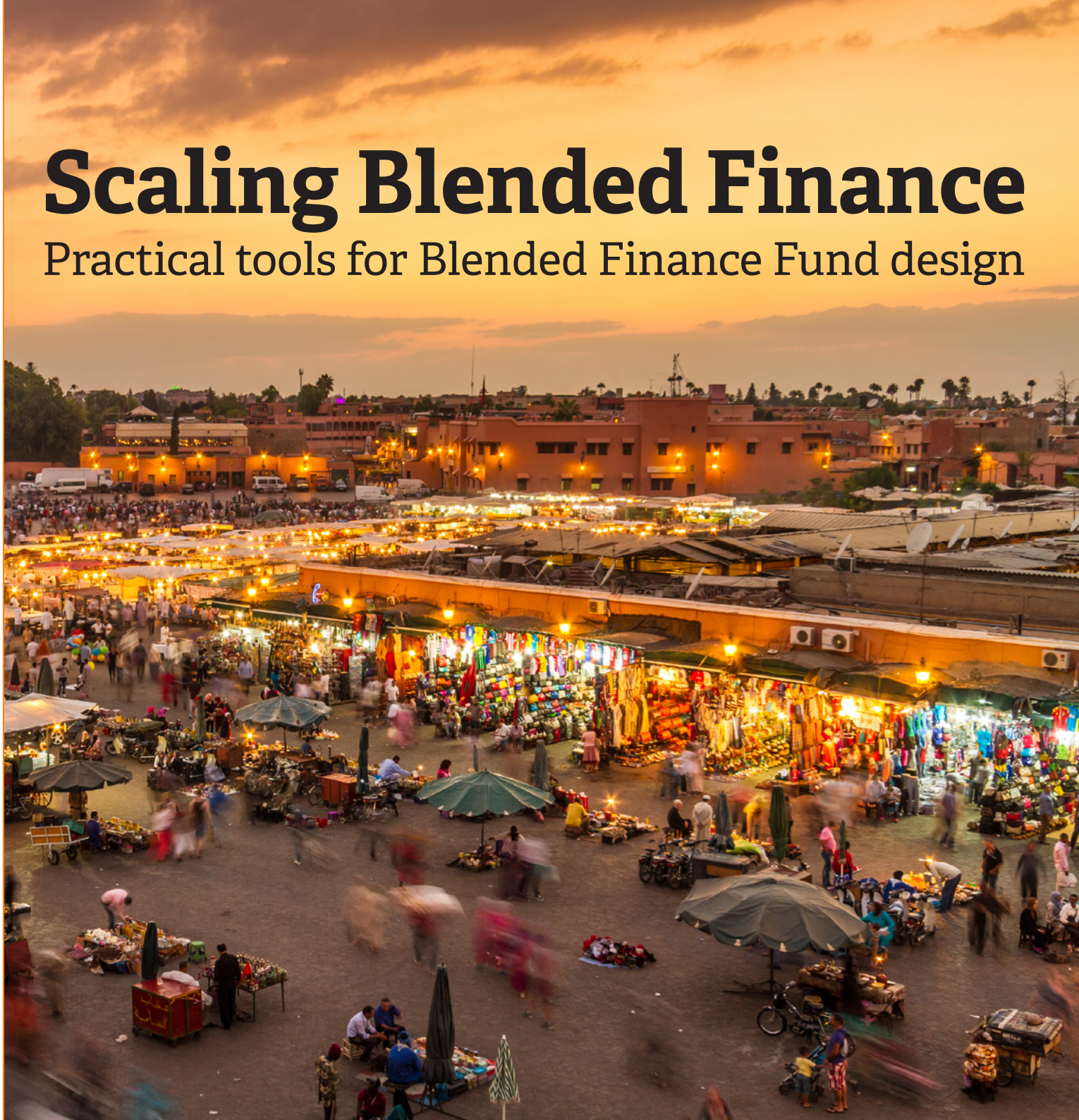
British International Investment

BCG

Scaling Blended Finance

Practical tools for Blended Finance Fund design



Guidance

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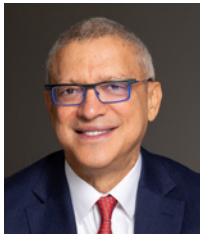
Foreword

Public and philanthropic investors can only address a small part of the Sustainable Development Goals (SDGs) and Paris Agenda through their own investments. If we are to meet these goals, a key role for impact investors is therefore to mobilise additional capital from private investors.

Blended finance brings together public, philanthropic, and private capital into a single investment structure, with each playing a distinct role and bearing different levels of risk and return. When well-designed, these structures enable private investors to access opportunities that would otherwise fall outside of their risk-return thresholds—unlocking new markets, diversifying portfolios, and generating measurable impact. For public and philanthropic investors, blended finance is a force multiplier: it allows scarce concessional resources to catalyse significantly greater volumes of commercial capital.

Yet, despite its promise, blended finance remains underutilised. Concessional capital is limited, and in today's environment, increasingly difficult to secure. Many blended structures are also complex, bespoke, and costly to execute. These constraints are well-known; what's needed now are practical solutions to overcome them.

That is why BII and BCG have come together to provide practical tools to strengthen the design, assessment, and mobilisation of blended finance funds – a product for which we have seen increased appetite from private, public and philanthropic investors. These tools are grounded in BII's direct experience investing in blended vehicles and BCG's work advising a wide spectrum of capital providers and organisations seeking to raise funding. They also reflect the valued insights and experience of many of our trusted partners and peers. We hope these tools can support bringing more blended finance funds to market and advancing progress towards our shared global goals.



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Purpose and audience for this document

This document complements existing frameworks and the growing body of work in the blended finance sector.[1] It is not investment advice, but an overview of two new tools designed to support fund managers, investors and donors in their respective mandates. It also contributes to broader efforts to increase understanding, streamline approaches, improve replicability, and increase the uptake of blended finance funds to meet global development challenges.

This document is intended for practitioners with a sound grasp of financial structuring principles. It assumes familiarity with concepts such as capital stacks, waterfalls, and financial structuring mechanics. Rather than offering a primer, this is a practical guide for fund managers and investors seeking to develop or assess blended finance fund structures.

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This list includes the project team at BCG and BII, those who we talked to as we developed the tools, and those who peer-reviewed the document.

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In developing this paper, we consulted with a cross-section of leading blended finance market actors, four major concessional capital providers collectively managing more than $30 billion, Two impact investors with over $100 billion AUM, and six global asset managers with more than $800 billion in alternative investments. Their perspectives were invaluable in ensuring the tools presented reflect both market realities and investor needs. We are grateful for their time and insights.

1 Recent papers on blended finance include: *State of Blended Finance 2024 Report* by Convergence; *Making Blended Finance Work for the Sustainable Development Goals* by the Organization for Economic Co-operation and Development (OECD); *Blended Finance in Infrastructure and Climate: A Case Study Series* by the International Finance Corporation (IFC); and *Risk-Return Characteristics of Blended Finance Models* by Allianz Global Investors (GI).

Executive summary

Why develop new blended finance tools?

Blended finance is a structuring approach that strategically combines concessional capital with commercial investment. It uses tools from structured finance to align risk and return in transactions that deliver both financial and development outcomes.[2] It unlocks private capital at scale by leveraging investors willing to tolerate below-market risk-adjusted returns in pursuit of impact. It also holds transformative potential to address global priorities such as ending poverty and tackling climate change. However, it remains underutilised, mobilising around $15 billion annually, far short of what is needed.[3]

Private investors face well-known challenges in deploying capital to emerging markets. These include data gaps (insufficient information to support investment decisions), regulatory and capital constraints (such as credit rating caps on many developing economies), a limited universe of investable assets, and a general lack of familiarity with these markets (leading to inaccurate credit assessments, weaker underwriting and difficulty sourcing transactions). Illiquidity is also a barrier, driven by the long tenors required for many projects and the absence of secondary markets.

Even when there is interest, concessional capital—a key ingredient for de-risking and enabling private capital participation—can be difficult to source and complex to manage.

Blended finance funds offer one of the most scalable and structured ways to channel capital into emerging markets. By combining asset pooling, risk tranching and concessional capital, they align diverse investor expectations and create investable opportunities in markets that are often overlooked. These funds already represent over a quarter of total blended finance by value and are drawing increased attention—particularly from investors seeking exposure to emerging markets and climate-linked assets. But despite this growing interest, blended finance funds remain difficult to design and operationalise. Long structuring timelines, high transaction costs and bespoke negotiations have limited their replicability and slowed market growth. Without clearer design guidance and standardised reference points, the full potential of this model will remain unrealised.

This document presents two practical tools, based on BII's experience of deploying nearly $2 billion in blended finance and BCG's advisory expertise across institutional and impact investors.

2 Blended finance does not have a universally accepted definition. This paper follows the MDB/DFI definition, which explicitly includes the use of concessional capital.

3 *State of Blended Finance*, Convergence (2024).

What are the new tools we have introduced?

Tool 1: Typology of fund archetypes

The phrase 'blended finance fund' can mean different things to different people, contributing to a fragmented and often opaque market landscape. To bring greater coherence, we introduce a typology of five blended finance fund archetypes that reflect the most common patterns in the market today. Drawn from our analysis of over 65 blended finance funds launched in recent years, these archetypes are differentiated from each other by fund purpose, institutional investor risk appetite, and underlying asset risk. While not rigid structuring templates, they provide a practical reference for fund managers and investors to design, assess, and capitalise blended vehicles more efficiently. Similarly to the way reference points have been established over time for other products (e.g., growth equity, buyout, venture capital), these reference points will help investors in blended finance funds to quickly understand what to expect from the structure, and where due diligence will typically need to focus.

Tool 2: Scorecard

We have also developed a scorecard to assess the quality of a blended finance structure in a systematic and consistent way. It serves as a tool for fund managers (GPs) and both commercial and concessional investors (LPs) to determine whether a fund's structure aligns with its objectives, balances stakeholder priorities, and adheres to best practices. While commercial and impact assessments are well-established, this scorecard fills an important gap, by providing a structured approach to evaluating blended finance fund design alongside existing due diligence frameworks.

The tools presented here are a starting point, with room for further refinement. We include a first draft of the archetypes and scorecard, both of which can inform blended finance fund design and review. Over time, they will benefit from additional data, benchmarks, and real-world application.

Who should use these tools and how?

Asset managers can use the five archetypes as reference points for fund design. Where a fund does not fully correspond to one of these archetypes, the typology can help identify and justify those differences. The scorecard can help ensure the fund design aligns with investor expectations. These tools provide fund managers with an independently-generated rubric to articulate trade-offs and provide clarity around the implications of incorporating divergent investor objectives.

Investors can use the archetypes and scorecard to evaluate the structural characteristics of funds systematically. They can leverage the archetypes to benchmark fund designs and use the scorecard to prompt discussions about potential misalignments or risks.

Donors and other providers of concessional capital can use these archetypes to help determine the amount and terms of concessional capital they make available, based on the types of assets they aim to finance and the types of investors they wish to attract. They can, like investors, also use the scorecard to assess the viability and misalignment risks associated with a particular fund proposal.

Tool 1: Typology

Introducing the archetypes

Our process combined top-down reasoning and bottom-up analysis. First, we defined three core dimensions that shape blended finance fund design: the fund's purpose, institutional investors' appetite, and the risk-return profile of the underlying assets. These dimensions were selected because they consistently influence fund structure and investor composition.

We then tested the framework against a dataset of over 65 existing blended finance funds. By mapping these funds along the three dimensions, we conducted a clustering analysis that revealed five common archetypes and their associated tranching, distribution waterfalls, and governance mechanisms.

The three dimensions are:

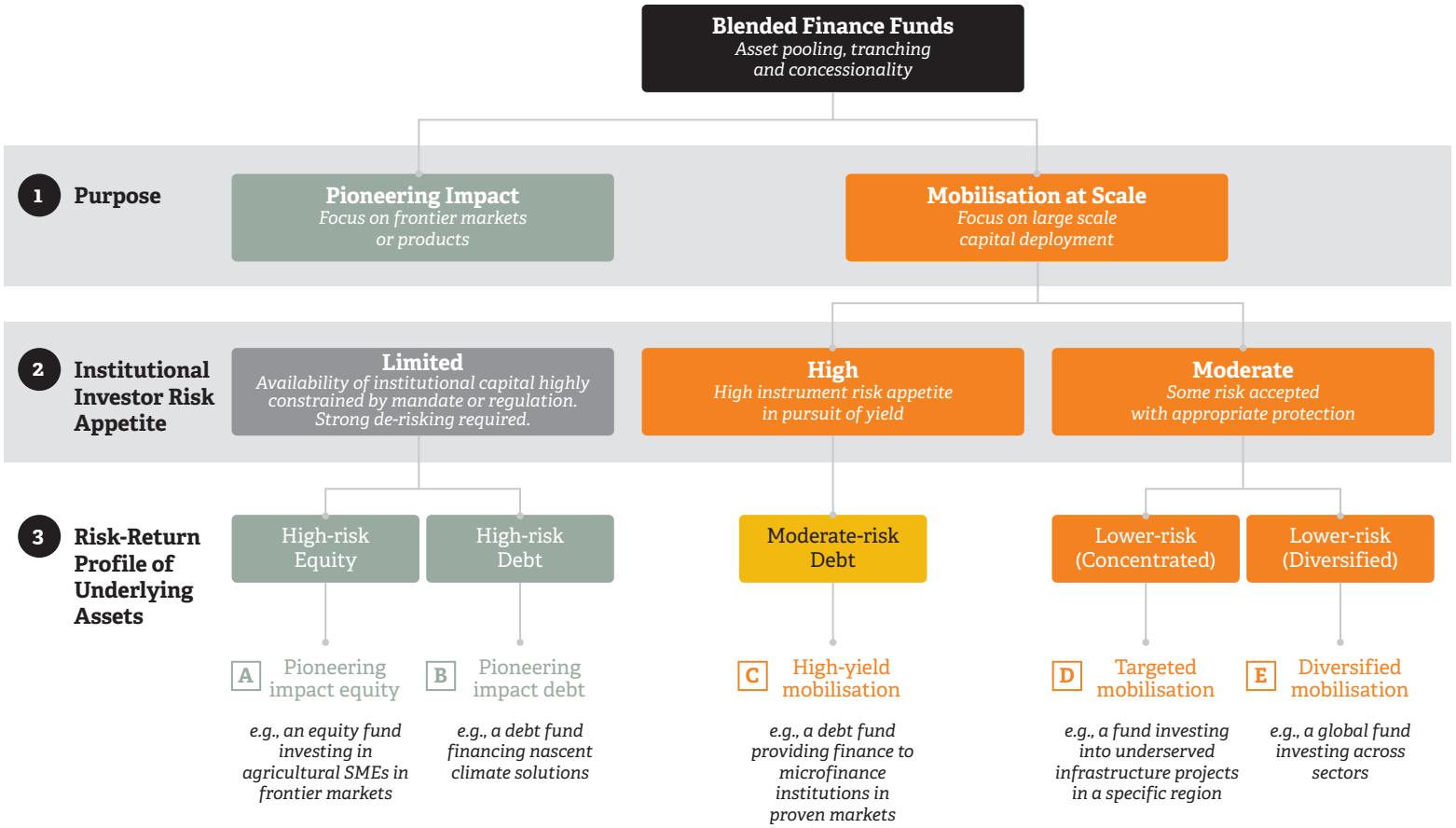
1. **Purpose and Impact of the Fund:** What the fund is designed to achieve. We identified two categories here: 'pioneering impact' funds, which enable high-impact projects in early-stage businesses, emerging sectors, and challenging geographies; and 'mobilisation at scale', which aim to deploy large volumes of capital, typically in more mature sectors and geographies.

2. **Institutional Investor Risk Appetite:** The extent to which institutional capital can participate in the fund, based on its risk profile and structuring required to align with investor mandates. We identified three categories: 'limited', where institutional investor participation is constrained by mandate or regulation and requires strong de-risking; 'moderate', where some risk is acceptable with appropriate protection; and 'high', where institutional investors are actively seeking risk-adjusted returns in higher risk markets.

3. **Risk-Return Profile of Underlying Assets:** The inherent risk of the assets in the fund's portfolio, shaped by factors such as asset class, geography, sector, or maturity. This dimension also affects the structure's complexity and the required balance of concessional and commercial capital. We found five risk profiles that represented the vast majority of structures: high-risk equity; high-risk debt; moderate-risk debt; lower-risk, concentrated portfolios; and lower-risk, diversified portfolios.

Figure 1: Drivers leading to five blended finance fund archetypes

We identify 5 archetypal blended finance fund structures which differ based on purpose, investor appetite, and asset risk profile

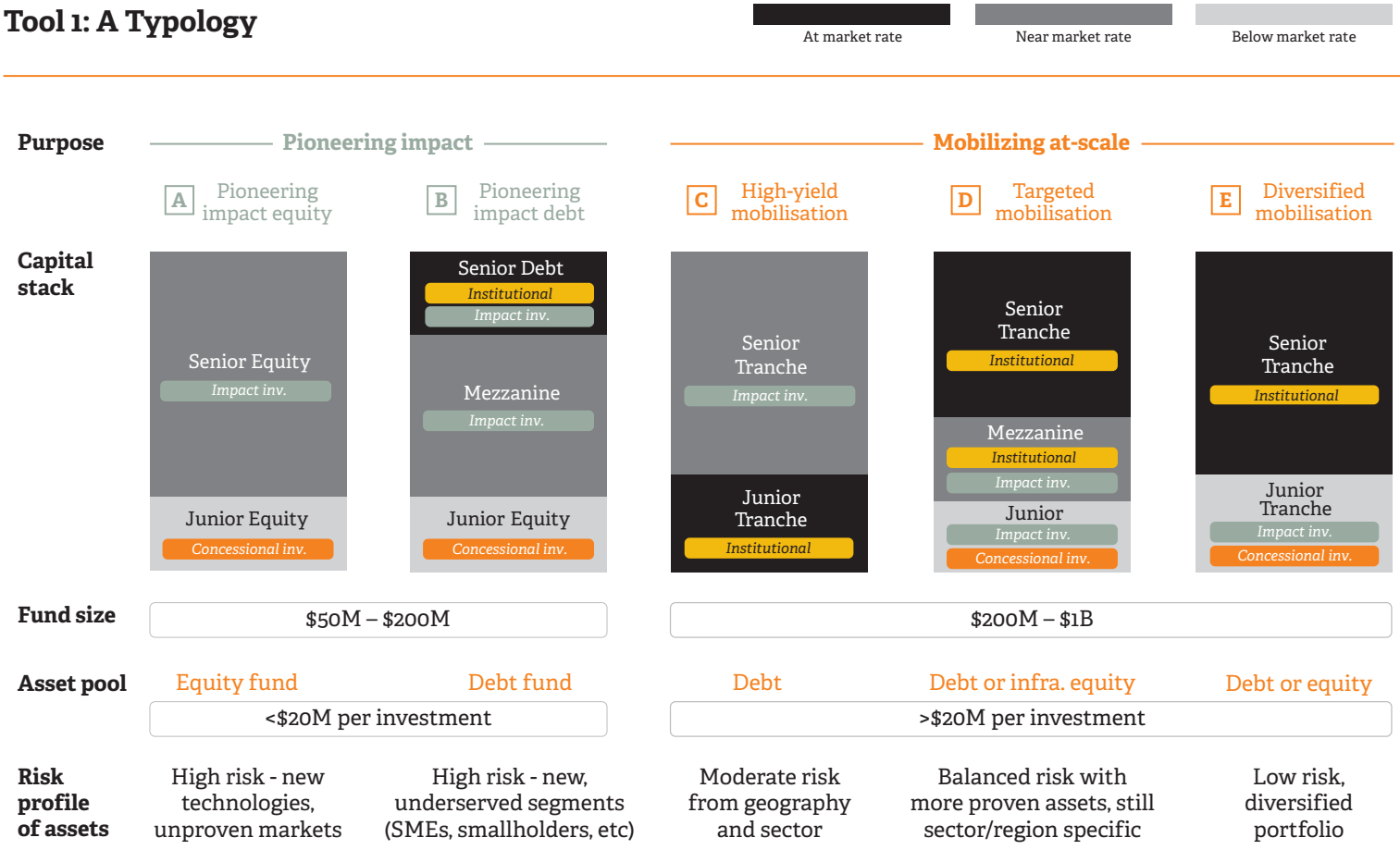


The five archetypes shown in Figure 1 offer a foundation to:

- **Streamline design:** Simplify the fund structuring process by starting with a framework tailored to specific goals and investor profiles.
- **Enhance comparability:** Provide a benchmark for evaluating fund structures, helping investors identify and understand deviations.
- **Promote alignment:** Establish common reference points among stakeholders, reducing friction and facilitating more efficient collaboration.

Figure 2: Overview of the five identified blended finance fund archetypes

Tool 1: A Typology



Note: Scope focused on equity/debt blended finance fund structures; other blended finance instruments, TA funds, guarantees or blended finance at asset-level not in scope

Investor definitions

Blended finance attracts investors with distinct motivations, risk-return preferences, and roles. This paper organises investors into three broad categories: 'institutional investors', 'impact-driven investors', and 'concessional investors' which we will use consistently throughout. It does not aim to establish a comprehensive taxonomy for the blended finance sector. Instead, these investor categories serve as 'defined terms' for clarify throughout.

A. Institutional investors are providers of large-scale capital, prioritising financial returns within given risk constraints. This group includes pension funds, insurance companies, commercial asset managers, endowments, and banks. Managing vast pools of capital, institutional investors often seek attractive risk-adjusted financial returns, typically allocating only a small portion of their portfolios, if any at all, to private market impact-oriented assets like blended finance funds.

While institutional investors are not homogenous and operate under varied business models, their engagement with blended finance is often shaped by regulatory constraints, credit rating considerations, rigid asset allocation models, liquidity requirements, and limited internal expertise and resourcing for private market impact investments. As a result, they generally prioritise lower-risk, commercially viable impact sectors. Some institutional investors may have allocations with a higher risk tolerance for commensurate returns, and those with an impact mandate may tolerate elevated risks when strong developmental impact can be demonstrated. With those potential exceptions, institutional investors typically require de-risking mechanisms to align these investments with their risk-adjusted return requirements. Although impact-driven institutional investors may exist, this paper defines this group as having purely commercial motivations, with the capacity to supply capital at scale when the risk-return profile satisfies their criteria.

B. Impact-driven investors balance financial returns with measurable development outcomes. This category includes development finance institutions (DFIs), multilateral development banks (MDBs), and investors in the private sector, such as dedicated impact funds, family offices and foundations (although as mentioned above, some institutional investors may have allocations that fall into this category).

The defining characteristic of this grouping is a willingness to deviate from purely commercial investment considerations for the sake of impact, but without falling into outright concessionality (hence occupying something of a grey area). These investors operate within financial parameters that overlap with those we have characterised as institutional investors and often see themselves as seeking 'market' rates of return. This group also tends to represent much smaller pools of capital than institutional investors.

C. Concessional investors provide catalytic capital to enable high-risk, high impact and transformational projects. Donor agencies, philanthropic organisations, government funds, and MDBs and DFIs investing from donor-funded capital pools typically fall into this category.

Concessional investors offer funding on unambiguously below-market terms, often taking the form of first-loss capital, guarantees, or outright grants. These contributions de-risk the overall structure for other participating investors, ensuring projects in lower-income or fragile markets can proceed.

Concessional investors are primarily focused on impact outcomes and can have rigid impact mandates governing the regions or sectors where their capital can be used. When these mandates are not fully aligned with the broader fund strategy, it can introduce structural complexity, raising questions around fund design, investor alignment, and capital flexibility.

Tailoring fund structures requires understanding the diversity within these categories. While these categories provide a useful framework, individual investors within each group can vary significantly in their motivations and constraints. For instance, some institutional investors may adopt highly conservative approaches, while others actively seek opportunities in impact-focused assets. Similarly, not all concessional investors can deploy grants; many employ blended capital instruments with return expectations, The success of any blended finance fund depends on its ability to balance these diverse priorities, tailoring the structure to meet stakeholder needs while maintaining alignment with the fund's objectives.

Donor-funded blending in MDBs and DFIs

MDBs and DFIs vary significantly in structure, funding models, and mandates, shaping how they engage in blended finance. Many MDBs and DFIs receive donor capital, which they can blend with their own funds or deploy independently to provide concessional finance and absorb risk to varying degrees. While this helps them to support investments that may not otherwise attract private capital, donor mandates can shape how and where concessional capital is deployed. Efforts to enhance transparency continue, as internal blending can make it challenging to determine the underlying investment approach.

Concessionality

Across the archetypes presented in our guidance, concessionality refers to capital provided at below-market terms to accelerate impact objectives. It is used to adjust the risk-return profile of fund distributions, enabling participation from investors who may otherwise be constrained by risk appetite, regulation, or mandate.

In practice, concessionality typically takes two forms:

- **Downside protection**, where concessional capital absorbs greater risk to shield other investors from potential losses.
- **Return enhancement**, where the return profile for targeted investor tranches is improved by reallocating upside.

Downside protection mechanisms include:

- **First-loss tranches**, the most common form of downside protection, involve a subordinated tranche that absorbs initial losses and is repaid only after senior tranches. Unlike in traditional structured finance, where subordinated tranches demand higher returns for higher risk, first-loss capital in blended finance is often provided without full commercial return expectations to crowd in more risk-averse capital.
- **Portfolio-level guarantees** are external commitments, typically from concessional investors, to cover a portion of losses at the fund level under predefined stress scenarios. Guarantees may be funded (with capital reserved in advance) or unfunded (with payouts triggered only if losses occur). They typically carry fees which are often subsidised or waived by concessional actors. Because guarantees sit outside the capital stack, they do not fund investments directly, but are designed to enhance the fund's risk profile.
- **Credit enhancement** is a broader term encompassing any structural feature—such as subordination, guarantees, or other tools—that improves the perceived creditworthiness of a tranche or the overall fund.

Return enhancement mechanisms include:

- **Capped-return tranches**, where the returns of a concessional tranche are limited and excess distributions are reallocated to other investors. These structures preserve capital for the concessional investor while improving net returns for commercial investors. They are typically structured within a defined band of fund-level performance. For example, a return-enhancing tranche may receive distributions up to a 3 per cent internal rate of return (IRR), pause during intermediate performance, and resume participation only if fund-level returns exceed 15 per cent IRR.

These mechanisms are often used in combination to tailor the structure of a fund to its strategy, asset class, and target investor base. The ability to blend downside protection and return enhancement helps fund managers to align investor requirements with impact objectives while preserving commercial viability.

Archetype A: Pioneering impact equity

Fund assets: Equity instruments targeting high-risk, high-impact businesses or emerging technologies in frontier markets.

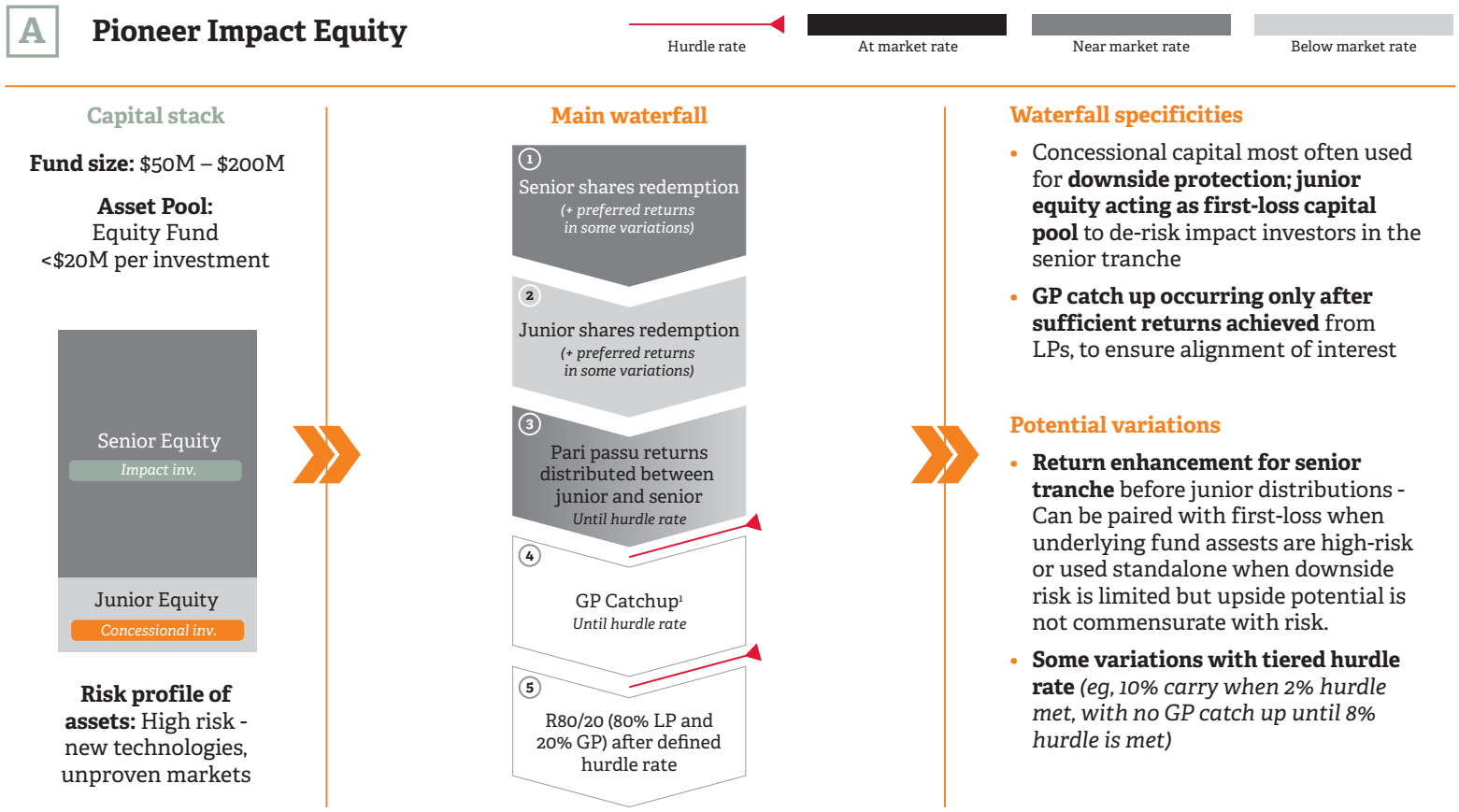
Capital stack: These funds often feature a two-tranche capital stack with participation from impact-driven investors and concessional investors. This type of fund is generally not relevant to institutional investors due to the high level of risk present even in senior tranches.

- **Senior equity:** Impact-driven investors typically invest in the senior equity tranche, which can provide near-market rate returns due to the downside protection offered by the junior tranche.
- **Junior equity:** Concessional investors with a higher risk tolerance and more flexible return expectations invest in the subordinated junior equity tranche, providing first-loss protection to senior tranche.

Example: An equity fund investing in agricultural small and medium-sized enterprises (SMEs) in frontier markets.

Simplified waterfall: Standard distribution patterns for these funds and most common variations are outlined in Figure 3 opposite.

Figure 3: Capital stack and waterfall patterns for Archetype A



Note: Underlying asset pool typically equity; 1. Fixed management fees not represented in the waterfall

Case study:
Southeast Asia Clean Energy Fund II

The Southeast Asia Clean Energy Fund II is the second fund from Clime Capital, headquartered in Singapore. The fund exemplifies the key drivers of Archetype A:

- It aligns with the '**pioneering impact**' purpose by deploying early-stage capital to accelerate the low-carbon transition in Southeast Asia. The fund focuses on energy technologies, energy storage, energy efficiency, and electric vehicles in frontier markets across the ASEAN region (excluding Myanmar), with a primary emphasis on Indonesia, Vietnam, and the Philippines.
- Its underlying assets are equity instruments.

The capital stack follows the reference design for Archetype A, utilising a two-tranche structure with senior and junior equity tranches. The waterfall mechanism is also consistent, with junior tranche returns subordinated to senior tranche recovery.

Investors in the senior tranche include impact-driven investors such as BII, FMO, Norfund, and the CISCO Foundation. The first-loss junior tranche is anchored by Allied Climate Partners (ACP), a philanthropic investment organisation.

The fund and investment ticket sizes align with typical Archetype A characteristics. The fund achieved a final close of $175 million and seeks to invest approximately $1 million–$2 million into early-stage businesses, with follow-on tickets ranging from $5–$10 million.

A notable addition—not always present in Archetype A funds—is the inclusion of a technical assistance facility, which provides additional support to investees.

$175m

raised by Clime Capital at final close for Southeast Asia Clean Energy Fund II

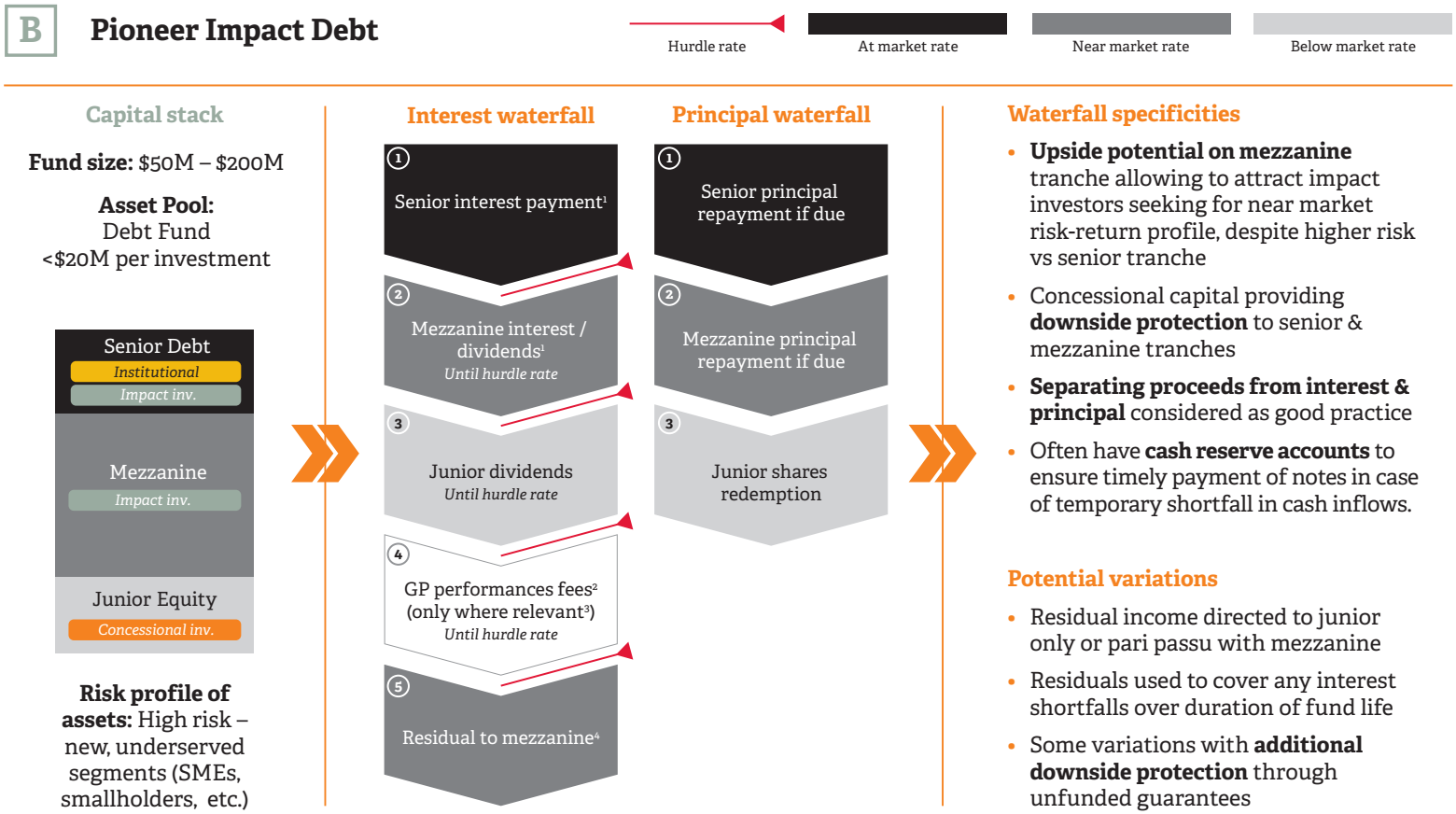
Archetype B: Pioneering impact debt

Fund assets: Debt and quasi-debt instruments targeting high-risk, high-impact areas that address underserved segments, where access to affordable credit is limited.

Capital stack: These funds often feature a three-tier capital stack with participation from institutional investors, impact-driven investors, and concessional investors. Leverage is possible in this structure given the predictable cashflow profile of underlying assets (unlike with equity).

- **Senior debt:** Institutional investors or impact-driven investors generally invest in the senior debt tranche. This tranche has the lowest risk profile as it has seniority in both interest and principal payments, and usually presents a capped rate of return with lower upside potential than the mezzanine tranche.
- **Mezzanine:** Impact-driven investors typically invest in the mezzanine tranche. This tranche is fully subordinated to the senior debt, but benefits from a degree of first-loss protection due to its seniority over junior equity. The rate of return is typically higher than that of senior debt and may benefit from additional upside due to common claim over residual interest payments (sometimes shared with junior investors).

Figure 4: Capital stack and waterfall patterns for Archetype B



Note: Underlying asset pool typically debt; 1. Shortfalls in the interest waterfall accrued across period ; 2. Fixed management fees not represented in the waterfall; 3. Significant variations in GP performance fees/carry across debt structures, with many cases without any; 4. No residual income if mezzanine is a note

- **Junior equity:** Concessional investors invest in the junior tranche to mitigate the risks of the senior debt and mezzanine layers. The first-loss protection provided by junior equity enables the senior debt tranche to be priced at more favourable rates, which in turn lowers the fund's weighted average cost of capital (WACC) and facilitates the fund's investment strategy.

Example: A debt fund providing affordable credit to nascent climate finance businesses in frontier markets.

Simplified waterfall: Standard distribution patterns for these funds are outlined in Figure 4 below.

Common variations:

- Residual incomes can be directed to mezzanine only, junior only or *pari passu* between the two.
- Residuals deposited into reserve account during the life of the fund to cover any interest shortfalls.
- Additional downside protection through unfunded, portfolio-level guarantees.

Case study:
BlueOrchard COVID-19 Emerging and Frontier Market MSME Support Fund

The BlueOrchard COVID-19 Emerging and Frontier Market MSME Support Fund is managed by BlueOrchard Finance, an impact investment manager specialized in emerging and frontier markets, part of the Schroders Group. It aligns strongly with Archetype B:

- It aligns with the '**pioneering impact**' purpose, providing affordable capital to underserved micro, small, and medium-sized enterprises (MSMEs) in frontier and emerging markets, aiming to counter COVID-related disruptions and liquidity shortages, and increase access to finance for more vulnerable populations.
- Underlying assets are debt instruments.

The capital stack adopts a three-layer structure, consistent with Archetype B:

- A **senior debt tranche** taken on by the US International Development Finance Corporation (DFC).
- A **mezzanine tranche**, invested in by impact-driven investors (including BII), absorbs subordinated risk while benefiting from the protection of the junior tranche.
- A **junior tranche**, supported by concessional investors (e.g., FSD Africa), provides first-loss capital to de-risk the structure for senior and mezzanine investors.

The MSME Support Fund has a total capital commitment of slightly over $200 million, in line with the typical range for this archetype.

The waterfall distribution mechanism follows the standard pattern for Archetype B:

- **Interest Waterfall:** Senior debt holders receive interest payments first, followed by mezzanine tranche investors, with any residuals directed to junior tranche investors.
- **Principal Waterfall:** Principal is repaid at maturity in accordance with tranche seniority. Senior debt holders are repaid first, followed by mezzanine and then junior tranche investors.

Archetype C: High-yield mobilisation

Fund assets: Debt instruments in moderate-risk geographies and sectors, such as mid-stage infrastructure or mature microfinance market in emerging or mid-income regions.

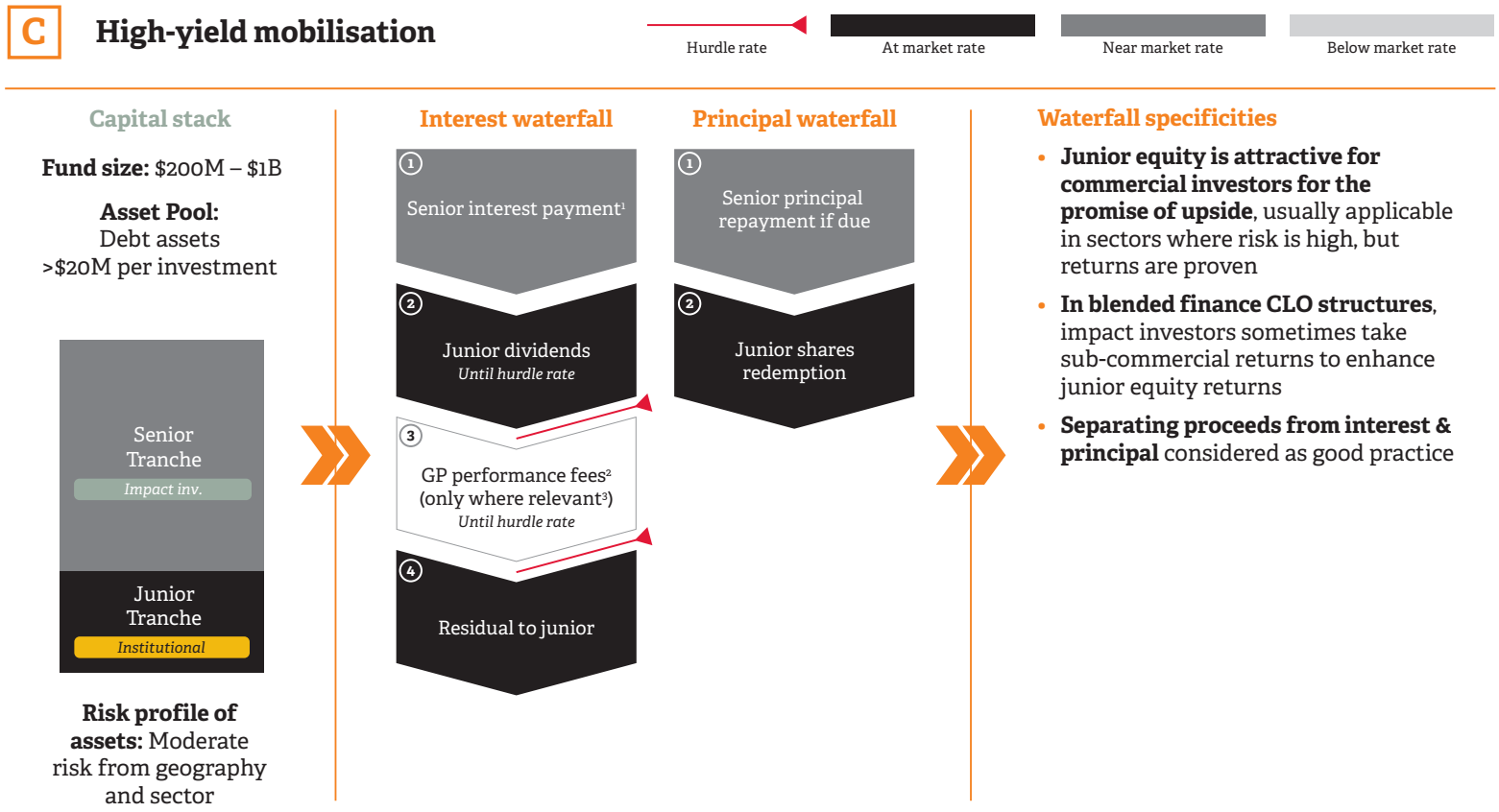
Capital stack: These funds often feature a two-tranche structure with a reversed mobilisation dynamic; institutional investors with high risk tolerance enter the junior tranche, while impact-driven investors anchor the senior tranche to help enable this participation.

- **Senior tranche:** Impact-driven investors typically invest in the senior tranche at near-market rate return, improving the yield potential of the junior tranche towards market-rate (compensating junior investors for higher risk).
- **Junior tranche:** Institutional investors willing to take higher risk for higher returns invest in the junior tranche. They are often comfortable with the subordinated exposure when residual distributions compensate for the increased risk, similar to junior positions in structured finance products.

Simplified waterfall: Standard distribution patterns for these funds are outlined in Figure 5 opposite

Example: A fund aimed at promoting financial inclusion by supporting microfinance institutions (MFIs) in India, where risks associated with microfinance are well understood.

Figure 5: Capital stack and waterfall patterns for Archetype C



Note: Underlying asset pool typically debt; 1. Shortfalls in the interest waterfall accrued across periods; 2. Fixed management fees not represented in the waterfall; 3. Significant variations in GP performance fees/carry across debt structures, with many cases without any

Case study:
Vivriti India Retail Assets Fund

The Vivriti India Retail Assets Fundis managed by Vivriti Asset Management[4], which aims to enhance financial inclusion by improving access to capital for MSMEs and low-income households in India.

The fund fits with the Archetype C, as:

- **It aims to mobilise capital at scale** (with a target fund size of ~$250 million, in line with the archetype characteristics).
- **It targets institutional investors with high-risk appetite**, including M&G funding $75 million through junior positions.

The capital stack is in line with the archetypal reference structure, with a senior debt tranche funded by impact-driven investors (BII, IFC, and Calvert) and a junior equity tranche funded by M&G, in pursuit of high yield.

Also, **the fund follows a simple waterfall structure**, consistent with the reference model of the archetype.

4 Vivriti India Retail Assets Fund (VIRAF) is the trade name for Vivriti Fixed Income Fund - Series 3 IFSC LLP. VIRAF is a restricted scheme (non-retail) under the IFSCA (Fund Management) Regulations, 2022, with a 10-year fund tenure. Vivriti Asset Management Private Limited (IFSC branch) is registered with International Financial Services Centres Authority (IFSCA) as a Registered FME (Non-Retail) and the Investment Manager for VIRAF.

Archetype D: Targeted mobilisation

Fund assets: Debt or infrastructure equity asset classes with a moderate-risk profile that are region- or sector-specific. The investment strategy of these funds often intends to support a specific technology or to strengthen a specific regional or local investment ecosystem through local capital mobilisation.

Capital stack: These funds often feature a three-tier structure with participation of institutional lenders, impact-driven investors and concessional investors. The addition of a third tranche in this archetype is often driven by a large need for downside protection in the structure (due to the risk of the underlying assets). This can require the combination of scarce concessional capital in the first loss and impact capital in a mezzanine tranche.

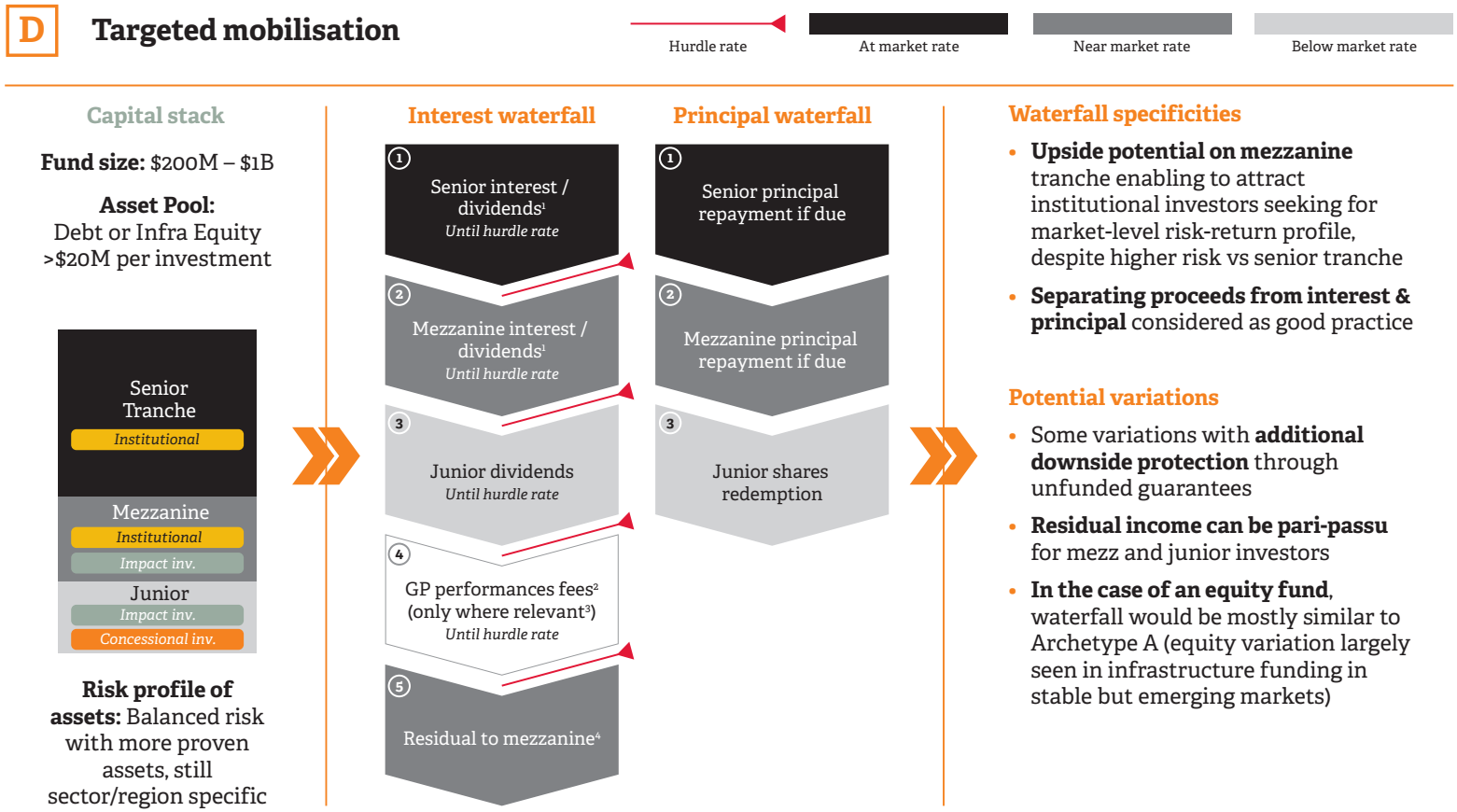
- **Senior tranche:** Institutional investors typically fund this tranche, which has the lowest risk profile as it has priority over senior and mezzanine tranche repayments.
- **Mezzanine tranche:** Targeted at both institutional and impact-driven investors with moderate risk appetites, this tranche offers exposure to upside from residual distributions (sometimes shared with junior investors) in exchange for taking on a layer of downside risk. By broadening the investor base beyond concessional capital, the mezzanine tranche provides an additional buffer below the senior tranche, reducing reliance on scarce junior capital and enhancing the risk-adjusted profile needed to mobilise institutional investors in the senior tranche.
- **Junior tranche:** This tranche is typically funded by concessional and/or impact-driven investors to absorb risks, thereby enhancing the appeal for institutional investors in the senior tranche.

Example: A fund investing in innovative technologies for climate-resilient infrastructure in Africa.

Waterfall: Standard distribution patterns for these funds are outlined in Figure 6 above.

This archetype currently remains less marketed towards European institutional investors, as the mezzanine tranche may fall within the purview of European Union (EU) securitisation regulation and given associated capital costs for institutional investors. It is more suited for institutional investors in the US or Asia, which are subject to less stringent regulatory constraints.

Figure 6: Capital stack and waterfall patterns for Archetype D



Note: Underlying asset pool typically debt; 1. Shortfalls in the interest waterfall accrued across period ; 2. Fixed management fees not represented in the waterfall; 3. Significant variations in GP performance fees/carry across debt structures, with many cases without any; 4. No residual income if mezzanine is a note

Case study:
Mirova Gigaton Fund

The Mirova Gigaton Fund is focused on investing in the distributed energy and off-grid landscape, targeting both middle- and low-income countries as well as least developed markets. The fund achieved its first close in 2023.

The fund aligns closely with the principles of Archetype D:

- With a target fund size of $500 million and an average ticket size of $10 million, it focuses on mobilising capital at scale to support the clean energy transition and improve energy access in Africa, Asia, and Latin America.
- It exhibits balanced risk with limited portfolio diversification, concentrating on specific off-grid sectors such as off-grid solar, mini-grids, commercial and industrial solar, telco solarisation, and agri-solar.

The fund's three-layer capital stack is consistent with the reference design for Archetype D:

- The **senior debt tranche** is funded by institutional investors (e.g., Natixis IM).
- The **mezzanine debt tranche** is supported by impact-driven investors (e.g., EIB, DFC).
- The **junior tranche** is funded by a combination of impact-driven investors and concessional funders (e.g., VISA Foundation, NDF, Global Affairs Canada).

The waterfall mechanics align closely with the reference structure. Dividends for the junior tranche are distributed only after repayment of interest and principal to senior and mezzanine debt holders. The junior equity tranche also benefits from upside returns as the exclusive recipient of residuals in the case of overperformance.

A notable variation from the reference structure is the inclusion of a portfolio-level, unfunded guarantee of $50 million.

EU Securitisation Regulation

The EU Securitisation Regulation*, introduced following the Global Financial Crisis, imposes strict requirements on EU-based institutional investors participating in securitisations, investment structures with more than two tranches. If triggered, the regulation requires investors meet enhanced due diligence, risk retention, and reporting obligations in addition to higher capital charges. These requirements are often difficult or too expensive to satisfy in blended finance funds. As a result, European institutional investors avoid three-tier structures altogether, opting instead for simplified two-tranche capital stacks to remain outside the regulation's scope and reduce barriers to investment.

*Regulation (EU) 2017/2402 of the European Parliament and of the Council

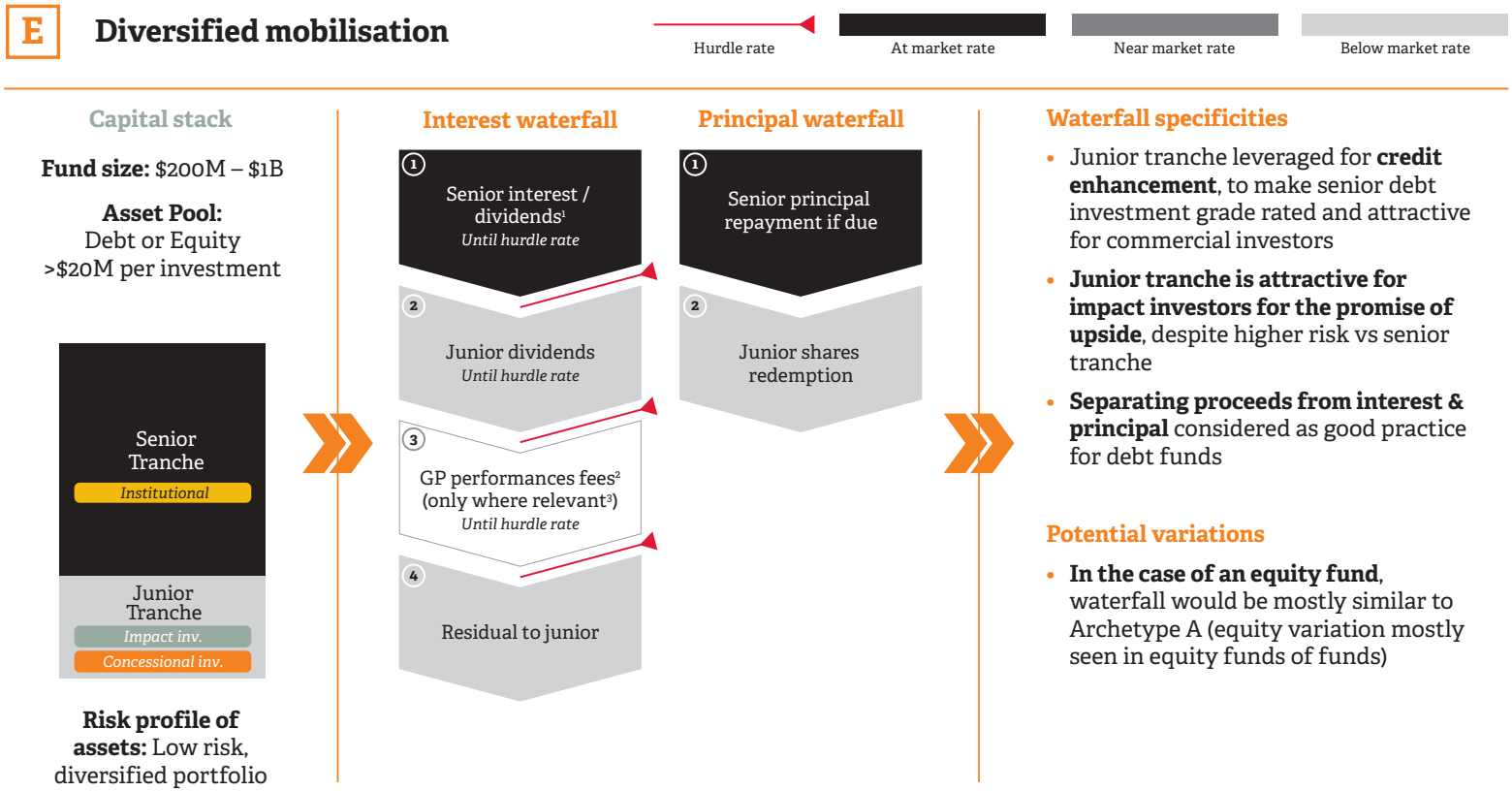
Archetype E: Diversified mobilisation

Fund assets: The funds typically invest in debt or infrastructure equity asset classes, with a portfolio-level risk profile lower than in other archetypes due to more proven underlying assets and geographic/sectoral portfolio diversification.

Capital stack: These funds often feature a relatively two-tranche structure with participation from institutional lenders, impact-driven investors and concessional investors.

- **Senior tranche:** Institutional investors typically fund this tranche, which presents relatively limited risk and market-rate returns. In the case of a debt structure, the senior tranche could even be investment-grade rated when sufficient downside protection is provided by the junior tranche.
- **Junior tranche:** Funded by concessional and/or impact-driven investors, this tranche carries higher risk than the senior tranche, but offers potential upside returns. It provides downside protection to senior investors and, in debt funds, may deliver the level of credit enhancement needed for the senior tranche to achieve investment-grade rating.

Figure 7: Capital stack and waterfall patterns for Archetype E



Note: 1. Shortfalls in the interest waterfall accrued across periods; 2. Fixed management fees not represented in the waterfall; 3. Significant variations in GP performance fees/carry across debt structures, with many cases without any

Because this structure omits a mezzanine tranche, this archetype is highly attractive and marketed towards European-based institutional investors facing higher regulatory constraints from EU securitisation regulation.

Example: A fund providing green finance across sectors globally, and offering predictable, long-term returns for institutional investors.

Waterfall: Standard distribution patterns for these funds are outlined in Figure 7 below.

Common variations:

- Equity-based capital stack or waterfall, which would be mostly similar to Archetype A waterfall described in Figure 3 (This variation is primarily seen in equity funds-of-funds).

Case study:
SDG Loan Fund

The SDG Loan Fund was launched for marketing in 2022 as a collaborative effort between Allianz Global Investors (fund manager) and FMO Investment Management (portfolio manager), with a mission to channel large-scale institutional capital into emerging and frontier markets to support the SDGs.

The fund aligns closely with the equity variation of Archetype E:

- It focuses on **mobilising capital at scale** by attracting institutional investors, with a total fund size of $1.1 billion.
- The fund's **underlying assets are highly diversified**, both geographically and sectorally. Target regions include emerging and frontier markets in Africa, Eastern Europe, Asia, and Latin America, while sectoral investments span agribusiness, financial institutions, and renewable energy.

The fund's capital structure follows a two-tranche design, consistent with Archetype E's reference stack:

- Institutional investors provide 90 per cent of commitments through **senior shares**, with a risk return profile that satisfies requirements of institutional investors.
- FMO anchors the fund with a **first-loss junior investment** of $111 million, to de-risk the senior tranche and attract institutional capital.

The waterfall mechanisms align with the equity variation of Archetype E. Cashflows from principal repayments go first to senior shares until this share class is redeemed in full and then to junior shares (FMO). Both share classes receive a share of the interest payments received throughout the Fund's life. A notable variation from the reference structure is the inclusion of a program-related investment in the form of a $25 million unfunded guarantee for the benefit of junior shares from the MacArthur Foundation.

Tool 2: Scorecard

Most organisations already have internal frameworks to evaluate the **commercial thesis** (e.g., risk, return, liquidity) and **impact thesis** (e.g., what, how, who, contribution and risk)[5] of a fund. However, few institutions apply a systematic approach to evaluating the fund **structure** itself, even though structure introduces unique challenges in blended finance.

This paper seeks to address this gap by introducing a practical scorecard that complements existing due diligence processes. This scorecard offers a systematic way to evaluate and refine the structure of blended finance funds. It encourages alignment around structuring principles, highlights potential trade-offs, and supports the identification of justified deviations.

Figure 8: Three pillars of fund assessment for investors

Blended finance introduces an additional framework for fund assessment

Standard dimensions when assessing both blended / non-blended finance funds, with in-house frameworks developed by organizations

Blended finance fund scorecard

Impact thesis[1]
Support impact thesis

- **What** outcome(s) does the effect relate to, and how important are they to the people (or planet) experiencing it?
- **How** significant is the effect that occurs in the time period?
- **Who** experiences the effect, and how underserved are they in relation to the outcome?
- How does the effect compare and **contribute** to what is likely to occur anyway?
- Which **risk** factors are material & how likely is the effect different from the expectation?

Commercial thesis
Prove returns & ability to succeed

- What is the **commercial risk?** *(e.g., risk profile, geographies, etc.)*
- What is the ability to generate **attractive returns?**
- What is the ability to meet **liquidity needs?** *(e.g., short-term and long-term liquidity needs)*

Fund structure
Assess fund structure & design

1. Is there a **compelling rationale** to justify the use of blended finance?
2. Is the blended **structure** design & waterfall **appropriate?**
3. Is there **sufficient alignment** between the investor group and fund manager?

1. Based on Impact Frontier's impact assessment framework

5 For more information on frameworks to assess impact theses, see the Impact Management Platform (impactmanagementplatform.org) for conceptual guidance and IRIS+ (iris.thegiin.org) for standardised metrics, and Impact Frontiers (impactfrontiers.org) for guidance on integrating impact and financial considerations into investment decision making.

Three dimensions

The scorecard assesses a fund structure across three core dimensions.

1. **A compelling rationale for blended finance:** This ensures the fund's impact thesis justifies the use of concessionality in addition to tranching and pooling mechanisms. For example, does the fund mobilise private capital to address a financing gap that purely commercial structures cannot fill?
2. **An appropriate structure and waterfall:** This evaluates whether the capital stack and distribution mechanisms align with the risk-return profiles of target investors while avoiding unnecessary complexity.
3. **Sufficient alignment among stakeholders:** This assesses whether the governance framework fosters collaboration among investors and between investors and the fund manager, minimising friction and promoting efficient decision making.

Figure 9: Blended Finance Fund Scorecard

Tool 2: A Scorecard

Blended finance fund scorecard dimensions

1 Compelling rationale

A Does the **impact thesis** justify the use of concessional funding?

B Is there evidence that **concessionality is needed** as well as pooling and/or tranching of risk?

2 Appropriate structure

C Does the structure **match target investor risk-return profiles** to deliver the right 'blend' of capital for underlying assets?

D Are all **tranches appropriately sized** to deliver the right level of concessionality?

E Are the **tranching and waterfall mechanics** simple and well understood?

3 Sufficient alignment

F Does the structure / governance framework create **sufficient LP alignment** (within and between) different tranches?

G Does the structure / governance framework create sufficient **alignment between the GP and LPs?**

For each dimension, the scorecard provides clear tests to: identify potential triggers for deeper assessment; evaluate trade-offs; and guide refinements to the fund structure. These tests guide stakeholders in assessing whether a fund's structure aligns with its objectives, manages risks effectively, and meets stakeholder expectations. By systematically addressing the three core dimensions—rationale, structure, and alignment—the scorecard will help stakeholders identify potential issues, navigate trade-offs, and make informed decisions.

Dimension 1: A compelling rationale for using blended finance

Clear justification for blending is critical to building confidence and ensuring efficient engagement. A well-articulated rationale demonstrates why concessional funding, pooling and tranching are necessary to achieve the fund's objectives. Without this clarity, stakeholders may face challenges that undermine the fund's success:

- **For investors:** Insufficient clarity may lead to delayed or withheld investment decisions, increased due diligence requirements, or concerns about inappropriate use of concessional capital.
- **For fund managers:** Lack of clarity may result in overly complex fund structures, reduced investor confidence, and difficulties in raising concessional capital.

Key tests to evaluate this dimension include:

a) **Does the impact thesis justify the use of concessional funding?** For example, does the fund demonstrate a clear articulation of how concessional funding facilitates the fund strategy and achieves impact objectives that purely commercial capital could not? A weak or vague impact thesis may signal inadequate justification.

b) **Is there evidence that concessionality is needed, alongside other fund design or risk mitigation strategies?** For instance, does the fund demonstrate use of risk management tools such as portfolio diversification (e.g., geographic, sectoral, or across asset stages), concentration limits, or active risk management at the asset level? Similarly, does it integrate mechanisms such as embedded downside protection within its investment instruments? If these steps are not clearly articulated, it may indicate an over-reliance on concessional capital in the structure to absorb risk that could otherwise be mitigated through fund design or strategy.

Common triggers for deeper assessment include:

- An unclear impact thesis.
- A lack of evidence that concessionality addresses financing gaps or catalyses private capital.
- Non-existent or loosely defined concentration limits in the limited partnership agreement (LPA).

Dimension 2: Appropriate structure and waterfall

Minimising unnecessary complexity ensures scalability and replicability. A well-structured capital stack and a clear, aligned waterfall mechanism can help ensure investor incentives are preserved and fund operations remain manageable. Conversely, overly bespoke structures, such as those with excessive tranching or poorly-calibrated waterfall structures, can introduce inefficiencies, distort incentives, and discourage investor participation.

Challenges caused by overcomplexity include:

- **For investors:** Increased time and resources required to assess the structure, costs, and risks, often resulting in limited comparability of deals.
- **For fund managers:** Longer fundraising timelines, difficulties in aligning structures with investor expectations, and challenges in achieving scale due to high design costs.

Key tests to evaluate this dimension include:

c) **Does the structure match target investor risk-return profiles, delivering the right 'blend' of capital for the underlying assets?** For instance, are the tranches priced to adequately meet the return expectations of target investors and in aggregate provide a weighted average cost of capital to execute on the fund's strategy? Although challenging ex-ante, this can be achieved through benchmarking and stress-testing with investor groups. Misalignment may signal over-concessionality or under-protection of risk-averse investors (which in some cases can take fund tranches outside of investor appetite or regulatory requirements).

d) **Are all tranches appropriately sized to deliver the right level of concessionality?** For example, does the junior tranche absorb sufficient risk without over-subsidising the fund? Subordinated tranches that are oversized relative to the risk absorption needed may offer concessional terms beyond what is required to secure participation from more senior investors. In this context, the goal is to minimise concessionality to what is necessary to unlock capital from a representative senior investor, not to accommodate the most risk-averse or negotiation-driven stakeholder.

If tranches are not correctly sized, the structure may become inefficient or unclear in its value proposition. This paper does not prescribe approaches to calibrating the 'right' level of concessionality. We acknowledge concessional investors often have different objectives and tolerance levels, which can make calibration subjective. However, there are emerging methods in the sector to manage concessionality levels effectively:

- **Unlocking capital in fixed proportions:** The junior tranche is committed upfront, but only unlocks in predetermined ratios (e.g., 3:1) as senior tranches are raised. If senior tranches are not raised, the unused junior tranche commitments are cancelled.
- **Conditional redemption of concessional capital:** Junior tranches are committed upfront, but a portion of this capital is redeemed once the fund achieves specific milestones, such as reaching a minimum credit rating for the senior tranche following portfolio ramp-up.

e) **Are the tranching and waterfall mechanics simple and well-understood?** For example, do the waterfall mechanics avoid excessive layering and ensure clear prioritisation of distributions, such as ensuring senior tranche repayment before subordinated tranches? Overly complex or opaque waterfalls may deter investors.

Common triggers for deeper assessment include:

- Capital stacks with more than three tranches, which may signal unnecessary complexity.
- Waterfall structures that are overly complex, opaque, or misaligned with the stated risk-return expectations of investors.
- Subordinated tranches that mature earlier than senior tranches, which may weaken risk protection.
- Custom terms that reduce exposure of junior tranche investors, thereby weakening credit protection for senior tranche investors.

Dimension 3: Sufficient alignment among stakeholders

Effective governance ensures collaboration and minimises friction. Alignment among investors (LPs) and between investors and fund managers (GPs) is critical to achieving the fund's objectives. Misaligned incentives or unclear governance frameworks can delay execution and reduce effectiveness.

Challenges caused by misalignment include:

- **For investors:** Risks of misalignment with fund managers, leading to impact and commercial underperformance and governance issues among LPs.
- **For fund managers:** Misaligned requirements across multiple investors, which together constrain the fund investment strategy as well as risks around investors acting in an unforeseen way (e.g., unilaterally exercising excuse or stop-funding rights) which can undermine the blended nature of the fund structure.

Key tests to evaluate this dimension include:

f) **Does the structure/governance framework create sufficient LP alignment (within and across tranches)?** For instance, are decision-making rights clearly defined and appropriately balanced across tranches? Mechanisms such as shared advisory committees and proportional veto rights can help ensure strategic coherence across investor classes.

g) **Does the structure/governance framework create sufficient alignment between the GP and LPs?** For example, are carry structures, hurdle rates, and removal provisions clearly defined and oriented toward whole-fund performance? Misaligned incentives or unclear authority can lead to breakdowns in trust or disputes during execution.

Common triggers for deeper assessment include:

- Governance processes that rely on overly bespoke or opaque decision-making frameworks.
- Insufficient clarity on how strategic or economic objectives are shared between GPs and LPs.
- GP incentive structures that are not tied to whole-fund performance, such as carry triggers that prioritise narrow tranche-level outcomes.
- Excuse rights or unilateral investor powers that reduce the consistency or stability of capital deployment.

1. Compelling rationale for using blended finance

High risk (challenging)	Moderate risk	Low risk (good practice)
Fund lacks a clear impact thesis or does not meet impact hurdle. Little or no evidence that the use of concessional capital is necessary beyond what could be addressed through fund design or risk management strategies.	Fund presents clear impact thesis and meets impact hurdle. Some evidence of risk mitigation through design or structuring, though justification for concessionality could be more robust.	Fund clearly articulates impact thesis and meets impact hurdle. Strong evidence that risks have been mitigated through fund design, such as conservative portfolio construction and portfolio diversification. Concessionality is targeted to close specific remaining gaps.

2. Appropriate structure and waterfall

High risk (challenging)	Moderate risk	Low risk (good practice)
Structure is clearly driven by available capital rather than calibrated design and is not well-aligned with relevant fund archetype. Tranches are insufficiently differentiated to align with distinct investor profiles. Subordination not well-understood or inconsistently applied. Drawing and waterfall mechanics are complex and risk introducing distortions, including material over-concessionality.	Structure broadly aligns with the relevant fund archetype, noting possible deviation along number of layers, tranche sizing, or drawing mechanics, that may result in inefficiencies or temporary over-concessionality (until correct at target fund size). Tranches have differentiated risk-return profiles, but target investors may be blurred. Waterfall mechanics are transparent and well-understood.	Tranches are clearly sized and priced to match investor risk-return expectations. Structure aligns with the relevant fund archetype, with each tranche serving a distinct investor profile. Drawing and waterfall mechanics are transparent, simple, well-understood, and avoid unintentional over-concessionality at any point. Subordination well-understood and appropriate.

3. Sufficient alignment among stakeholders

High risk (challenging)	Moderate risk	Low risk (good practice)
Limited alignment across investor group on investment strategy, restrictions and decision-making rights. Limited strategic/economic alignment with the fund manager – unclear governance around manager removal.	Reasonable alignment across investor group on investment strategy, restrictions and decision-making rights. Sufficient strategic/economic alignment with the fund manager. Limited governance around manager removal.	Clear alignment across investor group on investment strategy, restrictions and decision-making rights. Strong strategic and economic alignment with the fund manager. Clear governance around manager removal.

Practical application of these tools

To achieve the full potential of blended finance, we propose that fund managers, investors and donors take these tools and begin to put them into practice. At the time of this publication, BII has already used the scorecard to retrospectively assess its portfolio of 20 blended finance funds and the 27 proposals it received during a recent call for proposals from asset managers. BII's Chief Investment Officer for Equity and Funds has requested that all proposals for blended finance funds submitted to the Investment Committee include an assessment based on this scorecard.

Fund managers

- Use the five archetypal structures as starting points for new fund design (or to test the robustness of existing funds), based on the purpose, investor base, and asset risk profile of their fund strategy. Where there is divergence from a typical structure, stress test whether that is really needed, and if so, clearly articulate the rationale to investors.
- Ensure that each fund reflects all the characteristics of a good practice structure, as defined by the archetypes and the scorecard. Anticipate investor questions by conducting a self-assessment using the scorecard before bringing funds to market. Where there are deviations from best practices, consider refinements or ensure deviations are well justified.
- Refer to the archetypes during fundraising to facilitate the pattern recognition by investors and across the broader ecosystem.

Investors and donors

- Adopt the archetypes and structural tests as a systematic framework for evaluating blended finance funds. Use these tools to benchmark fund proposals, identify and address deviations, and engage fund managers constructively.
- Collect data on funds being assessed and share trends and insights (as well as underlying data, where possible) with fellow investors and the broader ecosystem.
- Integrate structural tests into decision-making processes to improve the consistency and transparency of assessments.
- Take care not to add complexity to fund structures by introducing bespoke requirements.

Example questions for GPs to ask:

- Does the fund's capital stack allocate risk appropriately? For instance, does the junior tranche provide sufficient downside protection to attract senior investors without over-subsidising the fund?
- Are waterfall mechanics clear and easy to communicate, while balancing the interests of different investor types?
- A fund with more than three tranches might increase complexity. Does this complexity deliver clear benefits, such as attracting additional capital or meeting specific investor mandates?

Example questions for LPs to ask:

- Does the fund's rationale for blended finance clearly articulate the need for concessionality and its role in mobilising private capital?
- Are the risk-return profiles of tranches appropriate for the underlying assets and investor types?
- If the fund has limited portfolio diversification, does this increase risk exposure beyond acceptable limits?

Looking ahead

This guidance represents a contribution to a nascent and evolving field, aiming to bring structure and consistency to the assessment of the complex and diverse landscape of blended finance funds. By introducing actionable tools—archetypes and a scorecard—we hope to support fund managers, donors and private investors in navigating complexity, aligning objectives, and ultimately scaling the impact of blended finance.

This is not the final word, but an invitation to dialogue, experimentation, and refinement. Collaboration across the ecosystem will be critical to achieving the consistency, simplicity, and scale needed to mobilise the capital required to meet global development challenges. By working together to collect insights using the tools—and to refine them jointly—fund managers, donors and investors can help scale blended finance to drive the changes the world urgently needs.

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