilitates private sector participation.
- Can improve overall project bankability.

What are the main limitations?

- Require availability of concessional resources.
- Often subject to eligibility requirements.
- Usually insufficient on its own to overcome all investment barriers.

Who should use them?

Beyond LRAs, concessional financing/loans are commonly used by:

- Project developers and public infrastructure promoters.
- Utilities and energy agencies.
- Housing organisations.
- Energy communities and citizen-led initiatives.

2.3.2.4. First-Loss Capital

First-loss capital is a risk-sharing mechanism through which a public, philanthropic, or development-oriented investor agrees to absorb initial losses within a financing structure before other investors are affected. By taking the most junior position in the capital stack, first-loss providers enhance the protection offered to senior investors and improve the overall attractiveness of the investment (Convergence Blended Finance, 2024; Pereira, 2017).

How it works in blended finance?

First-loss capital acts as a protective buffer for commercial investors. If losses occur, the first-loss tranche absorbs them before they impact senior debt or equity holders. This improved risk allocation can help unlock private capital for projects or sectors that would otherwise be considered too risky (WEF & OECD, 2015).

What are the typical applications?

- Climate and sustainability or blended investment funds.
- Early-stage infrastructure investments.
- Innovative clean energy technologies.
- Emerging market investments.

What are the main advantages?

- Strong risk mitigation effect.
- Improves portfolio attractiveness.
- Supports innovative and higher-risk investments.
- Enhances overall capital mobilisation.

What are the main limitations?

- Requires significant concessional resources.
- Potentially high loss exposure for public actors.
- Can be difficult to structure appropriately or easily adapted.

Who should use it?

Beyond LRAs, first-loss capital is commonly used by:

- DFIs and other impact investors.
- Public financing bodies.
- Climate investment funds.
- Blended finance fund managers.

2.3.2.5. Equity Investments (including Junior Equity)

Equity investments involve acquiring an ownership stake in a company, project, or investment vehicle in exchange for capital. Unlike debt financing, equity investors are not guaranteed repayment and are compensated through dividends, profit participation, or capital appreciation. As a result, equity generally carries higher risk but also offers higher potential returns (OECD, 2022).

Within blended finance structures, junior equity positions are often used to absorb higher levels of risk and encourage participation from more risk-averse investors.

How they work in blended finance?

Public or concessional investors may provide equity capital alongside commercial investors or assume junior equity positions within the capital structure. This can strengthen project capitalization, improve financial resilience, and reduce perceived investment risks for other investors (Convergence Blended Finance, 2024).

What are the typical applications?

- Building renovation and EE programmes.
- RES projects and clean energy ventures.
- Sustainable mobility initiatives.
- Energy community projects.
- Large-scale infrastructure and urban development investments.

What are the main advantages?

- Strengthen project capitalisation.
- Align investor interests with project performance.
- Support long-term growth.
- Can mobilise additional investment.
- Suitable for innovative or high-growth opportunities.

What are the main limitations?

- Higher risk than debt instruments.
- Returns are uncertain.
- Investors may require governance rights.
- Can dilute ownership.

Who should use them?

Beyond LRAs, equity investments are commonly used by:

- Project developers and infrastructure promoters.
- Specialised energy service providers, such as Energy service companies (ESCOs).
- Energy communities and citizen-led initiatives.
- Climate technology companies and start-ups.
- Infrastructure and sustainable development investment funds.
- Impact investors and blended finance fund managers

2.3.2.6. Subordinated debt/Mezzanine finance

Subordinated debt refers to debt that ranks below senior debt in terms of repayment priority. Mezzanine finance is a hybrid instrument combining features of debt and equity, typically positioned between senior debt and equity within the capital structure. These instruments offer greater flexibility than conventional lending and can help bridge financing gaps where senior debt alone is insufficient (OECD, 2022; Pereira, 2017).

How they work in blended finance?

Because subordinated lenders accept a lower repayment priority, they absorb a greater share of risk than senior lenders. This improves the protection offered to senior debt providers and can facilitate larger volumes of commercial lending. Mezzanine finance is often used where projects require additional capital but are unable to raise sufficient equity or senior debt (WEF & OECD, 2015).

What are the typical applications?

- Large-scale EE, RES and infrastructure projects financed through dedicated project structures, such as special purpose vehicle (SPVs).
- Projects supported through climate and sustainability investment funds.
- Public-private partnership (PPP) projects.
- Projects requiring additional financing between senior debt and equity.

What are the main advantages?

- Bridge financing gaps.
- Enhance leverage capacity.
- Improve protection for senior lenders.
- Increase financing flexibility.
- Can mobilise additional capital.

What are the main limitations?

- Higher financing costs than senior debt.
- More complex structuring requirements.
- Greater risk exposure.
- Limited suitability for smaller projects.

Who should use them?

Beyond LRAs, subordinated debt/mezzanine finance are commonly used by:

- Project promoters and SPVs implementing large-scale energy or infrastructure projects.
- Utilities and energy agencies.
- Investment funds and large-scale PPPs.

2.3.3. Key characteristics

Despite the diversity of blended finance structures and instruments, several common characteristics can be identified across most applications. These characteristics influence how blended finance is designed, implemented, and applied in practice. Table 3 summarises the main cross-cutting characteristics of blended finance (Convergence Blended Finance, 2024; Pereira, 2017; WEF & OECD, 2015).

Table 3. Cross-cutting characteristics of blended finance

Characteristics	Description	Practical implications
Catalytic capital mobilisation	Public, philanthropic, or concessional resources are used strategically to attract additional commercial investment.	Enables larger volumes of capital to be mobilised than would be possible through public resources alone.
Risk-sharing structure	Risks are distributed among participants according to their position within the financing structure.	Improves investor confidence and facilitates participation in projects perceived as higher risk.
Blended capital stack	Different sources of capital are combined within a single financing structure, often with varying risk-return expectations.	Allows financing solutions to be tailored to specific project needs and market conditions.
Leverage effect	Limited concessional resources can unlock significantly larger amounts of private investment.	Increases the overall scale and reach of investment programmes.
Enhanced investment conditions	Financial instruments are used to improve affordability, reduce financing costs, or strengthen project bankability.	Facilitates investment in projects that may not be viable under conventional financing conditions.
Flexibility and adaptability	Blended finance structures can combine different instruments and arrangements depending on the investment context.	Supports application across different sectors, project types, and stages of development.
Focus on development and sustainability outcomes	Financing structures are designed to support projects that generate environmental, social, or economic benefits alongside financial returns.	Aligns investment activities with broader sustainability and climate objectives.
Multi-stakeholder participation	Public authorities, DFIs, MDBs, philanthropic actors, private investors, and project promoters may all participate within the same structure.	Encourages collaboration and enables access to complementary sources of expertise and capital.
Monitoring and accountability requirements	Effective implementation requires transparent governance, reporting, and performance monitoring arrangements.	Supports credibility, investor confidence, and measurement of results and impacts.

Beyond its operational characteristics, the integrity and effectiveness of blended finance are underpinned by a set of guiding principles, among which the OECD Blended Finance Principles are the most widely recognised. In practice, these principles provide a common reference for scaling up investment and mobilising additional commercial finance, while ensuring that public resources are deployed strategically,

efficiently, and transparently. Particularly relevant to the energy transition - where investment needs are substantial and public budgets often constrained - they serve as important design and implementation guardrails (OECD, 2022, 2025).

In this context, in line with Principle 2, which focuses on increasing the mobilisation of commercial finance, blended finance structures should be designed to attract private capital while ensuring:

- additionality and the crowding-in of commercial investment,
- the targeted use of concessional resources to address market failures, and
- support for long-term commercial sustainability.

In doing so, they help ensure that blended finance structures do not simply subsidise clean energy initiatives, but instead function as catalytic mechanisms that unlock private capital by addressing underlying investment barriers and improving market conditions (OECD, 2022).

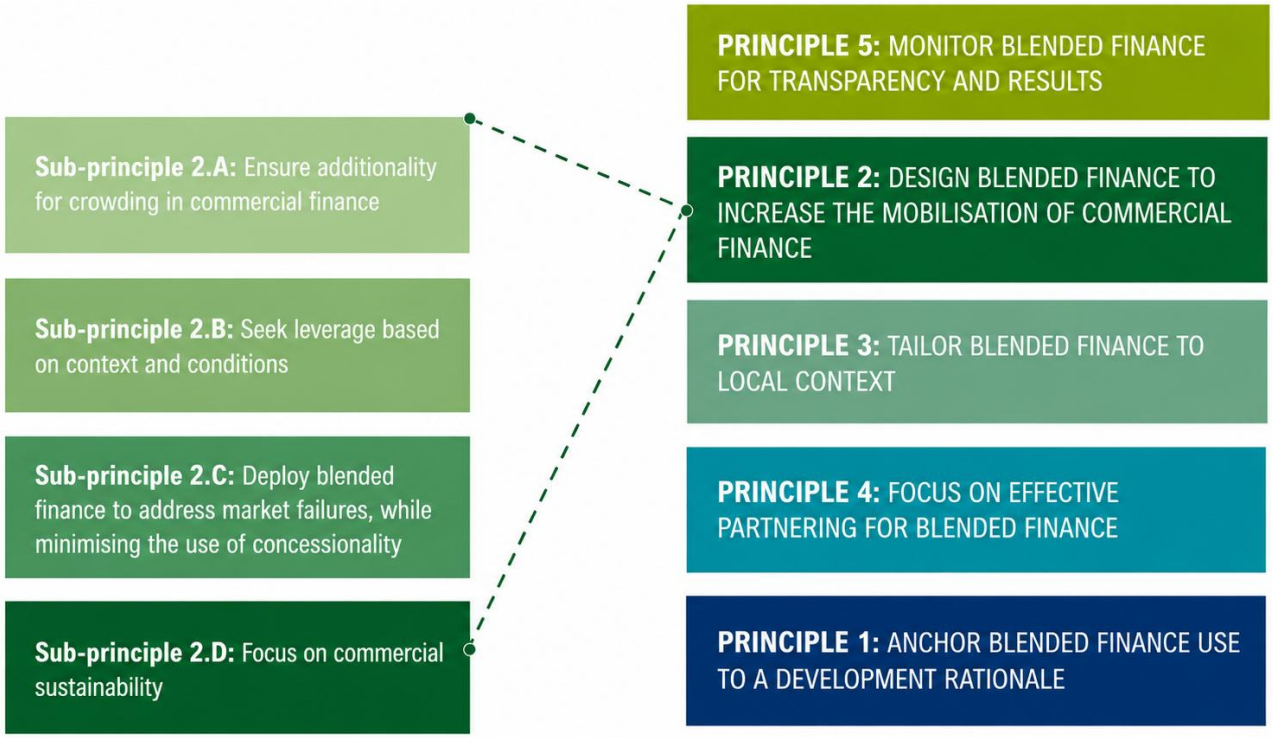


Figure 9. The OECD blended finance principles for clean energy (Source: OECD, 2022)

2.4. Why blended finance matters? Benefits and added value for LRAs

For many project promoters, including LRAs, the transition to sustainability requires more than just capital; it demands a strategic approach to overcome inherent market complexities, strengthening investment readiness, and transforming fragmented opportunities into investable projects (Iezza et al., 2025; McManus, 2025; Todeschi et al., 2025).

By strategically deploying blended fended mechanisms, project promoters can navigate risk, optimise governance, and maximise the catalytic potential of public support, ultimately fostering sustained territorial impact.

In all, the main benefits and added value of blended finance are commonly observed across three interconnected dimensions (Convergence Blended Finance, 2024; IFC, 2025; OECD, 2025; WEF & OECD, 2015):

(i) investment mobilisation and capital leverage
(ii) strategic risk-sharing and market development
(iii) ecosystem strengthening and implementation scale-up

I. INVESTMENT MOBILISATION AND CAPITAL LEVERAGE. Blended finance enables LRAs to maximise the impact of limited public resources by strategically deploying concessional support to attract additional commercial and institutional investment. Key benefits include:

- Mobilisation of additional capital. By improving investment conditions and addressing financing barriers, blended finance can unlock participation from commercial banks, institutional investors, development finance institutions, and private sector actors that may not otherwise invest in sustainable energy and climate projects.
- More efficient use of public resources. Rather than financing investments entirely through grants or municipal budgets, LRAs can use public resources strategically to catalyse larger investment volumes and achieve greater impact per euro invested. This catalytic effect is one of the defining characteristics of blended finance and underpins the principle of additionality.
- Improved project bankability. Through the combination of complementary financing instruments, technical assistance, and risk-sharing mechanisms, blended finance can strengthen investment readiness and improve the ability of projects to attract external financing.

II. Strategic risk-sharing and market development. Blended finance can help address market failures and financing constraints that often limit investment in capital-intensive projects, such as those supporting sustainable energy and climate objectives.

- Risk mitigation and investor confidence. Instruments such as guarantees, concessional financing, first-loss capital, and technical assistance can help reduce perceived investment risks and encourage broader participation from commercial investors and lenders.
- Market creation and crowding-in effects. By demonstrating project viability and improving investment conditions, blended finance can help attract new market actors and stimulate private sector participation in sectors where investment activity remains limited or underdeveloped.
- Support for complex and innovative investments. Blended finance is particularly valuable for projects characterised by higher perceived risks, longer payback periods, fragmented ownership structures, or limited financing track records, where conventional financing solutions may be insufficient.

III. Ecosystem strengthening and implementation scale-up. Beyond its financing function, blended finance can strengthen local implementation ecosystems and support the transition from isolated projects towards coordinated investment programmes. Key benefits include:

- Project aggregation and portfolio development. Blended finance structures can facilitate the bundling of multiple smaller projects into larger and more attractive investment portfolios capable of achieving economies of scale and attracting institutional investment.
- Strengthened stakeholder collaboration. Successful blended finance schemes typically require cooperation among public authorities, financial institutions, investors, project developers, OSSs, ESCOs, and technical support providers, fostering stronger local investment ecosystems and more coordinated implementation approaches.
- Long-term implementation capacity. Through repeated application, blended finance can help LRAs build experience in project preparation, financial structuring, stakeholder coordination, and investment mobilisation, leaving behind stronger institutional capacity and more mature local financing ecosystems capable of supporting future investment pipelines.

2.5. Sector-wide application: When and where blended finance can be used?

Blended finance is most effective when financing barriers cannot be addressed through conventional public funding or commercial finance alone. Rather than applying a standard financing solution, it allows financing structures and instruments to be tailored to the specific barriers that prevent investment from taking place (Convergence Blended Finance, 2024; OECD, 2025; WEF & OECD, 2015).

Effective blended finance structures are designed to minimise the use of concessional resources, mobilise additional commercial investment, and operate within a broader ecosystem of enabling measures and stakeholder support.

For LRAs, this flexibility makes blended finance particularly relevant across a wide range of sectors and investment contexts. By combining different financing arrangements and instruments according to local needs, blended finance can support the implementation of climate, energy, and sustainable development projects while strengthening public-private cooperation and facilitating the mobilisation of private capital (Iezza et al., 2025; McManus, 2025; Todeschi et al., 2025).

Table 4 provides examples of where and how blended finance can be applied in practice.

Table 4. Indicative overview of blended finance applications across sectors

Sector	Indicative applications and typical guarantee structures
Public buildings	Supporting: EE renovations, RES integration, public building retrofit programmes, municipal EPC schemes
	• Typical arrangements: Project-level blended finance, concessional financing combined with grants or guarantees
	• Most relevant for: Large municipal investment programmes requiring improved bankability and private sector participation
Residential sector	Supporting: Home energy renovation programmes, rooftop solar deployment, heat pumps, energy poverty initiatives
	• Typical arrangements: Project-level and outcome-based blended finance combining grants, concessional loans, guarantees, and technical assistance
	• Most relevant for: Aggregation of numerous small-scale investments and citizen participation
Commercial buildings & SMEs	Supporting: EE upgrades, on-site renewable energy systems, decarbonisation investments, sustainable production processes
	• Typical arrangements: Company-level blended finance using guarantees, concessional loans, and risk-sharing mechanisms
	• Most relevant for: Improving access to finance and reducing investment risk for private sector actors

Public infrastructure	Supporting: Street lighting modernisation, smart city systems, water infrastructure, public service infrastructure upgrades
	• Typical arrangements: Project-level blended finance combining grants, concessional financing, guarantees, and private investment
	• Most relevant for: Capital-intensive infrastructure projects with long payback periods
Sustainable mobility	Supporting: Electric vehicle (EV) charging networks, electric bus fleets, shared mobility systems, active mobility infrastructure
	• Typical arrangements: Project-level and company-level blended finance using concessional financing, guarantees, and equity participation
	• Most relevant for: Investments requiring significant upfront capital and market development support
RES and energy communities	Supporting: Solar photovoltaic (PV) systems, wind projects, community energy initiatives, local energy generation schemes
	• Typical arrangements: Project-level, company-level, and fund-level blended finance structures combining grants, equity, concessional financing, and guarantees
	• Most relevant for: Projects requiring risk mitigation and mobilisation of private capital
District energy and large infrastructure	Supporting: District heating and cooling systems, integrated energy systems, energy networks, large-scale climate infrastructure
	• Typical arrangements: Fund-level and project-level blended finance involving layered capital structures, concessional capital, and institutional investors
	• Most relevant for: Complex, high- capital expenditures (CAPEX) investments with long development cycles
Cross-sectoral investment programmes	Supporting: integrated Sustainable Energy and Climate Plan (SECAP) implementation, climate investment pipelines, urban transition programmes, multi-sector project portfolios
	• Typical arrangements: Fund-level blended finance, portfolio approaches, and outcome-based financing mechanisms
	• Most relevant for: Scaling investment and coordinating implementation across multiple sectors and stakeholders

Focus Box 2: Key considerations for applying blended finance

The practical applicability of blended finance may vary across sectors and investment contexts. Two considerations are particularly important:

- Adaptability: Blended finance can be structured for projects, programmes, investment funds, or outcome-based mechanisms, making it suitable for both small-scale interventions and large infrastructure investments.
- Combination of instruments and actors: Effective blended finance relies on combining appropriate financial instruments and aligning the interests of public authorities, financial institutions, investors, project developers, and beneficiaries.

2.6. Main stakeholders involved

Unlike conventional models, blended finance operates through a diverse ecosystem of public, private, and intermediary actors, each performing distinct, complementary roles while collectively driving the structuring, deployment, and execution of sustainable investments (International Finance Corporation (IFC), 2025; OECD, 2018). While configurations vary across sectors and financing arrangements, the main stakeholders involved in blended finance can generally be grouped into three broad categories:

(i) providers of catalytic and commercial capital,
(ii) intermediaries and ecosystem enablers, and
(iii) investment recipients and project implementers.

The first category includes organisations that provide the financial resources used within blended finance structures. These actors contribute either concessional or commercial capital and play a central role in determining the overall risk-return profile of investments. In particular, this group comprises:

- Public authorities (national and local), which contribute grants, concessional resources, guarantees, or dedicated investment facilities to advance policy objectives and mobilise additional investment.
- DFIs, MDBs, and international financial institutions, which provide concessional financing, guarantees, technical assistance, and risk-sharing mechanisms to catalyse private sector entry.
- Philanthropic organisations and foundations, which often provide grant funding, technical support, and first-loss capital, particularly for innovative or higher-risk ventures.
- Private investors, including commercial banks, institutional and impact investors, venture capital funds, and private equity firms, which contribute commercial capital to scale investments once risks have been appropriately mitigated.

The specific roles and contributions of these actors are summarised in Table 5.

Table 5. Actors providing capital and their roles

Actor	Primary role	Contribution to blended finance
Public authorities	Strategic direction, policy alignment and catalytic funding	Grants, guarantees, concessional resources
DFIs, MDBs and IFIs	Risk-sharing and market creation	Concessional financing, guarantees, technical assistance, first-loss capital
Foundations and philanthropic actors	Catalytic capital provision	Grants, technical assistance, first-loss capital, innovation support
Private investors	Commercial investment and market scaling	Debt, equity, institutional co-investment

Blended finance also depends on a range of intermediary organisations that structure transactions, aggregate investments, facilitate cooperation among stakeholders, and support project preparation. These enablers include:

- Financial institutions, which originate and manage financing transactions, often serving as the primary interface between investors and final beneficiaries.
- Fund managers and investment platforms, which structure blended investment vehicles and manage capital allocation.
- Advisory organisations, technical assistance providers, and project preparation facilities, which support project development, investment readiness, and transaction structuring.
- Networks, alliances, and multi-stakeholder platforms, which facilitate knowledge exchange, standardisation, and collaboration among market participants.
- Multilateral initiatives and international forums, which contribute to market development by promoting common frameworks, methodologies, and policy dialogue.

The specific roles and contributions of these actors are summarised in Table 6.

Table 6. Intermediaries and ecosystem enablers

Actor	Primary role	Contribution to blended finance
Financial institutions	Transaction delivery	Lending, financial intermediation, portfolio management
Fund managers and investment platforms	Capital management	Structuring and managing investment vehicles
Technical assistance providers	Project preparation assistance and capacity	Feasibility studies, advisory services, investment readiness
Networks and platforms	Market coordination	Knowledge sharing, stakeholder engagement, replication
Multilateral forums and initiatives	Ecosystem growth	Policy dialogue, standard setting

Finaly, on the demand side, blended finance supports a broad range of organisations that implement projects generating environmental, social, and economic benefits. These actors receive the financing and deliver the investments that the blended structure seeks to enable. This category includes:

- Public authorities (national and local), which act as project promoters, infrastructure owners, programme coordinators, and direct beneficiaries.
- Project developers and infrastructure promoters, which identify, structure, and implement investment opportunities.

- Specialised providers and ESCOs, which support EE and clean energy deployment, often under performance-based contractual arrangements.
- SMEs and private companies, which leverage finance to implement clean energy solutions, enhance their sustainability profiles, and drive business growth.
- Energy communities, cooperatives, and civil society organisations, which participate in community-scale investments and local energy initiatives.
- Households and citizens, which may benefit indirectly through programmes supporting building renovation, renewable energy deployment, and sustainable mobility.

The specific roles of these actors are summarised in Table 7.

Table 7. Investment recipients and project implementers

Actor	Primary interest	Role in blended finance
Public authorities	Infrastructure and climate investment	Project promoters, beneficiaries, programme coordinators
Project developers	Project delivery	Investment origination, implementation
Service providers and ESCOs	Project development and performance delivery	Structuring/delivering EE projects
SMEs and businesses	Operational growth	Final investment recipients
Energy communities	Community impact	Community-scale local initiatives
Households and citizens	Social/Economic benefit	Indirect beneficiaries of sustainable transitions

3. Setting up a blended finance scheme: A quick step-by-step guide

Establishing a blended finance scheme represents a shift from traditional project financing towards a more integrated investment model that combines public, concessional, and private capital. For LRAs and project promoters, often operating under resource constraints and limited specialised expertise, this can be a demanding process requiring strategic planning, stakeholder coordination, project preparation, and financial structuring. To guide them through, Figure 10 presents a high-level roadmap structured around seven essential steps.

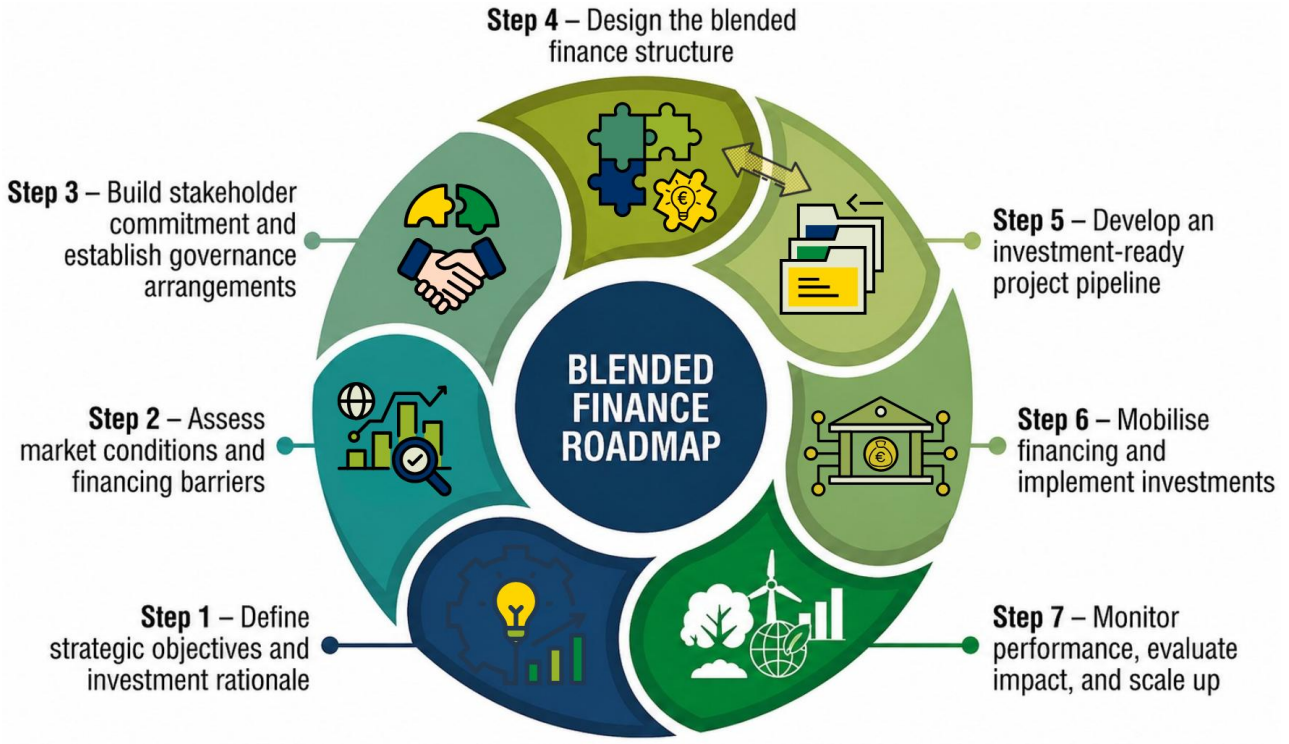


Figure 10. Roadmap for setting up a blended finance scheme: Key steps for LRAs
(Source: Author's own elaboration / AI-enhanced)

While the exact sequence may vary depending on the sector, institutional context, and financing arrangement, the proposed roadmap draws on European and international experience to provide a flexible framework that can be adapted to different investment situations (IFC, 2025; Mutambatsere & Schellekens, 2020; OECD, 2022; UNDP and Convergence, 2026; WEF & OECD, 2015). As such, it is intended as a practical planning tool, rather than a fixed, prescriptive methodology.

3.1. The blended finance implementation roadmap

With a focus on the practical "how" of setting up and managing a blended finance scheme, this section outlines the key activities and decisions associated with each stage of the proposed implementation roadmap (Figure 10). It is intended to help LRAs and project promoters navigate the transition from investment need to implementation in a structured and effective manner.

Blended finance is not built overnight. It is a gradual and iterative journey requiring substantial upfront preparation, with long-term impacts often emerging only after several implementation cycles.

Step 1 – Define strategic objectives and investment rationale

This step establishes the purpose of the planned initiative and clarifies how it can support wider sustainable development priorities. For LRAs it requires to clearly identify the investment challenge to be addressed and the rationale for using blended finance over conventional funding.

Key actions typically include:

- identifying the policy objectives and expected outcomes,
- defining the target sectors and beneficiaries,
- aligning the initiative with local climate, energy, and development priorities,
- assessing whether blended finance is the most appropriate financing approach.

Blended finance should only be considered where it can address a clearly identified investment challenge that cannot be solved through conventional public funding or commercial finance alone.

Common pitfalls to avoid:

- Using blended finance without a clear public policy rationale
- Designing the scheme around available instruments rather than actual investment needs

Step 2 – Assess market conditions and financing barriers

This step focuses on understanding why investment is not taking place under existing financing conditions. Accordingly, before selecting instruments or designing the financing structure, LRAs need to determine the specific barriers limiting investment and whether blended finance can effectively address them.

Key actions typically include:

- assessing the investment gap and financing needs,
- evaluating investor appetite and risk perceptions,
- consulting financial institutions, investors, and project promoters.

Attention should be given to distinguishing between barriers related to project preparation, access to finance, perceived risk, and the level of market maturity.

Common pitfalls to avoid:

- Assuming financing is the primary barrier without conducting market analysis
- Failing to engage potential financing partners early in the process

Step 3 – Build stakeholder commitment and establish governance arrangements

Because blended finance relies on collaboration among multiple actors therefore strong stakeholder engagement and governance structures are essential. At this stage, LRAs should focus on creating the conditions required to manage the scheme effectively throughout its lifecycle.

Key actions typically include:

- securing political and institutional support,
- identifying key stakeholders and defining responsibilities,
- establishing governance and decision-making arrangements to ensure coordination between participating actors.

Clear governance structures help build investor confidence and improve implementation efficiency.

Common pitfalls to avoid:

- Failing to engage private investors or lenders early in the design process
- Unclear allocation of roles and responsibilities or weak governance arrangements that may hinder investor decision-making, create coordination challenges and delay implementation

Step 4 – Design the blended finance structure

Once investment barriers are identified and stakeholders engaged, the next step is to design the appropriate financing structure. This involves determining how public, concessional, and commercial resources will be combined, how risks and incentives will be allocated, and which instruments are most suitable for mobilising additional investment.

Key actions typically include:

- selecting the most appropriate blended finance mechanism and financing instruments,
- defining risk-sharing arrangements and incentive structures,
- assessing and setting the expected leverage and additionality of the scheme,

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In line with widely recognised blended finance principles, concessional resources should be used only to the extent necessary to mobilise additional commercial finance.

Common pitfalls to avoid:

- Excessive reliance on concessional resources or over-subsidising unbankable projects
- Selecting instruments without clearly linking them to identified barriers

Step 5 – Develop an investment-ready project pipeline

At this step, the focus shifts from financial structuring to the identification, preparation, and prioritisation of projects that can successfully progress towards implementation. For LRAs, the key challenge is to establish a credible pipeline of mature, bankable projects, which is essential for attracting investor interest and ensuring the long-term viability of a blended finance scheme.

Additional activities may include aggregating smaller projects where appropriate, and undertaking feasibility studies and technical assessments to strengthen investment readiness.

Step 5 is often iterative and develops alongside Step 4, ensuring that project preparation, financing solutions and investment opportunities remain aligned and mutually reinforcing. - Throughout the process, support from specialised service providers or technical assistance facilities can play a critical role.

Common pitfalls to avoid:

- Insufficient project preparation and weak investment readiness
- Launching financing structures before a credible pipeline has been established.

Step 6 – Mobilise financing and implement investments

At this step, the blended finance structure becomes operational, and projects move from preparation to execution. The focus is on finalising contractual arrangement and ensuring the effective capital deployment.

Key actions typically include:

- conducting due diligence and appraisal processes,
- negotiating with participating actors and securing commitments from investors,
- approving, contracting, and disbursing finance,
- launch the investment programme.

Successful implementation requires both capital mobilisation and maintaining effective coordination between financing providers, intermediaries, and project implementers throughout the investment lifecycle.

Common pitfalls to avoid:

- Overly complex approval procedures
- Delays resulting from incomplete documentation or weak project preparation

Step 7 – Monitor performance, evaluate impact, and scale up

Continuous monitoring is essential to assess whether the blended finance structure is delivering the intended outcomes and mobilising additional capital. This step supports accountability, facilitates learning, and helps identify opportunities for replication and scaling.

Key actions typically include:

- monitoring financial performance and capital mobilisation,
- tracking environmental, social, and economic impacts,
- assessing additionality and leverage achieved,
- identifying lessons learned and opportunities for replication.

Monitoring should look beyond project outputs to assess long-term market development, increased commercial participation, and reduced dependence on concessional support.

Common pitfalls to avoid:

- Focusing exclusively on financial performance indicators
- Failing to capture lessons learned and opportunities for scale-up

3.2. Decision-support tools for blended finance design

Selecting an appropriate blended finance approach requires a series of strategic and financing decisions that depend on the characteristics of the investment, the barriers being addressed, and the broader implementation context. To support this process, this section presents two complementary, high-level decision-support tools covering:

(i) the preliminary assessment of whether blended finance is likely to represent an appropriate financing approach for a specific initiative, and

(ii) the subsequent selection of potential blended finance mechanisms and instruments.

Both tools are intended as indicative planning aids that can further be adapted to the specific circumstances, investment objectives, and financing needs of each project.

With regards to the first one, it supports the initial assessment of blended finance suitability. It guides users through a series of key considerations related to investment barriers, private sector participation, financing needs, and the availability of catalytic resources. Its purpose is not to determine whether a project should proceed, but rather to help identify situations where blended finance may add value compared to conventional public or commercial financing approaches.

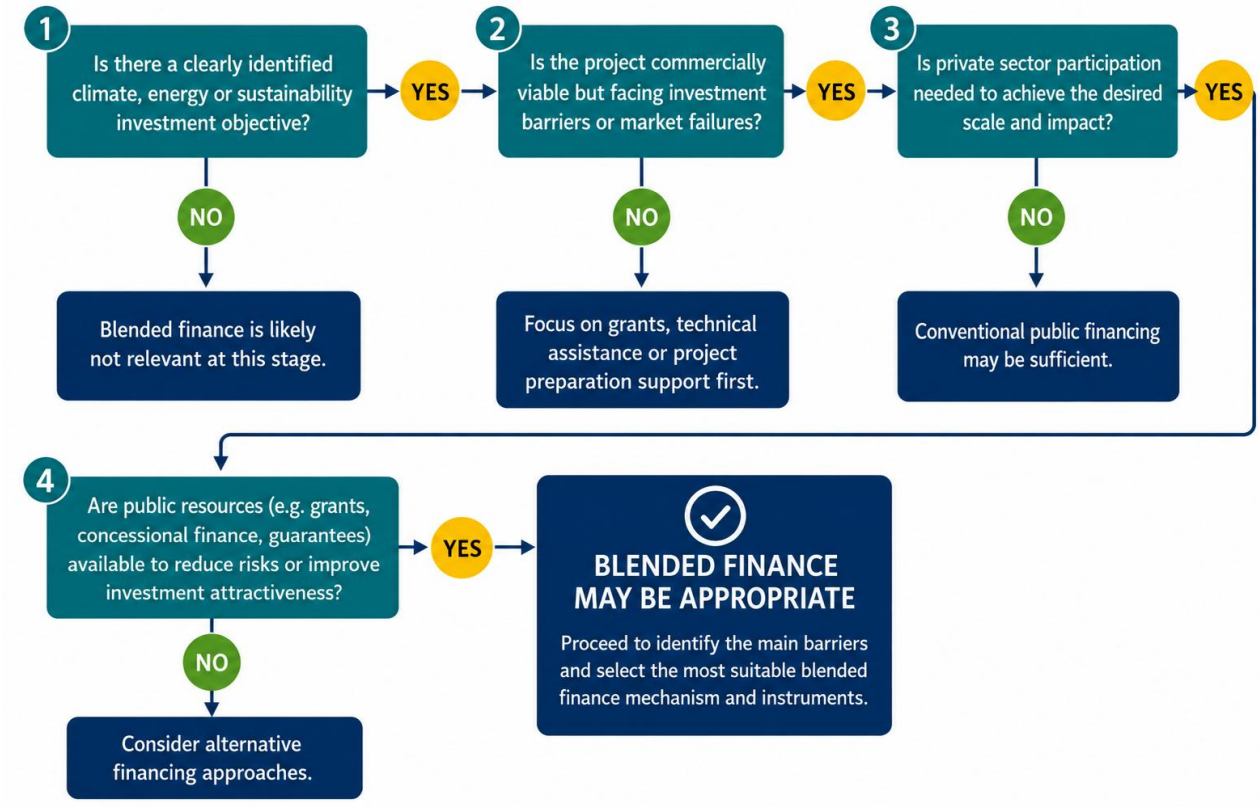


Figure 11. Decision-support tool for assessing blended finance suitability
(Source: Author's own elaboration / AI-enhanced)

The second one supports the selection of potential blended finance mechanisms and instruments. Starting from the main investment barrier being addressed, it provides an indicative mapping between common investment challenges and financing approaches that may help overcome them. As multiple barriers often coexist within the same project or investment programme, the tool also highlights situations where combining complementary mechanisms and instruments may be more appropriate than relying on a single financing solution.

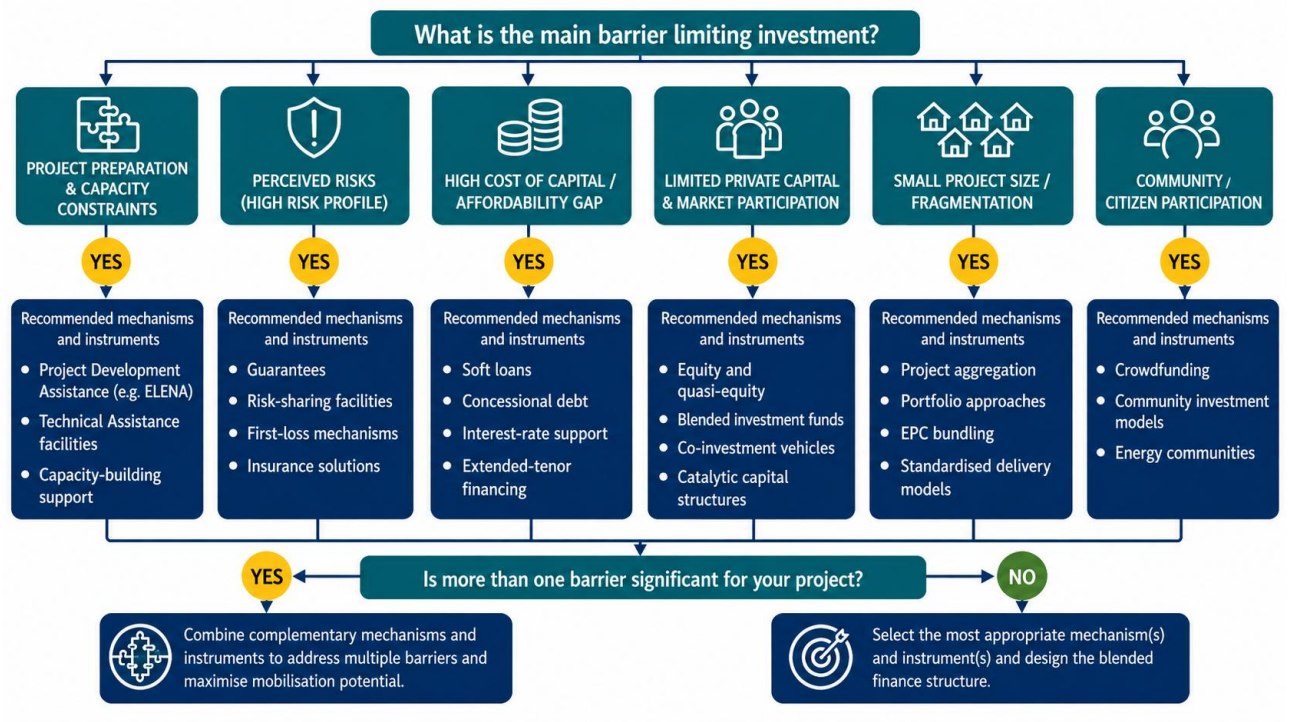


Figure 12. Decision-support tool for selecting blended finance mechanisms and instruments (Source: Author's own elaboration / AI-enhanced)

4. Case study: Blended finance across County Tipperary (Ireland)

The case of Sustainable Tipp programme - initiated by Tipperary County Council and delivered by the Tipperary Energy Agency (TEA) - exemplifies the power of blended finance to bridge the investment gap in rural energy transitions. By integrating technical assistance, public grants, and commercial loans within a One-Stop Shop (OSS) framework, it successfully aggregated dispersed energy projects into a bankable portfolio capable of mobilising capital at scale and effectively driving regional decarbonisation across diverse asset classes.

GENERAL CONTEXT. Prior to the establishment of Sustainable Tipp, energy renovation in County Tipperary suffered from market fragmentation and a critical lack of project preparation capacity. The absence of a unified delivery mechanism hindered the development of large-scale investment programmes. Facing rising energy costs and urgent decarbonisation mandates, the region required a strategic framework capable of reducing implementation barriers, aggregating small-scale projects, and attracting the necessary private and public capital to achieve its transition objectives.

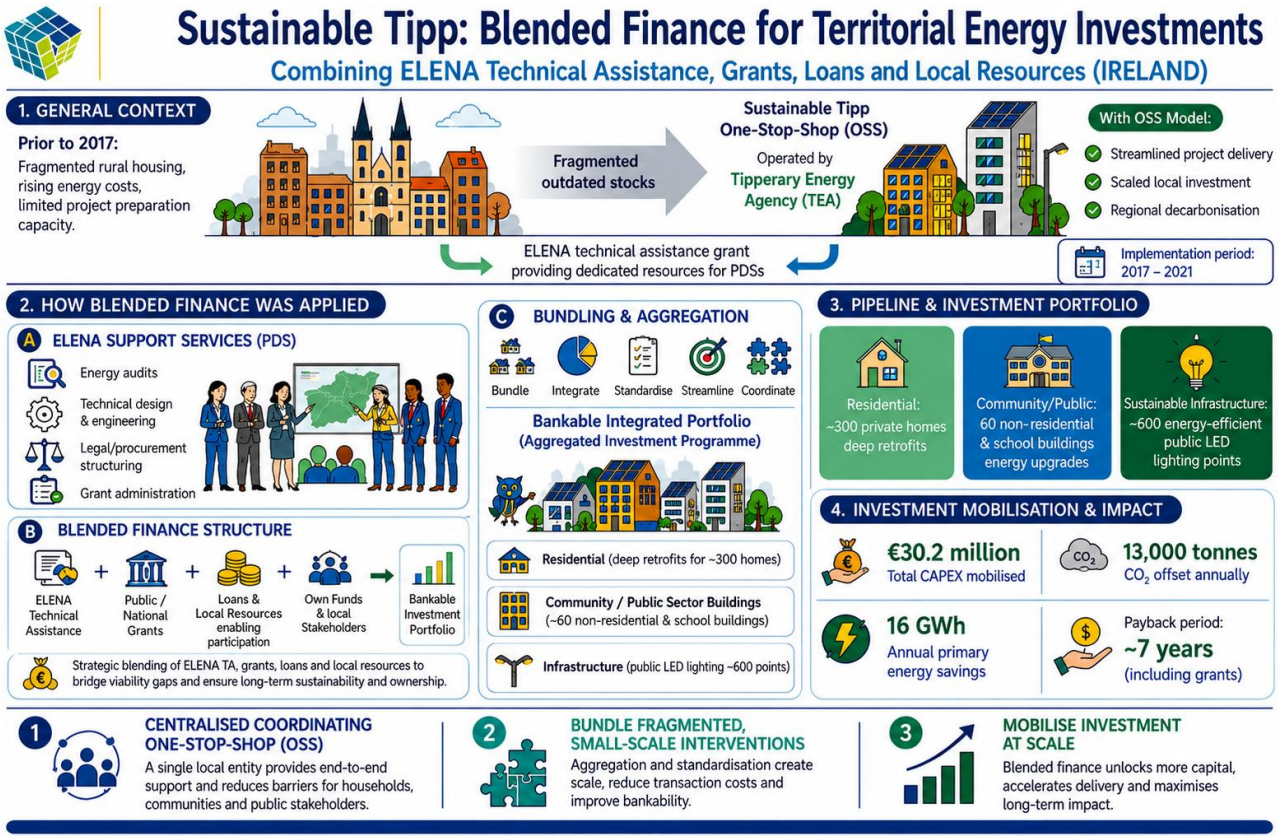


Figure 13. Blended finance across County Tipperary (Ireland) (Source: Author's own elaboration / AI-enhanced)

HOW BLENDED FINANCE WAS APPLIED. Sustainable Tipp institutionalised a robust blended finance mechanism that leveraged ELENA technical assistance to finance essential Project Development Services (PDSs) - including energy audits, engineering design, legal/procurement support and grant administration - matched with a multi-layered capital stack consisting of:

- public/national grants to bridge viability gaps, and
- loans and local resources to ensure commercial participation, long-term sustainability and ownership.

Between 2017 and 2021, this structure successfully mobilised €30.2 million in CAPEX, delivering a diverse portfolio, delivering a diverse portfolio of investments across multiple sectors and beneficiary groups:

- residential, Including deep energy retrofits for approximately 300 homes,
- community and public sector buildings, including comprehensive energy upgrades across 60 school and non-residential facilities.
- Infrastructure, including deployment of 600 energy-efficient public LED lighting points.

The approach proved highly effective both in accelerating project implementation and securing attractive financial performance, achieving a payback period of approximately seven years for measures with lifespans extending up to 50 years. By de-risking the development phase and providing a clear implementation pathway, the blended finance structure enabled investments that would have remained unrealisable under traditional, isolated financing models.

KEY TAKEAWAY. The Sustainable Tipp case highlights that the success of blended finance relies on more than just the capital stack; it requires a coordinated delivery framework capable of aligning technical, financial, and organisational resources. By de-risking the development phase and providing a clear implementation pathway - with the OSS structure serving as a vital intermediary that streamlined administrative complexity and aggregated fragmented interventions - the model enabled investments that would have remained unrealisable under traditional, isolated financing approaches.

READ MORE ABOUT THIS PRACTICE. For deeper insights on the Sustainable Tipp, visit the official website of the initiative. In addition, find and download the case study factsheet on the PROSPECT Stories webpage.

For further information on the supporting agency's broader role in sustainable energy management visit the official TEA website.

The PROSPECT inventory of success stories offers LRAs a practical and peer-validated reference framework for moving from strategic planning to operational deployment using innovative financing tools.

5. Critical conditions influencing blended finance schemes

Understanding the critical conditions that influence blended finance is essential for practitioners, as it moves beyond the theoretical mechanics of capital combination to address the practical realities of project implementation. By rigorously analysing these drivers, barriers, and risk dimensions, involved actors can better navigate the transition from intent to impact. This section provides a strategic framework to help them identify potential bottlenecks early in the project lifecycle, optimise institutional governance, and design resilient structures that not only bridge the investment gap but also ensure long-term financial and environmental sustainability.

5.1. Drivers and success factors

Pivotal factors for the successful design and execution of blended finance initiatives typically include:

- Strategic alignment: Clearly defined investment objectives and a strong public policy rationale that explicitly address market failures.
- Project maturity: A credible pipeline of investment-ready projects capable of generating measurable economic and environmental impacts.
- Stakeholder synergy: Early engagement with a diverse partner base, including public authorities, financial institutions, and project developers.
- Institutional commitment: Robust political support that fosters investor confidence and ensures implementation continuity.
- Scalability: Effective aggregation mechanisms that enable small-scale interventions to reach the volume necessary to attract institutional capital.
- Risk mitigation: Balanced risk allocation structures that assign responsibilities to the actors best equipped to manage them.
- Catalytic funding: Strategic access to grants, concessional loans, or technical assistance that enhances the overall project bankability.
- Expertise integration: Access to specialised technical, legal, and financial advisory services throughout the project lifecycle.
- Governance excellence: Transparent governance arrangements that facilitate efficient, streamlined decision-making.
- Performance tracking: Continuous monitoring frameworks that promote accountability and ongoing investor trust.

5.2. Barriers and limitations

Common constraints that jeopardise a blended financed project viability may include:

- Capacity constraints: Limited internal expertise in financial structuring and investment preparation.
- Readiness gaps: Insufficient project maturity or lack of comprehensive feasibility documentation.
- Fragmentation: Fragmented ownership and limited opportunities for scale, complicating the aggregation process.
- Market skepticism: Difficulty in mapping and identifying the actors required or mobilising private capital due to perceived uncertainty.
- Financial misalignment: Inadequate risk-return profiles that do not align with market expectations.
- Catalytic scarcity: Limited availability of concessional resources to bridge the viability gap.
- Regulatory uncertainty: Policy "lock-in" or legislative shifts that disrupt long-term financial modeling.
- Coordination costs: High transaction costs associated with project due diligence and stakeholder management.
- Additionality challenges: Difficulties in proving that the public intervention is truly generating value above and beyond standard market activity.

5.3. Key risk dimensions

Addressing and managing risk across the following dimensions is acritical for programmatic success:

- Technical risks: Inaccurate baseline assumptions or technology performance shortfalls.
- Financial risks: Cost overruns, revenue volatility, or shifts in financing conditions.
- Market risks: Insufficient investor appetite or low demand for the proposed solutions.
- Institutional/Governance risks: Unclear mandates or political volatility affecting project delivery.
- Regulatory/Policy risks: Legislative changes, subsidy reforms, or permitting delays.
- Implementation risks: Contractor underperformance or procurement bottlenecks.
- Stakeholder risks: Lack of alignment between investors, beneficiaries, and public authorities.
- Reputational risks: Public perception challenges regarding the effectiveness and value-add or additionality of public subsidies.

5.4. Synthesis of critical conditions affecting implementation

Table 8 summarises the main factors that influence the successful design and implementation of blended finance schemes, together with common barriers and potential mitigation measures.

Table 8. Summary of critical conditions influencing blended finance schemes

Dimension	Key drivers/enabling factors	Common barriers/risks	Mitigation measures
Strategic and institutional framework	• Political commitment • Clear investment rationale • Governance arrangements	• Weak ownership • Fragmented decision-making	• Formal governance structure • Clear allocation of responsibilities
Project pipeline and investment readiness	• Mature projects • Aggregation mechanisms • Technical preparation	• Weak project pipeline • Insufficient project readiness	• Technical assistance • Feasibility studies • Project aggregation
Financial structuring and risk allocation	• Appropriate instruments • Balanced risk-sharing • Catalytic resources	• Poor risk allocation • Weak investor interest	• Early market engagement • Financial structuring support
Stakeholder and market engagement	• Investor participation • Strong partnerships • Market capacity	• Limited financing partners • Low market confidence	• Continuous stakeholder engagement • Transparent communication
Monitoring and long-term sustainability	• Performance monitoring • Impact measurement • Replication potential	• Weak reporting • Limited evidence of additionality	• Monitoring frameworks • Impact indicators • Lessons learned

6. Summary of key takeaways

WHAT IS BLENDED FINANCE ABOUT? Blended finance is a strategic financing approach that combines public, concessional, and private capital within a common investment structure to address market barriers and mobilise additional investment towards sustainability objectives, including climate and energy. Rather than functioning as a standalone financial instrument, it provides a framework through which different financing mechanisms and instruments can be combined to improve project bankability, reduce perceived risks, and attract commercial participation.

For LRAs, blended finance can help bridge the gap between ambitious policy objectives and available financial resources, enabling investments that may otherwise struggle to secure sufficient financing. At its core, it is guided by widely recognised principles, including:

- the strategic use of concessional resources,
- the mobilisation of additional private capital,
- a focus on additionality, and
- the promotion of long-term market development.

These principles help ensure that public resources are deployed efficiently and only where they can generate the greatest catalytic effect.

HOW ARE BLENDED FINANCE SCHEMES STRUCTURED IN PRACTICE? In practice, blended finance schemes are implemented through partnerships involving public authorities, financial institutions, investors, project developers, intermediaries, and technical support organisations. Depending on the investment barriers being addressed, the maturity of the targeted investments, and local market conditions, different financing arrangements may be deployed, with the following being among the most commonly used:

- Layered capital structures, optimising risk-return profiles through capital tranching and strategically leveraging public resources to bridge investment gaps and mobilise commercial capital.
- Concessional lending structures, improving project affordability by offering favourable, below-market financing terms, thereby facilitating the implementation of long-term sustainable investments.
- Guarantee-backed arrangements, providing a risk-transfer mechanism, shielding investors from project-specific liabilities and creating a more attractive environment for private sector engagement.
- Equity and risk-sharing structures, allowing public or concessional investors to assume higher-risk positions, thereby enhancing the risk-adjusted returns for private market actors.

Blended finance can also be distinguished according to the level at which interventions are deployed, including:

- Fund-level blended finance, where capital is pooled within a common investment vehicle and allocated across a portfolio of projects, companies, or assets.
- Company-level blended finance, where blended finance interventions strengthen the financial profile of individual organisations and improve access to capital.
- Project-level blended finance, where financing structures are designed around specific investment projects and their associated risks, financing gaps, or preparation needs.
- Outcome-based blended finance, where financing is linked to the achievement of predefined environmental, social, or development outcomes.

These configurations are complementary and may coexist within broader blended finance structures.

WHAT ARE THE MAIN BLENDED FINANCE INSTRUMENTS AND HOW ARE THEY APPLIED ACROSS SECTORS? A wide range of instruments can be incorporated within blended finance structures, each serving a different function in improving investment conditions, strengthening bankability, or mobilising additional capital.

Table 9. Summary of the main blended finance instruments and their application across sectors

Arrangement	Typical instruments	Typical applications
Layered capital structures	• First-loss capital • Equity/junior equity • Subordinated debt	• Climate funds • Sustainable infrastructure investments • Large-scale urban investment programmes
Concessional lending structures	• Soft loans • Concessional debt • Interest-rate support	• Building renovation programmes • Energy communities • Sustainable mobility
Guarantee-backed arrangements	• Guarantees • Risk-sharing facilities	• EE and RES investments • SME financing • Sustainable infrastructure projects
Equity and risk-sharing structures	• Equity/junior equity • Subordinated debt	• Clean energy and energy community projects • Sustainable infrastructure and urban development projects
Project preparation and capacity support	• Grants, • Technical assistance • Advisory support	PDS such as project preparation, feasibility studies, investment readiness, pipeline development
Outcome-based financing structures	• Results-based financing • Performance-based payments	• Energy savings-based projects • Broader sustainability initiatives

Blended finance instruments are rarely deployed in isolation. In practice, successful schemes combine complementary arrangements and instruments to address multiple investment barriers while adapting financing structures to different sectors, investment scales, and local market conditions.

WHO SHOULD USE BLENDED FINANCE? Blended finance is particularly suitable for project promoters -including LRAs and other public entities - seeking to:

- mobilise private and institutional capital alongside public resources,
- address investment barriers linked to risk, affordability, or project scale,
- support large-scale climate, energy, and sustainability programmes,
- strengthen project bankability and investment readiness,
- accelerate implementation of strategic territorial investment plans,
- aggregate smaller projects into investable portfolios,
- create long-term financing ecosystems capable of supporting successive investment cycles.

It is especially relevant where viable investment opportunities exist, but market conditions alone are insufficient to attract the scale of financing required.

WHEN IS BLENDED FINANCE MOST EFFECTIVE? Blended finance is most effective when market barriers, rather than a lack of investment opportunities, represent the primary obstacle to implementation. Its impact is maximised when:

- mature projects and credible investment pipelines are available,
- specific financing or risk-related barriers have been clearly identified,
- public resources are deployed strategically and only to the extent necessary,
- private sector participation can generate additional capital mobilisation,
- technical assistance and project preparation support strengthen investment readiness,
- governance structures and stakeholder coordination mechanisms are well established,
- robust monitoring frameworks are in place to assess investment mobilisation, project performance, and wider long-term benefits.

Under these conditions, blended finance can act as a powerful catalyst, enabling LRAs to accelerate sustainable investment while strengthening local financing ecosystems and reducing long-term dependence on public funding alone.

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