Blended Finance 1.1

Blended finance is an efficient mechanism for intermediating capital in impact investing. There is scope for further development.

An important innovation would be to establish a correspondence between impact (shortfall) risk and credit risk. This would require a generally accepted standard and framework for measuring and analysing impact metrics with a view to translating such data into commercial or financial risk, namely the risk of outcome payers not funding.

Better understanding of credit risk in a portfolio of impact investments allows us to design richer capital structures to better satisfy investor risk appetites. In particular, the ability to obtain credit ratings on mezzanine and senior tranches would increase accessibility to larger pools of investor capital.

Credit ratings would widen the market for blended finance. Adding improved liquidity would go further in attracting more capital.

The role of government in blended finance represents a significant opportunity. In the US the mortgage agencies encourage private capital to fund what is regarded as a public good, namely, shelter for the masses.

As climate crisis mitigation and social equality are public goods, there is a case for supporting them with policy and public capital.

A Government Sponsored Sustainability Agency suitably capitalised could, securitise impact investments, make markets in certain liabilities and retain such risks as are considered important to the social agenda.