

Top questions on blended finance

Blended Finance in a Nutshell: A *Brief* from Mirova



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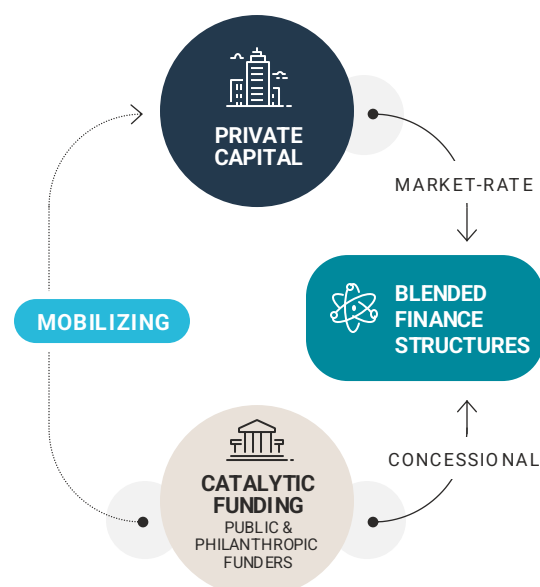
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There is a significant investment gap in different sustainability sectors, including Natural Capital¹ and Energy Transition Infrastructure, especially in emerging markets, which cannot be filled solely by public funding. While public money remains essential, private capital must also play role. As some governments are reducing their budget to development aid, the need of private capital mobilization for financing the climate transition in emerging markets is even more important. Blended finance is particularly well-suited to address this investment gap, as it aims to maximize the catalytic of public money and encourages private sector mobilization.

01 | What's blended finance and how does it differ from traditional financing methods?

Blended finance is the use of catalytic or concessional capital from public or philanthropic sources to increase private sector investment in sustainable development². It is a structuring approach that allows organizations with different goals to invest alongside each other while achieving their own objectives (whether financial return, social impact, or a blend of both). Blended finance creates investable opportunities mostly in developing countries, which leads to more development impact.

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¹ Finance flows to nature-based solutions need to nearly triple from current levels of US\$200 billion to US\$542 billion annually by 2030, and quadruple to US\$737 billion by 2050. Source: UNEP, State of Finance for Nature report, 2023.

² Source: Convergence.

The mentioned perspectives reflect the opinion of MIROVA at the date of this document and are likely to change without notice

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Although blended finance encompasses various structures (such as guarantees, insurance, and technical assistance), **the most prevalent form is a layered investment vehicle**. Such a vehicle aims to attract capital from a diverse array of investors, including **private institutional and impact investors, government-supported development finance institutions (DFIs), and both private and public donors**, each possessing distinct risk-return profiles and impact objectives.

The layered investment vehicle concept is what sets blended finance apart from traditional financing methods. It typically features multiple tranches, with capital organized into senior, [mezzanine], and junior layers. Senior investors, such as private investors, contribute substantial capital, while mezzanine and junior investors bring expertise and absorb initial losses - if any -, enabling larger, more risk-averse investors to participate.

Moreover, blended finance is **explicitly focused on achieving specific development goals**, such as poverty alleviation, healthcare access, and sustainable environmental practices. This alignment with social objectives distinguishes it from conventional methods, fostering a commitment among stakeholders to tackle complex global challenges collaboratively.



Did you know?

Concessional capital: A critical component in Blended Finance

Concessional capital, also known as **catalytic capital**, refers to financial resources provided at terms that are more favorable than those available in the open market. This can include lower interest rates, extended repayment periods, or grants that do not require repayment. Concessional capital is typically sourced from government agencies (sometimes via Development Finance Institutions), or philanthropic organizations and is used to de-risk investments in high-impact projects, particularly in developing countries.

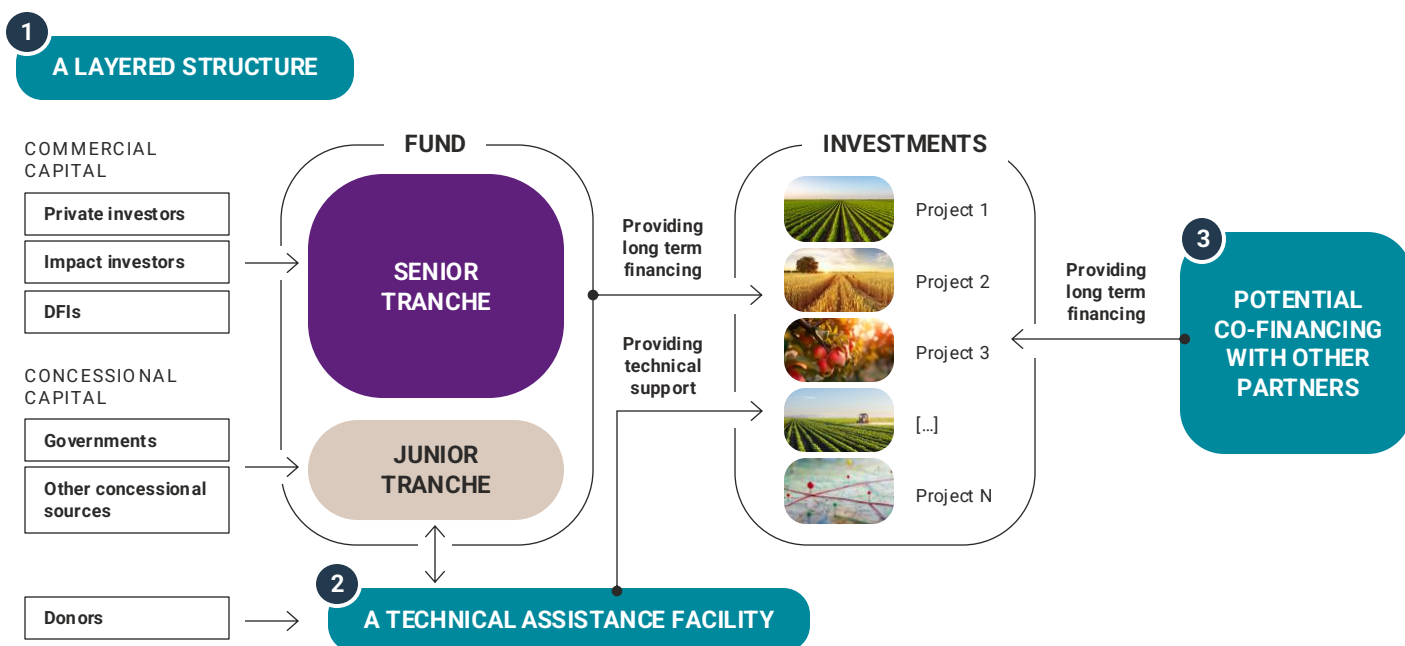
By offering these more attractive terms, concessional capital helps to mitigate the perceived risks associated with investing in sectors such as renewable energy, sustainable agriculture, and infrastructure development. It serves to attract private sector investments by improving the risk-reward profile of funds or projects that might otherwise be deemed too risky or unviable under standard market conditions.

02 | How can blended finance be structured to align the incentives of different stakeholders effectively?

The multi-tranche approach can be structured to align incentives among various stakeholders by effectively distributing risk and returns through blended finance.

Senior investors, such as institutional investors, pension funds, insurance companies, and development banks, contribute significant capital while providing expertise, which attracts additional investments. These investors typically require market financial returns with a low-risk profile and seek to diversify their portfolios by investing in real assets that are uncorrelated with other asset classes. While many senior investors are also interested in the positive impacts of the fund, they require an appropriate risk-return profile as well.

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Junior investors play a crucial role of absorbing the first losses incurred by the fund, providing partial risk protection that makes it feasible for larger, more risk-averse investors in the senior tranche to participate. Junior investors are typically foundations, high-net-worth individuals and organizations such as national development agencies, climate funds, or private foundations.

These investors prioritize environmental and social impacts over financial returns, making them willing to accept higher risks and lower returns.

Typically, the different risk-return profiles of the tranches is reflected in a cashflow waterfall guiding the allocation of cash distribution to the specific tranches (e.g. the senior tranche is repaid first).

Ultimately, the layered structure brings additionality to the market, as it encourages private investors to enter sectors and geographies they typically would not consider.

03 What actions can be taken to enhance the impact of blended finance in supporting investments in Natural Capital and Energy Transition Infrastructure in emerging economies?

Investing in critical areas such as renewable energy, agriculture, and infrastructure in emerging markets is often seen as risky. Factors such as uncertainty about returns, limited track record, and extended repayment periods can deter private investors from participating. **Blended finance offers a promising solution to these challenges by providing a framework that shares risks and enhances the attractiveness of investments in these vital sectors.**

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Nevertheless, it remains crucial to continue our efforts to promote its broader diffusion, particularly by:

- **Strengthening regulatory frameworks:** It is essential for governments to establish clear guidelines for blended finance. By creating a transparent and supportive regulatory environment, policymakers can encourage investor engagement by ensuring that blended finance is viewed as a development tool rather than as securitization.

- **Mobilizing advocacy and research:** Stakeholders in the private sector, including asset managers, investors, and the academia, must mobilize resources to conduct research and raise awareness of the potential benefits of blended finance. Effective advocacy can showcase successful case studies and best practices, illustrating the positive impact of blended finance on investment outcomes. Collaborative initiatives aimed at developing thought leadership and sharing insights can create a more informed investment community, ultimately attracting additional capital into blended finance projects.

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How we take action

Our network and credentials in Blended Finance

Mirova has been active in the space of blended finance for many years. It has been part of several leading network and initiatives, giving access to up-to-date market information and also giving the opportunity to share experience on concrete examples.

CONVERGENCE BLENDED FINANCE



Mirova has been part of many workshops / publications with Convergence. This includes:

- **The design of the Mirova Gigaton project:** in 2022, Convergence awarded a proof-of-concept grant to Mirova, to design a large blended finance fund that targets both established and frontier segments in distributed clean energy/off-grid sub-sectors, such as Commercial and Industrial (C&I), Telecom, Solar home systems, Agri-solar, Mini-grids and E-mobility.
- Mirova participated to a **ASIFMA | ICMA | Convergence Webinar: Scaling Blended Finance in Asia** in June 2024.

COLUMBIA UNIVERSITY



Mirova has established a partnership with Columbia University Business School (the "Sustainable Investing research Initiative" – SIRI) and has already published two papers about blended finance:

- About the global use of Blended Finance (**Blended Finance by Caroline Flammer, Thomas Giroux, Geoffrey M. Heal : SSRN**); and
- About the use of blended finance in the financing of Biodiversity projects (**Biodiversity Finance by Caroline Flammer, Thomas Giroux, Geoffrey M. Heal : SSRN**).

OTHER INITIATIVES

- **Global Donor Platform for Rural Development:** Mirova is part of the Thematic Working Group on Sustainable/Blended Finance for Food Systems created in 2024, to align on good practices.
- **Blended Finance Taskforce:** Mirova shared its good practices with the Blended Finance Taskforce, which outlined several Mirova's blended finance vehicles.
- **EIB 'Investing in Nature' Workshops:** Mirova presented blended finance structure of its first Sustainable Land Use strategy as part of a series of workshops organized by the European Investment Bank.

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- **Increasing fund size:** To overcome the limitations of funds below 200 million USD, it is necessary to encourage the formation of larger funds.

This could be achieved by promoting public-private partnerships and incentivizing collective investments, thus enabling better resource pooling and increased investment capacity.



How we take action

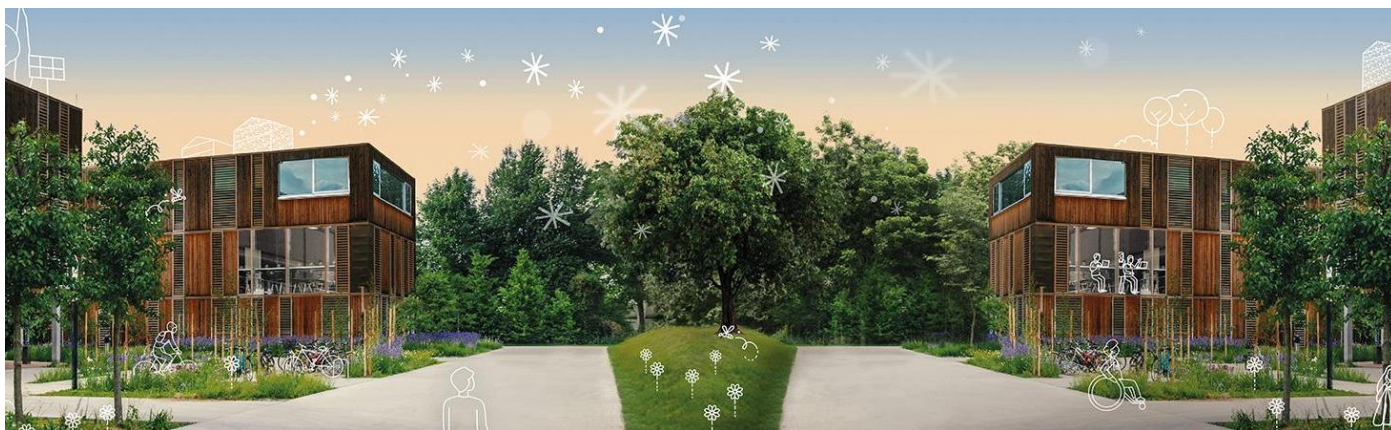
Our ability to attract private investors

At Mirova, we recognize the challenge of attracting capital from private sources in blended finance, and we are well-positioned to address it. A key strength of Mirova lies in our ability to mobilize private capital from mainstream institutional investors. With approximately €32 billion assets under management¹, the majority of our capital comes from private institutional sources, showcasing our capability to attract significant investment.

For instance, in one of our previous Sustainable Land Use (SLU) vintages, 62% of the capital was sourced from private investors², which underscores our success in engaging the private sector. Similarly, for the first close of our most recent SLU strategy, we successfully mobilized substantial commitments from large European insurance companies, including Cardif (BNPP's insurance arm), Allianz, and Abeille³.

While many blended finance vehicles claim to engage the private sector, the reality is that only a small fraction of their investors are institutional. According to the latest Convergence study, private sector investors make up only 46% of investors in blended finance funds, and institutional investors represent just 6.6%. Often, the so-called "private" sector includes foundations, family offices, or DFIs, which do not align with the risk-return profiles sought by institutional investors.

Our ability to attract private institutional investors at scale for our most recent SLU strategy's first close is a testament to our understanding of the market's needs.



¹ Source: Mirova. Data as of end March 2025.

² Source: Mirova.

³ For further information: <https://www.mirova.com/sites/default/files/2025-02/mirova-coalition-announcement-en.pdf>

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04 | What innovative financing mechanisms are emerging in blended finance?

Emerging innovative financing mechanisms in blended finance include:

- **The rating of the senior tranche**, a key element for enabling private investors to immediately materialize the benefits of the protection coming from catalytic junior investors.
- **Risk-sharing mechanisms**, where innovative risk-sharing arrangements, such as guarantees and insurance products, help mitigate risks for private investors, making it easier to invest in high-risk sectors.
- **The liquidity of the senior tranches**, which enables private investors to benefit from liquidity agreements.
- **Performance-based incentives** that reward investors based on the achievement of specific project outcomes, aligning financial returns with developmental impact.



How we take action

Our Blended Finance Solutions

Mirova boasts a robust track record and extensive experience in blended finance, particularly in its Natural Capital and Energy Transition Infrastructure strategies, where it has successfully implemented a total of eight vintages featuring blended finance approaches.

Mirova's Emerging Markets Energy Transition (EMET) strategy, launched in 2023, specifically targets distributed energy and off-grid projects, addressing energy access for over 750 million people globally who currently lack electricity¹. By applying a gender lens throughout its operations, this strategy aims to empower women who are disproportionately affected by energy poverty by enhancing their access to clean and reliable energy sources. It is designed to attract private debt financing for businesses engaged in solar power, mini-grids, and other clean energy initiatives, particularly in middle-income and less developed countries such as the Democratic Republic of the Congo, Malawi, and Myanmar. With a proven track record in managing blended finance strategies in Sub-Saharan Africa, Mirova is positioned to scale its efforts significantly through the EMET Strategy, which has already secured \$330 million in commitments, including a substantial investment from the European Investment Bank.

This strategy not only seeks to generate financial returns but also aims to create meaningful social impacts, such as job creation and enhanced energy access for millions.

Mirova's latest Sustainable Land Use (SLU) strategy, launched in 2024, is designed to mobilize private capital for sustainable land use practices, specifically targeting projects in sustainable forestry, agroforestry, and regenerative agriculture. Building on the success of Mirova's previous SLU vintage, this strategy employs a well-structured blended finance model that minimizes risks for private investors while maximizing potential returns. The strategy aims to attract a diverse range of investors by utilizing a layered capital structure, which includes junior and senior tranches that offer distinct risk-return profiles. With a targeted size of €350 million, this strategy is set to address the barriers to investment in sustainable land use, leveraging public funds to de-risk projects and catalyze greater private investment. Its unique approach tackles environmental challenges, such as climate change mitigation and ecosystem restoration, and promotes social benefits, including improved livelihoods for local communities and enhanced food security.

Both strategies exemplify Mirova's renewed commitment to driving positive impact through blended finance. Mirova's innovative approaches address global issues and align with the increasing demand for sustainable and responsible investment opportunities.

¹ Source: International Energy Agency, 2022.

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05 | What are the latest initiatives, reports and announcements?

The landscape of blended finance continues to evolve, showcasing significant initiatives, reports, and collaborations aimed at mobilizing capital for sustainable development. In 2024, **Convergence** produced [a report on the state of Blended Finance](#) containing a comprehensive analysis, further enhancing its contributions to the field.

Recently, the **Investor Leadership Network (ILN)** published the "[Blended Finance Best Practice Booklet: Case Studies and Lessons Learned](#)", which includes contributions from the GISD Alliance and is supported by the UN-Convened Net-Zero Asset Owner Alliance and the Glasgow Financial Alliance for Net Zero. This report underscores blended finance as a crucial tool for mobilizing private capital to achieve the Sustainable Development Goals (SDGs), showcasing case studies that highlight the impact of combining private and public resources. However, it notes that blended finance has not yet mobilized the expected capital, indicating a need for greater contributions to sustainable development.

COP28 saw the introduction of **ALTÉRR**, an innovative \$30 Bn climate investment fund geared to drive substantial investments into pivotal projects on a global level. Established by the UAE, ALTÉRR seeks to mobilize \$250B globally by 2030 to create a fairer climate finance system. \$5 billion is earmarked for the Global South through ALTÉRR Transformation, a distinct branch of ALTÉRR¹.

BII and BCG² recently released a report titled "[Scaling Blended Finance: Practical Tools for Blended Finance Fund Design](#)" which provides a typology and scorecard for blended finance funds to better align with investor needs and mobilize private capital effectively.

With the upcoming **Fourth International Conference on Financing for Development** in 2025, there is an opportunity to catalyze a transformation in financing that prioritizes the urgent actions needed to achieve the SDGs and combat climate change. Key stakeholders active in the blended finance ecosystem must continue their advocacy efforts and call on governments to establish clear guidelines for blended finance. By pushing for this urgent framework, these stakeholders can help ensure an effective and sustainable approach to this important financial tool.



Did you know?

Blended Finance's Main Actors



The International Finance Corporation (IFC) has been active in promoting blended finance through various initiatives that connect private investors with projects in emerging markets, particularly in renewable energy and sustainable infrastructure.



The World Bank has been supporting blended finance through various programs that leverage both concessional and commercial financing to enhance renewable energy access in developing countries.



Convergence, the global network for blended finance, plays a vital role in facilitating the mobilization of private capital. Founded to increase investments in emerging markets, it provides its members with access to valuable data on blended finance transactions, market analysis, and networking opportunities.



The Global Impact Investing Network (GIIN) also contributes to this dialogue through its annual reports, which provide insights into market trends and the effectiveness of blended finance strategies.



Mirova is a founding member of the **Investor Leadership Network (ILN)**, launched at the G7. The ILN is an open and collaborative platform for leading investors interested in addressing sustainability and long-term growth.

¹ Source: Source: ILN, Blended Finance - Best Practice Case Studies And Lessons Learned, 2024. Available at the following link <https://gisdalliance.org/news/release-blended-finance-best-practice-booklet-case-studies-and-lessons-learned>

² British International Investment and Boston Consulting Group.

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ABOUT MIROVA

Mirova is a global asset management company dedicated to sustainable investing and an affiliate of Natixis Investment Managers. At the forefront of sustainable finance for over a decade, Mirova has been developing innovative investment solutions across all asset classes, aiming to combine long term value creation with positive environmental and social impact. Headquartered in Paris, Mirova offers a broad range of equity, fixed income, multi-asset, energy transition infrastructure, natural capital and private equity solutions designed for institutional investors, distribution platforms and retail investors in Europe, North America, and Asia-Pacific. Mirova and its affiliates had €32 billion in assets under management as of March 31, 2025. Mirova is a mission-driven company, labeled B Corp*.

**The reference to a ranking or a label does not prejudice the future performance of the funds or its managers.*

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