Blended Finance 1.0.1

The purpose of blended finance is to attract capital to impact investing by pooling risk and then redistributing it in such a way that it addresses the financial and impact objectives of various investor types.

Philanthropic capital is relatively scarce compared with financial capital. To attract more capital, of all types, to fund impact investments, the blended finance design has to leverage the philanthropic capital so as to create investment products that appeal to the purely financial investor who may have no interest in the impact objectives.

A blended finance structure should therefore have a tranche that appeals to philanthropic investors that is junior so as to de-risk senior tranches which might appeal to purely commercial investors. Very likely, the returns of this equity or first loss tranche will not be as high as one would expect from the same tranche in a purely commercial structured finance vehicle. The risk return of this philanthropic first loss tranche would be, more return with a lot more risk.

The purely commercial tranche might be in the mezzanine tranche which would be designed to yield or return as much as an investment of similar risk. This tranche would be aimed at non-philanthropic investors who expect a market rate of return for the relevant risk.

An idea would be to have a philanthropic senior tranche aimed at philanthropists who would provide cheap (or free) funding to the structure.