

SUMMARY

Bridging the Finance Gap: The Role of Blended Finance in Building a Climate-resilient Economy

Overview

A climate-resilient, competitive Canadian economy depends on advancing cleantech innovation and the clean energy transition. Several barriers are holding private investors back from making climate-aligned investments.

This research brief shows how blended finance can help address these challenges. Blended finance uses public and philanthropic funds to attract larger pools of private-sector investment.

The brief reviews commonly used financing instruments and blended finance structures. It highlights the role of a robust policy and regulatory environment in developing an effective blended finance ecosystem in Canada.

Why this research matters to Canada

Canada faces an estimated annual climate investment gap of \$115 billion. Closing this gap is essential for Canada's long-term competitiveness, resilience and economic prosperity.

Public and philanthropic funding is limited, and more needs to be done to address the challenges impeding domestic and international private capital.

Blended finance is one tool that can help attract private investment and close the financing gap.

What this research contributes

- Explores the use of blended finance globally, particularly as part of a broader climate policy framework to invest in cleantech innovation and the clean energy transition
- Reviews market failures, technological risks, project challenges and investor-specific barriers that limit private, sustainable investment
- Examines commonly used financing instruments and structures
- Showcases how public financial institutions (PFIs), like the Canada Infrastructure Bank and Canada Growth Fund, use blended finance approaches in achieving their objectives
- Highlights implementation issues, governance considerations and areas for future research.

Key takeaways

- Canada cannot close its climate-investment gap through public and philanthropic spending alone; private capital must play a larger role.
- Market failures that deter private investments differ across sectors and technologies.
- Different types of investors, such as banks, venture capital and institutional investors, face different challenges that limit investments.
- Canadian PFIs use blended finance to diversify risks, enhance returns, bridge market gaps and build technical capacity.
- Blended finance is not a single instrument; it is a structuring approach that combines catalytic financing instruments and policy tools to unlock private capital for climate-aligned projects and entities.
- Blended finance is not a panacea for the climate-investment gap. It does not replace the need for strong climate policy, sector-specific reforms or a climate information architecture.
- Stronger evidence and learning are essential to inform the development of a robust blended-finance ecosystem.

Key messages for decision-makers

Policymakers and regulators: Blended finance is a practical tool to mobilize investment at the pace and scale needed for Canada's transition. Policymakers and regulators should focus on building the enabling policy and market conditions and learn from early Canadian and international experience.

Industry and businesses: Blended finance can help firms advance climate-aligned projects that may otherwise struggle to secure commercial financing. Businesses should explore how blended finance can support commercialization, de-risk investment and help scale promising projects and ventures.

Investors and financial institutions: Blended finance can help investors access new climate-related opportunities while meeting their risk-adjusted ROI requirements. Private investors and financial institutions should seek a stronger understanding of the rationale, instruments and structuring approaches associated with blended finance.

Read [*Bridging the Finance Gap*](#) to explore how blended-finance approaches can help build a more climate-resilient economy in Canada.

This research brief is a product of our [Sustainable Finance research program](#), which examines how financial markets, policy frameworks and real-economy decision-making support a competitive, resilient and low-carbon Canadian economy.

This project was undertaken with the financial support of:
Ce projet a été réalisé avec l'appui financier de :



Environment and
Climate Change Canada

Environnement et
Changement climatique Canada