



Consultation paper on Regulatory Framework for differential distribution in Restricted Schemes and Venture Capital Schemes to facilitate blended finance and other fund structures

A. Objective of the Consultation paper

The objective of this consultation paper is to seek comments from the public on the proposal to facilitate blended finance and other fund structures in the IFSC(s) by permitting differential distribution in the Venture Capital Schemes and Restricted Schemes under Part A and B, respectively, of Chapter III of IFSCA (Fund Management) Regulations, 2025.

B. Regulatory Framework and Snapshot of Funds in IFSC

1. The IFSCA (Fund Management) Regulations, 2025 (“FM Regulations”) provide the overall regulatory framework for Fund Management Entities (“FME”) and funds in the IFSC. The FM Regulations set out the requirements for registration of FMEs, which *inter-alia* includes eligibility conditions, appointment of principal officer, compliance officer and other key managerial personnel(s) (KMP), net worth requirement, etc.
2. The FM Regulations also provide for setting up Venture Capital Schemes, Restricted Schemes (Non-Retail Schemes), Retail Schemes, etc., in the IFSC. The Venture Capital Schemes and Restricted Schemes (Non-Retail Schemes) have been together referred as Alternative Investment Funds (“AIFs”) in the IFSC and are open to subscription for accredited investors or investors investing above a specified threshold. The regulations



also provide for various norms concerning initial disclosures in the Placement Memorandum (PPM), ongoing disclosures to investors, investment restrictions, etc. Further, to ensure the ESG Schemes in IFSC are true to their label, IFSCA vide circular dated January 18, 2023, prescribed the detailed initial and ongoing disclosures for such schemes.

3. The fund management industry in GIFT-IFSC has been growing at a healthy pace and in a limited time of over 3 years has attracted several domestic and foreign FMEs to set up their fund management activities in GIFT-IFSC. As on June 30, 2025, there are 177 FMEs registered with IFSCA which have collectively launched 272 schemes with a commitment of USD 22.11 Bn, and cumulative investments exceeding USD 11 Bn.
4. The largest share (~85%) of these investments has been channeled to India, a testimony of IFSCA's commitment to 'onshore the offshore', while also creating a seamless conduit for the foreign investors, Non-Resident Indians (NRIs) and Overseas Citizens of India (OCIs), looking to invest into and participate in the growing Indian economy. Out of the 272 schemes, there are 16 Venture Capital Schemes (including Angel Schemes), 88 Category I & Category II Restricted Schemes, 166 Category III Restricted Schemes and 2 Retail Schemes.

C. Distribution mechanism in Alternative Investment Funds (AIFs)

1. An AIF is a privately pooled investment vehicle that collects monies from investors for investment in accordance with a defined investment policy for the benefit of its investors. Since an AIF is a pooled investment vehicle, the investors in the fund have pro-rata and pari-passu rights in the distribution from the scheme.



2. In contrast to the said principle, a new field in the world of finance, often referred to as Blended Finance, has emerged wherein concessional capital is strategically deployed to mobilise private capital towards sustainable development projects. Such structures provide for flexibility in distribution arrangements, including differential rights in distribution.
3. Blended Finance offers promising potential in closing the developmental funding gap, resulting in positive results for both investors and communities. Blended finance structures typically incorporate risk-mitigation mechanisms to attract private investors. These mechanisms are often supported by concessional and / or philanthropic capital, which absorbs higher levels of risk. Common approaches include offering first-loss capital, guarantees, or priority in distribution to certain investors, thereby improving the risk-return profile for private investors and facilitating greater fund mobilisation.
4. In order to operationalise the blended finance structures in practice, a certain degree of flexibility in fund distribution mechanism is essential. Without such flexibility it would be challenging to design appropriate risk-sharing arrangements that facilitate private capital participation. Enabling such mechanisms ensures that concessional and private capital can work in tandem, thereby achieving both developmental impact and sustainable fund-raising.

D. Definitions of Blended Finance and the state of its growth

1. World Economic Forum and OECD define Blended Finance as:
“The strategic use of development finance and philanthropic funds to mobilize private capital flows to emerging and frontier markets”.



2. DFI Working Group on Blended Concessional Finance for Private Sector Projects states that:

“Combining concessional finance from donors or third parties alongside DFIs’ normal own account finance and/or commercial finance from other investors, to develop private sector markets, address the Sustainable Development Goals (SDGs), and mobilize private resources”.

3. As per the Convergence (i.e. global network for blended finance)¹, total capital mobilised till date through Blended Finance is ~ USD 262 billion in developing countries. Blended finance has seen consistent growth over 2020–2024, rising by roughly USD 1.7 billion annually from USD 11.5 billion to USD 18.3 billion². The increase illustrates the market’s resilience and its ability to channel capital even amid macroeconomic fluctuations.
4. On average, each dollar of concessional capital³, including guarantees and insurance, mobilized USD 3.76 in commercial capital from Development Finance Institutions (DFIs), Multilateral Development Banks (MDBs), and the private sector. Larger transactions exceeding USD 100 million attracted USD 5.46 in commercial capital for every dollar of concessional funding. These larger transactions have mainly focused on the energy sector (40%), followed by infrastructure (25%).

¹ <https://www.convergence.finance/blended-finance>

² <https://www.convergence.finance/state-of-blended-finance>

³ <https://www.convergence.finance/state-of-blended-finance>



E. The Indian Context

1. During the 29th United Nations Climate Change Conference in 2024 (COP29), India and other developing countries stated that developed countries need to commit and provide at least USD 1.3 trillion every year till 2030, through grants, concessional finance and non-debt-inducing support that cater to the evolving needs and priorities of developing countries, without subjecting them to growth-inhibiting conditionalities in the provision of finance⁴.
2. Considering that India and other developing economies, need significant capital requirements in multiple sectors, it is imperative to facilitate innovative financing structures that can effectively mobilise private capital. The same is further reinforced by India's commitment to achieve net zero by 2070, which is estimated to require financing of ~USD 10.1 trillion⁵. Mobilising such unprecedented levels of capital will necessitate active private sector participation, and blended finance offers a viable mechanism to align concessional and commercial capital with both national developmental priorities and global sustainability objectives.
3. The Climate Policy Initiative (CPI) states that green finance flows for mitigation sectors reached USD 50 billion per annum in FY 2021-22, while adaptation-related sectors received USD 15 billion annually during the same period⁶. In this regard, CPI has recommended that equity and debt blended finance instruments may be structured to make catalytic investments in sectors addressing climate change in India, attracting

⁴ <https://www.pib.gov.in/PressReleaseIframePage.aspx?PRID=2073601>

⁵ <https://www.ceew.in/press-releases/india-will-require-investments-worth-over-usd-10-trillion-achieve-net-zero-2070-ceew>

⁶ <https://www.climatepolicyinitiative.org/wp-content/uploads/2024/12/Landscape-of-Green-Finance-in-India-2024.pdf>



commercial capital towards projects that contribute to sustainable development, while providing financial returns to commercial investors.

4. This is also echoed in the Report titled '*Blended Finance for Climate Investments in India*' published by the International Finance Corporation (IFC)⁷ which highlights that since India's climate financing gap is substantial, blended finance instruments have catalytic significance in scaling up private finance to support India's climate and developmental goals. This includes instruments and structures viz. senior debt/subordinated debt, equity (with return expectations below what market investors would expect or equity returns subordinated to market investors), performance-based incentives, guarantees and risk-sharing mechanisms, and grants and technical assistance.
5. An Expert Committee on Sustainable Finance set up by the IFSCA in its report also recommended "*IFSCA to facilitate blended finance mechanism at IFSC by attracting concessional financing from MDBs, and DFIs, thereby reducing the financial risks of private and commercial investors*".
6. Further, IFSCA has also received representations from the industry associations and market participants to permit issuance of multiple classes of units to facilitate differential distribution in all Alternative Investment Funds (AIFs) to meet risk and return profile of different categories of investors.

⁷ <https://www.ifc.org/content/dam/ifc/doc/2023/Report-Blended-Finance-for-Climate-Investments-in-India.pdf>



F. Possible Structures of Blended Finance

1. On analysis of several international use cases of blended finance structures in Funds, one or combination of the following different structures have generally been observed:
 - a) One class of investor(s) may agree to bear higher portfolio losses than their pro-rata share;
 - b) Such investors may agree to accept lower financial return than their pro-rata share;
 - c) Such investors may agree to accept zero financial returns from their investments;
 - d) Certain classes of units may be issued towards grants provided by a contributor in Schemes

G. Concerns on permitting differential distribution

1. Some of the concerns with respect to permitting differential distribution are outlined below:

1.1. Issue of Ever-Greening of loans

It has been observed by domestic regulator(s) that AIFs with differential distribution may be structured in such a way that where one class of investors (senior class) receives priority in distributions, while another class (junior class) bears losses disproportionately. Such structures may be misused by regulated lenders to “evergreen” stressed loans by subscribing to the junior class. This practice enables lenders to avoid recognising such exposures as non-performing assets (NPAs), thereby undermining prudential norms.



1.2. Valuation Challenges

The presence of multiple classes of units complicates the NAV calculation of junior/subordinated units. In the absence of clear guidelines, this can result in inconsistent practices and inaccurate valuation, leading to unfair treatment of a particular class of investors.

1.3. Risk of Mis-Selling

Multiple classes in a fund structure with differential distribution mechanism may not be easily understood by all investors. There is a possibility that adequate information is not provided to potential investors in subordinate class, specially about the greater risk, which may also lead to mis-selling.

H. Risk mitigation measures and benefits

1. In order to address the issue of ever-greening of loans through Funds structure, the risk may be addressed or mitigated if the amount invested by the scheme is not utilised by an investee company, directly or indirectly, to discharge any of its obligations or liabilities towards the investors of the schemes or their associates.
2. With respect to concerns pertaining to valuations, the risks may be addressed or mitigated if an independent valuer is mandated to undertake not only valuation of the securities of the fund but also to compute the NAV for each class of investors after taking into account the disclosures in the PPM.



3. The concerns of mis-selling may be addressed if investments in junior or sub-ordinate classes of units are restricted to accredited investors investing above a specified threshold. Further, suitable disclosures with illustrations and additional disclosures on risk for investors in different classes may also help in providing adequate information to the prospective investors.
4. By permitting FMEs registered in GIFT-IFSC to structure pooled investment vehicles with multiple classes of units, FME can pool capital from investors with varied risk–return preferences. Allowing such differential distribution with suitable safeguards as detailed above could provide the following benefits:
 - 4.1. **Catalytic capital for socially desirable projects** – Junior/subordinate tranches can act as a catalytic capital to facilitate investments in such projects which are socially desirable but otherwise may not be economically viable.
 - 4.2. **Enhanced fund mobilisation** – Broadens the investor base by accommodating both conservative investors (senior classes) and aggressive investors (junior classes). This may enable appropriate sharing of risk amongst investors based on their appetite, thereby facilitating greater capital raising.
 - 4.3. **Alignment with global best practices** – Non-retail schemes in various financial centres generally permit differential distribution mechanism subject to adequate safeguards. By enabling such structures with suitable safeguards will facilitate innovations and at the same time ensure that investors’ interest are protected.



I. Proposal

In view of the key benefits associated with differential distribution mechanisms as highlighted above and the possibility to address the risk from such mechanism, a proposal to facilitate differential distribution mechanism is detailed below:

i. Eligible Schemes

Venture Capital Schemes and Restricted Schemes under Part A and B, respectively, of Chapter III of FM Regulations in GIFT-IFSC may be allowed to issue multiple classes of units with differential distribution rights with certain safeguards. Permitting such structures would not only support blended finance mechanism but will also facilitate AIFs to cater to varied investors with different objectives and risk-appetite.

ii. Disclosures

In order to ensure transparency, the PPM may provide for details regarding the multiple classes of units and their rights in distribution, supplemented with suitable examples in a tabular manner. Further, to ensure that all investors particularly investors who subscribe to junior / subordinate class are aware of risks due to such structures, the PPM shall suitably disclose the risks due to such structures.

iii. Acceptance of Grants

In order to facilitate the Schemes in IFSC to fund desirable developmental projects which otherwise may not be commercially viable from risk-reward perspective, the ESG schemes in IFSC may also be permitted to accept up to twenty percent (20%) of the corpus in the form of grants.



iv. Minimum Investment

Keeping in mind the heightened risk associated with such projects and ensuring investor protection, the minimum investment for an investor to subscribe to the Junior / Subordinate classes of units of the eligible schemes may be USD 2 million. However, in case of investor being an accredited investor, the minimum investment may be USD 1 million.

v. Investment Restrictions

In order to ensure that grants received by ESG Schemes are deployed towards projects that advance desirable outcomes, the FME may be required to disclose the manner in which the investments made by the Scheme are expected to contribute to, or align with, the United Nations Sustainable Development Goals (SDGs). Further, in order to avoid potential misuse by Schemes other than ESG Schemes, it is proposed that not more than twenty-five percent (25%) of the corpus of the Scheme shall be invested in any single investee company and its associates.

Further, in order to address the issue of ever-greening of loans through Funds structure, it is proposed that the FME may be mandated to ensure that the amount invested by the scheme is not utilised by an investee company, directly or indirectly, to discharge any of its obligations or liabilities towards the investors of the schemes or their associates.

vi. Valuation

In order to ensure that the NAV calculation is in terms of the disclosures in the PPM, the independent valuer mandated under the FM regulations to undertake valuation of the securities may also be mandated to compute the NAV for each class of units.



J. Draft Framework and Proposal for Public Comments

1. A draft circular on the **“Regulatory framework for differential distribution in Restricted Schemes and Venture Capital Schemes to facilitate blended finance and other fund structures”** is placed as **Annexure -1**. Comments and suggestions from the public and stakeholders are invited on the draft framework.
2. Comments on the draft circular may be sent by email to **Mr. Chintan Panchal, Manager, IFSCA** at chintan.panchal@ifsc.gov.in with a copy to **Mr. Aditya Sarda, DGM, IFSCA** at aditya.sarda@ifsc.gov.in and **Mr. Pawan Kumar Chowdhary, DGM, IFSCA** at pawan.kc@ifsc.gov.in latest by November 11, 2025.
3. The comments may be provided in the following format (MS Word or MS Excel only):

Name and Details of the Person / Entity [Organization name (if applicable), Contact No., Email address]			
Sr. No	Paragraph No. of the Draft Circular	Comments/Suggestions along with revised Clause in line with the suggestion	Detailed rationale along with supporting information

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Annexure - 1

DRAFT CIRCULAR

F.No. XXX/IFSCA/XXX/2025-26/

November XX, 2025

To,

All Fund Management Entities in International Financial Services Centres

Dear Sir / Madam,

Sub: Framework for differential distribution in Restricted Schemes and Venture Capital Schemes to facilitate blended finance and other fund structures

1. Blended Finance is strategically deployed to combine concessional or philanthropic capital with private investment to fund development projects which are socially desirable but may be commercially unviable. Blended finance is increasingly recognised as a promising approach to bridge the gap in development funding.
2. An Expert Committee on Sustainable Finance set up by the IFSCA had recommended IFSCA to facilitate blended finance mechanism at IFSC by attracting concessional financing from MDBs, and DFIs, thereby reducing the financial risks of private and commercial investors.
3. Further, IFSCA has also received representations from the industry associations and market participants to permit issuance of multiple classes of units to facilitate differential distribution in all Alternative Investment Funds (AIFs) to meet risk and return profile of different categories of investors.



4. In order to provide flexibility to raise funds from investors with varied risk appetite and to support financing to projects which are socially desirable but may be commercially less attractive to investors, a framework for differential distribution mechanism for Schemes is provided hereunder.

Part A: Eligibility

- 4.1. Venture Capital Schemes and Restricted Schemes under Part A and B, respectively, of Chapter III (together referred to as “eligible schemes”) of IFSCA (Fund Management) Regulations, 2025 (hereinafter referred to as “FM Regulations”) shall be permitted to issue multiple classes of units which have differential distribution related rights embedded to them (e.g., Senior units or Junior / Subordinate units).

Explanation: “Senior units” indicate such class of units which has superior rights over the distribution proceeds of the eligible scheme, while “Junior units” or “Subordinate units” indicate such classes of units, including Mezzanine units, the rights of which over the distribution proceeds of the eligible schemes would be inferior to that of Senior units.

ESG Schemes

- 4.2. Eligible Schemes filed with IFSCA in terms of Circular dated January 18, 2023, on the subject “Disclosures by Fund Management Entities for Environmental, Social or Governance (ESG) Schemes” (hereinafter referred to as “ESG Schemes”) shall be permitted to issue multiple classes of units with differential returns.



- 4.3. The FME of such ESG Schemes shall disclose how the investments by the scheme are expected to align with the United Nations Sustainable Development Goals (SDGs).
- 4.4. Such eligible schemes may accept funds in the form of grants which shall not be more than twenty percent (20%) of the corpus of the scheme.

Other than ESG Schemes

- 4.5. Eligible Schemes other than ESG Schemes shall be permitted to issue multiple classes of units with differential distribution wherein not more than 25% of the corpus of the scheme is invested in an investee company and its associates.

Provided that such portfolio diversification may be achieved by such schemes within 2 years of first close.

Part B: Structures under differential return

- 4.6. The Junior / Subordinate classes of units of the Eligible Scheme with respect to differential distributions may carry returns lower than, or bear losses higher than their entitlement in the investments of such schemes in any one or the combination of the following forms:
- (a) Such classes of units may agree to bear higher portfolio losses than their pro-rata share;



- (b) Such classes of units may agree to accept lower financial return than their pro-rata share;
- (c) Such classes of units may agree to accept zero financial return from their investments;
- (d) Such classes of units may be issued in return of grants provided by a contributor in ESG Schemes in terms of paragraph 4.4 above.

Part C: Disclosures and Other Conditions

Disclosures

- 4.7. The Placement Memorandum (PPM) shall adequately and prominently disclose details regarding the multiple classes of units and their rights in distribution, supplemented with suitable examples in a tabular manner illustrating the distribution waterfall under various scenarios which, *inter alia*, involve loss of capital to the holders of Junior / Subordinate classes of units.
- 4.8. The PPM shall suitably disclose the risks due to such structures, especially highlighting the additional risks towards each class of investors.

Conditions to be complied by the FMEs of Eligible Schemes

- 4.9. The minimum investment for an investor to subscribe to the Junior / Subordinate classes of units of the eligible schemes shall be USD 2 million.



Provided that the minimum investments shall be USD 1 million if the investor is an accredited investors in terms of Clauses 1(c), 1(d), 1(e) and 1(f) of the IFSCA Circular dated January 25, 2024, on the subject “Accredited Investors in IFSC”.

- 4.10. FME shall ensure that the amount invested by the scheme is not utilised by an investee company, directly or indirectly, to discharge any of its obligations or liabilities towards the investors of the schemes or their associates.
- 4.11. The FME of such Eligible Schemes while adhering to the regulation 26, 27, 38 and 39 of the FM Regulation concerning valuation and computation of NAV, shall further ensure that the NAV for each class of investors is computed by an independent valuer after taking into account the disclosures in the PPM and the documented process for calculating NAV.
- 4.12. The FME of Eligible Schemes shall ensure compliance with all other applicable laws, rules and regulations in respect of raising capital from investors and while making investments from such schemes.

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