Blended Finance Lab
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What are the challenges and opportunities of rating blended finance investments?

This research note was written under the auspices of the Blended Finance Lab at the London School of Economics and Political Science (LSE).

The Blended Finance Lab is a practitioner-driven initiative focused on developing practical solutions to scale blended finance. It brings together investors, policymakers, development banks, NGOs and academics to strengthen the blended finance community, enhance practices and education, and generate more investable opportunities.

The Lab was launched in March of 2025 and in early discussions with involved stakeholder groups we identified the need to develop a better understanding of the relevance of credit ratings for blended finance investments. We asked Sarah Marchand (previously Director Capital Solutions, British International Investment) to interview a dozen relevant actors to explore this question and document her findings.

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Abbreviations
ABS	Asset-backed Securities
BCG	Boston Consulting Group
BII	British International Investment
CIF	Climate Investment Funds
CLO	Collateralized Loan Obligations
CRA	Credit Rating Agency
DFI	Development Finance Institution
EMDE	Emerging Markets and Developing Economies
FMO	Dutch Entrepreneurial Development Bank
GEMS	Global Emerging Markets Risk Database
IFC	International Finance Corporation
MDB	Multilateral Development Bank
ODA	Official Development Assistance
SDG	Sustainable Development Goals

Context: The Opportunity

- Blended finance uses public or concessional capital to unlock private investment in high-impact projects—particularly in emerging market and developing economics (EMDEs). It can therefore play a major role in addressing global development challenges, including climate change. In an era of constrained ODA budgets, blended finance is increasingly becoming a critical tool for stretching public funds further.

- However, market scale remains limited. Convergence estimates current blended finance flows at roughly $15–20 billion per year ($18 billion in 2024), with $6–7 billion of this representing private capital. Achieving a 10x scale-up would require mobilising an additional $60–70 billion of private investment annually.

- The global asset-backed securities (ABS) market—approximately $2.4 trillion in 2024—demonstrates the potential. Even a small reallocation toward EMDE blended finance could be transformative. But to access this market, asset managers must offer investment-grade (BBB- or above), liquid instruments with large ticket sizes (>$100m) suitable for institutional investors.

- Regulated investors such as insurers and banks must match liabilities with high-quality assets and typically require external investment-grade ratings. Pension funds tend to have more flexibility, and many large banks use an internal ratings approach (subject to their capacity and regulatory approval). Insurers operating under Solvency II also have this option, but interviews with asset owners and advisors confirm that external ratings significantly facilitate investment decisions across all types of institutional investors.

- Pooled vehicles—including securitisations and large blended credit funds—are attractive because they offer diversification and allow tranching. Recent examples include [Bayfront](#), [AfDB's Room to Run](#), [CIF's Capital Market Mechanism](#), [IFC's $510m CLO](#), [Climate Investor II](#), the $1.1bn Allianz–FMO [SDG Loan Fund](#), [Pentagreen's Green Investment Partnership](#), and responsAbility's [Asia Climate Fund](#).

- Despite this momentum, obtaining an external rating for the senior tranche of a blended finance structure remains challenging. Few managers have succeeded to date, and when they have, this has typically relied on idiosyncrasies that are challenging to replicate at scale.

Key Challenges in Obtaining External Ratings

1. Country Risk in EMDEs

- Asset owners often perceive EMDE investments as high-risk, and sovereign ratings reinforce this view. Across 142 developing countries, the median rating is B-, and 76% are rated B or below. Only four African countries have an investment grade rating from the 3 major CRAs: Moody's, S&P, and Fitch.

- To "pierce" sovereign ceilings, managers must convincingly demonstrate that their portfolios outperform sovereign debt—even under stress. While new default statistics from Global Emerging Markets Risk Database (GEMS) are helpful, CRAs need more granular, time-series data, including breakdowns by asset class and sector. More also needs to be understood about drivers and timing of defaults, debt structure, and the method and timing of recovery before GEMS data can be utilised more widely. The Global Credit Data database could prove useful but current members (and therefore data) is concentrated in Europe and North America. A solution that combines public and private datasets and includes stronger representation from the Global South is needed.

- Further work is also needed to demonstrate whether performance data from MDB and DFI loan books provide a valid proxy for private-sector loan performance (i.e. how critical the "halo" effect of the MDB is on the book), and how these loans perform during periods of stress.

2. Structural Complexity and Uncertainty

- Blended finance vehicles are often highly bespoke, especially in the case of multi-tiered funds with specific mandates, making it unclear which CRA methodology applies to the senior tranche.

- Their structural diversity requires substantial time, data sharing, and analytical effort between managers and CRAs. Many managers indicated they struggled to understand the required steps and the likelihood of achieving an investment-grade rating.

- This complexity increases the cost and time burden for both CRAs and managers. For smaller managers, the uncertainty and expense can make pursuing a rating economically unattractive.

- Non-credit related clauses that can cause a default or trigger the right for an investor to withdraw capital —often intended to safeguard impact or target concessionality— are hard to model or subjective, and can therefore weaken credit enhancement. These clauses and their related complexity are often introduced by the concessional capital providers with the effect of reducing the achievable rating for the fund.

3. Treatment of Multiple Debt Tranches

- There is ambiguity in how Solvency II applies to multi-tranche blended finance structures—specifically whether they fall under securitisation rules.

- For some European institutional investors, securitisation treatment can be a deal-breaker due to higher capital charges and manager capital contribution requirements.

- This uncertainty constrains fund design and limits managers' ability to structure vehicles optimally.

Potential Interventions

Stakeholders confirm strong and growing interest among asset managers in obtaining blended finance credit ratings. However, the market remains nascent, fragmented, and inefficient. Three categories of initiatives — well-suited to leadership from the LSE Blended Finance Lab — could substantially advance the field:

1. Tools, Templates, and Training ("Demystification")

Blended finance involves actors with diverse backgrounds, many of whom lack deep capital markets expertise, while CRA methodologies for blended structures are not well understood. Developing practical tools, explainer materials, templates, and training would help practitioners design vehicles that are rating-ready. Whilst the regulatory environment that CRAs operate in should be taken into account, co-developing these resources with CRAs could clarify process steps, timelines, and data requirements; identify common pitfalls and "killer clauses"; and contribute to broader market learning. CRAs expressed willingness to collaborate, and some already have working groups focused on blended finance.

2. Standardisation

Many rating challenges stem from the heterogeneity of blended finance vehicles. By developing a set of standardised fund structures, the industry could streamline both design and rating processes. Recent efforts provide a strong starting point:

- [BII / BCG's typology for blended finance funds](#) (April 2025)

- Convergence's 12 [Private Investment Mobilisation Models (PIMMs)](#), including two focused on blended finance credit funds

Building on this work, finalising a set of standardised vehicles and mapping those to investor preferences would allow the agencies to coalesce around an approach to rating fund archetypes and enable them to communicate the key drivers of ratings to allow more predictability for the fund structuring teams/bankers.

3. Collective, Cross-Industry Efforts

Given the decline in ODA and the priority placed on EMDE investment, addressing the sovereign ceiling constraint is critical. MDBs and DFIs should continue—and expand—their efforts to release data on portfolio performance, including more granular loan-level datasets, stress-performance analyses, and evidence of comparability with private sector loans.

Private asset manager data would meaningfully strengthen these datasets. A sector-wide initiative is also needed to clarify the application of Solvency II to multi-tranche blended vehicles. This should

determine whether the problem lies in regulation itself or its interpretation; which authorities can provide formal clarification; what such clarification would require, and its implications for future fund structures and ratings; and whether regulatory changes are needed and, if so, who must recommend, approve, and implement them.

The Blended Finance Lab could play a useful role driving action in some or all of these areas and is well-positioned to do so given its ambitions in this space, membership interest in this topic, and the LSE convening power and analytical research capabilities.

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