

ReDesigning Development Finance Initiative  
A joint initiative of the World Economic Forum and the OECD

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OF THE WORLD

# A How-To Guide for Blended Finance

A practical guide for Development Finance and  
Philanthropic Funders to integrate Blended  
Finance best practices into their organizations

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# Preface



Richard Samans  
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The international community is set to commit to a new set of ambitious Sustainable Development Goals, reflecting the need to transform economies, end poverty, and tackle the challenge of climate change. These goals are laudable, reflecting a shared vision for the future of humanity. However, this ambition comes with a price tag that could run into the trillions.

Private finance will be critical in helping countries to transform and grow in a sustainable way, providing jobs, particularly for the poorest and most marginalized and enabling countries to broaden their financing base and exit aid dependence. The good news is that private flows to developing countries are already increasing, reflecting increased attention on investment opportunities in global growth markets. But the bad news is that they often struggle to make inroads into the projects, sectors and countries where they can have the maximum development impact.

This is where Blended Finance comes in. Private investors sometimes have good reasons for avoiding developing country markets: returns are too low for the level of risk, markets don't always function as well as they should do, and local investment climates can be challenging to work in. They may also have some less founded reasons for staying away – not recognizing the rewards on offer, or perceiving a risk that is higher than the reality, based on outdated assessments of country potential.

By blending development finance or philanthropic funds with private capital, all actors in a Blended Finance transaction benefit from win-win-win solutions. Wins for the development funders, as they can magnify the impacts of small amounts of public sector support to leverage larger amounts of private finance: from 'billions to trillions'. Wins for private investors and financiers, as they secure viable returns on worthwhile projects. And most of all, wins for people in developing countries as more funds are channeled to emerging and frontier markets, in the right way, to really help transform economies, societies, and lives.

Getting started to adopt a Blended Finance approach within your organization is not always easy. Organizations may feel overwhelmed with the challenge of working in new ways with sometimes unfamiliar partners. This is where this How-To Guide (the "Guide") comes in, providing clear, step-by-step guidance, combined with experience from organizations that have already pioneered the integration of a Blended Finance approach. Starting from Day One, it provides guidance for organizations to develop champions, identify capacity gaps, work with external partners, and start executing your first Blended Finance project.

The stakes could not be higher. We are the first generation to be able to end poverty, and the last generation to be able to prevent runaway climate change. Using Blended Finance can help support these objectives, contribute to better lives, stronger economies, and a brighter future.

**In order to maximize the use of this Guide and to understand the dynamics of Blended Finance transactions, readers should familiarize themselves with the core concepts presented in the ReDesigning Development Finance Initiative publication, "Blended Finance: A Primer for Development Finance and Philanthropic Funders" (the "Primer"). This Primer provides further information on definitions, types, and the respective roles of commercial and development investors, as well as illustrations of scenarios for applying Blended Finance models.**

# Section 1:

## Executive Summary

Blended Finance is an approach to development finance that employs the “*strategic use of development finance and philanthropic funds to mobilize private capital flows to emerging and frontier markets*” and is characterized by three characteristics:

- **Leverage:** Use of development finance and philanthropic funds to attract private capital.
- **Impact:** Investments that drive social, environmental and economic progress.
- **Returns:** Returns for private investors in line with market expectations based on perceived risk.

Blended Finance offers the opportunity to scale up commercial financing for developing countries and to channel such financing toward investments with development impact. In this way, it can support progress towards the Sustainable Development Goals. This is particularly important in a context where public resources are increasingly under pressure, while private flows to developing countries are increasing significantly.

Blended Finance contributes to development objectives by:

- **Increasing capital leverage:** Extends the reach of limited development finance and philanthropic funds as they are used strategically to facilitate larger volumes of private capital that are channelled to investments with high development impact.
- **Enhancing impact:** The skillsets, knowledge and resources of public and private investors can increase the scope, range, and effectiveness of development-related investments.
- **Deliver risk-adjusted returns:** Risks can be managed to realise returns in line with market expectations.

For development funders<sup>1</sup> including development agencies, development finance institutions, foundations, and other organizations with a commitment to funding the development outcomes, Blended Finance has the potential to amplify the impact of scarce funds, be they official or philanthropic. On the ground, this can mean preparing dozens of new infrastructure projects for investment, directing millions in financing to high-growth SMEs, or vaccinating millions of children against treatable illness.

<sup>1</sup> For the remainder of this paper, we will use the term ‘public funders’ for the full range of development finance and philanthropic actors involved in Blended Finance, recognizing that not all of these will be public actors but motivations may be similar.

So why have only a limited number of institutions looked to use Blended Finance on a broad scale? Development funders face a number of barriers that have limited the adoption of Blended Finance across their organizations, including:

- **Limited awareness** of the potential for public-private collaboration to realize greater impact, due in part to a lack of evidence.
- **Institutional constraints**, including the limits of an organization’s mandate and the regulations of investment authorities that can restrict some types of instruments used in Blended Finance (e.g. equity or direct debt investments).
- **Organizational capacity**, including the technical expertise of staff to structure, manage, and execute transactions; staff incentives to explore and execute such transactions; and the extent of your organization’s external partnerships.

This *Guide* aims to overcome these barriers. It explains the Blended Finance opportunity and offers a framework for starting or scaling up activities for a range of development funder audiences. Each organization’s mission, motivations, staff profile, and operating context are, of course, unique. As there is no “one size fits all” method to adopting a Blended Finance approach, the framework provided in this document will need to be tailored to fit your own organization’s needs. This *Guide* has used the experience of the Canadian Department of Foreign Affairs, Trade and Development to illustrate ‘real world’ examples of how this process can be employed, but their experience will need to be adapted for your own context. The purpose of this document is to help your organization set goals to engage in Blended Finance and realize an action plan for successful implementation.

Development funders can draw on a range of tools to engage private capital providers through Blended Finance.

*Supporting Mechanisms* have been traditionally used by development funders in a Blended Finance package to attract and support private sector investors by managing risks and reducing transaction costs. These Mechanisms can generally be classified as providing:

- **Technical Assistance**, to supplement the capacity of investees and lower transaction costs.
- **Risk Underwriting**, to fully or partially protect the investor against risks.
- **Market Incentives**, guaranteed payments contingent on performance of future pricing and/or payment in exchange for upfront investment in new or distressed markets.

Blended Finance can also be enabled by development funders via *Direct Funding* throughout the project or enterprise life cycle. Direct Funding includes grants, equity, and debt that can help support:

- **Preparing**, reducing commissioning uncertainty and ‘first-mover disadvantage.’
- **Pioneering**, helping high-risk enterprises or projects to experiment with, test, and pilot new business approaches.
- **Facilitating**, offering investments at more generous terms than the market to encourage investments with a high expected development impact.
- **Anchoring**, seeking to ‘crowd in’ private capital on equal terms to achieve ‘first close’ or demonstrate viability.
- **Transitioning**, providing a pipeline of mature and sizeable investments cultivated by development funders that attracts scalable investments through exits to commercial players.

This *Guide* provides a simple step-by-step approach to ensuring that your organization has the necessary management and institutional arrangements in place to pursue a Blended Finance strategy. In summary, these steps are:

1. Understand your organization’s starting point
2. Build organizational buy-in and awareness
3. Formulate a preliminary set of goals and principles for Blended Finance
4. Assess gaps in organizational capacity for Blended Finance
5. Pilot Blended Finance deals with your new framework
6. Review lessons to build Blended Finance capabilities
7. Develop pipeline and deal execution capacity
8. Learn and scale up across your organization

Blended Finance offers significant opportunities for your organization to catalyse private capital to increase development impact. However, prior to deciding how to engage in Blended Finance, your organization must first determine whether Blended Finance fits with your goals and mandate. Blended Finance can be a key component of an organization’s strategy to harness its resources for maximum impact, but this requires strong commitment across your organization and capabilities that span staff skills, organizational effectiveness, and private sector partner engagement. For organizations that embrace the challenge, the opportunities to increase social impact, environmental stewardship, and inclusive and sustainable growth in the developing world holds tremendous promise.





# Section 2:

## Rationale for Blended Finance

### 2.1 Why Blended Finance? Why Now?

The Millennium Development Goals (MDGs) are set to expire at the end of 2015. UN member states are currently negotiating a new set of Sustainable Development Goals (SDGs), reflecting a broader and more ambitious agenda. The SDGs will be expensive to achieve: the United Nations Conference on Trade and Development (UNCTAD) estimates that the developing world faces a \$3.1 trillion annual investment gap in critical areas such as health, education, food security, climate change, and infrastructure.<sup>2</sup> While public financing, including from Official Development Assistance (ODA), will continue to be important, significant increases in private financing will be required if the SDGs are to be achieved. The good news is that private capital flows to emerging and frontier markets are already growing: for example, FDI from private investors to these markets more than doubled between 2004 and 2014, from under \$400 billion to over \$1.1 trillion annually<sup>3</sup>.

<sup>2</sup> United Nations Conference on Trade and Development (2014), World Investment Report 2014.

<sup>3</sup> Institute of International Finance (2014), Capital Flows to Emerging Market Economies (October 2014).

However, five significant challenges have severely limited private capital from scaling in these markets:

1. *Returns are seen as too low for the level of real or perceived risk*
2. *Local markets often do not function efficiently, with local financial markets in developing economies particularly weak*
3. *Private investors have knowledge and capability gaps, which impede their understanding of the investment opportunities in often unfamiliar territories*
4. *Private investors have limited mandates and incentives to invest in sectors or markets with high development impact*
5. *Local and global investment climates are challenging, including poor regulatory and legal frameworks*

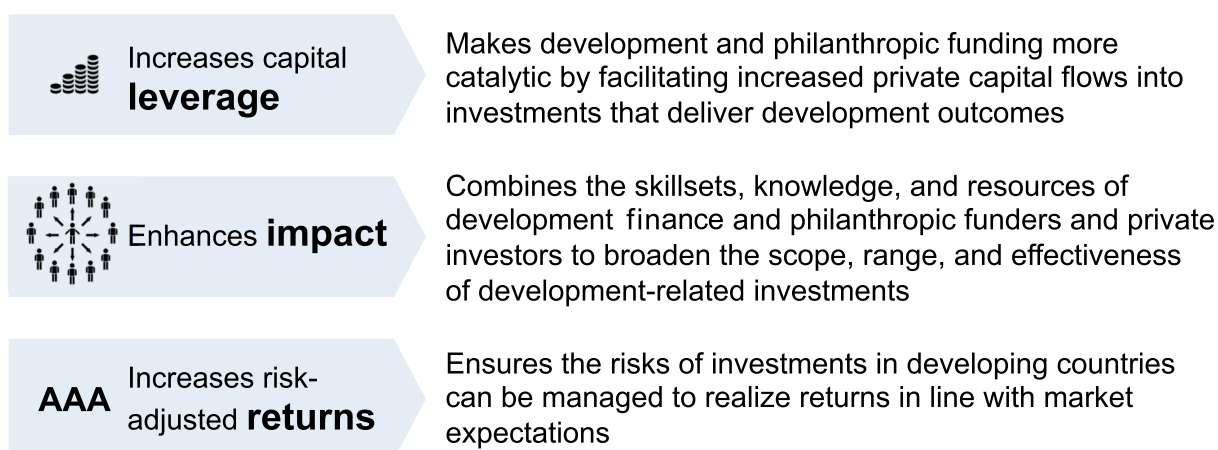
Blended Finance, the strategic use of development finance and philanthropic funds to mobilize private capital flows to emerging and frontier markets, offers institutions a mechanism to address these barriers and drive greater capital flows to projects and companies with development impact by:

- Shifting the investment risk-return profile with flexible capital and favourable terms to overcome the problem of low returns relative to high real and perceived risks that limits private investment.
- Sharing local market knowledge and experience to bridge knowledge and capability gaps.
- Building local capacity, to help support local markets.
- Shaping policy and regulatory reform to help improve the local investment climate.

Blended Finance transactions are characterized by a number of benefits for institutions engaged in promoting development:

- **Leverage:** Use of development finance and philanthropic funds to attract private capital
- **Impact:** Investments that drive social, environmental and economic progress.
- **Returns:** Returns for private investors in line with market expectations based on perceived risk

**Figure 1: Blended Finance Benefits**



## 2.2 How Does Blended Finance Work?

Blended Finance transactions are structured to address barriers to investment and finance faced by private capital providers across the investment lifecycle in order to engage additional capital flows to a transaction that delivers development impact. Depending on the funding gap being addressed, Blended Finance offers different rationales for and approaches to the use of a variety of financial instruments that can be used.

**Table 1: Blended Finance Approaches**

MARKET SEGMENT	Preparing	Pioneering	Facilitating	Anchoring	Transitioning
	High upfront costs; binary risk that a project will not happen	Early-stage projects with high business model risk; high transaction costs	Sectorial or project risks; returns below commercial rates	Macro or sectorial risks; liquidity, refinancing and exit risks	Lack of local markets knowledge and deal pipeline; inefficient markets
PUBLIC SECTOR ROLE	Funds upfront costs and activities reducing uncertainty, creating transparency, and building a pipeline of bankable projects	Little to no return expectations and absorbs costs, reduces business model risk and provides advisory services; can defer rights or enhance private returns	Takes a subordinate position with higher risk or provides low cost leverage to enable private capital to meet their risk-return thresholds	Signaling effect and 'stamp of approval' by achieving 'first-close' or demonstrating viability to 'crowd-in' private funds	Exit mature and sizeable investments that provide a pipeline for commercial actors
DIRECT FUNDING	Grants, Repayable Grants, Highly Flexible debt	Grants, Repayable Grants, Junior Equity, Flexible Debt	Equity, Flexible Debt	Market Rate Debt, Equity	Market Rate Debt, Equity
SUPPORTING MECHANISMS	<b>Technical Assistance (Technical/Operational Expertise)</b> – Advisory or preparatory services, assistance, and training to facilitate private investment in high-impact projects and enterprises in order to supplement the capacity of investees and more generally lower the transaction costs				
	<b>Risk Underwriting (Capital Preservation)</b> – Risk reduction tools that fully or partially protect the investor against various forms of risk, effectively reducing their risk of capital losses				
	<b>Market Incentives (Results-based Financing/Price Guarantees)</b> – Guarantees of future payments contingent on performance in exchange for upfront investment in new or distressed markets, or to stimulate innovation around new products and services				
	<div>Explore</div> <div>Build</div> <div>Grow</div> <div>Mature</div> <div>Life Cycle of Projects &amp; Enterprises</div>				

Blended Finance development funders have traditionally provided *Supporting Mechanisms* to engage private capital in a transaction. Use of Supporting Mechanisms can attract and support private sector investors by managing risks and reducing transaction costs:

**Table 2: Supporting Mechanisms**

<b>Technical Assistance</b> (Technical/Operational Expertise)	Technical Assistance addresses the risks in new, uncertain and fragmented markets for investors. Costs and risks associated with exposure to new markets, technical uncertainty, and the inability to build a pipeline can be reduced through this mechanism, lowering the high transaction costs for investors and operational risks which often dissuade a commitment of funds.
<b>Risk Underwriting</b> (Capital Preservation)	Risk Underwriting reduces specific risks associated with a transaction. This Mechanism provides direct compensation or assumes losses for specific negative events, addressing concerns of private capital providers related to macro and project/company specific risks to ensure capital is preserved.
<b>Market Incentives</b> (Results-based Financing/Price Guarantees)	Market Incentives address critical sectors that do not support market fundamentals. This helps new and distressed markets that require either scale to be commercially viable or reduced volatility, by providing fixed pricing for products in order for private capital to justify committing to the sector.

Increasingly, Blended Finance is provided via *Direct Funding* to overcome the barriers in each Market Segment throughout the project or enterprise life cycle. The objectives of Direct Funding can be categorized according to five different stages of the investment lifecycle and/or market maturity.

**Table 3: Direct Funding for each Market Segment**

<b>Preparing</b>	Preparing funding addresses the high upfront costs associated with pre-commissioned projects and feasibility exercises for new businesses. Funding at this stage is most often applicable to large infrastructure projects. It is typically in the form of grants, repayable grants or highly flexible loans.
<b>Pioneering</b>	Pioneering funding addresses the high risk and uncertain returns associated with early stage investments, or projects using new technologies or in new markets. It is typically in the form of seed or venture capital that helps entrepreneurs to test and experiment with new ideas, markets, and/or business models, or grants and flexible debt that underwrite pilot project costs.
<b>Facilitating</b>	Facilitating funding assists projects and companies that may offer low returns relative to the risks, which investors do not find to be commercially viable. By investing in the riskiest parts of the capital structure, development funders can make the private sector investment more attractive. Direct Funding at this stage takes a variety of forms including most often flexible or subordinate debt (e.g., mezzanine) and junior equity.
<b>Anchoring</b>	Anchoring funding from a development funder on the same terms as private sector investment can provide comfort to investors, increasing the perceived quality of the investment and the ability of investors to manage macro risks. Anchoring funding can be in the form of either market rate debt or equity.
<b>Transitioning</b>	Transitioning funding allows funding pools looking to invest in emerging and frontier markets to access a pipeline of deals that are sufficiently sizeable and scalable to fit within investor mandates, bringing greater liquidity to the market and contributing to development outcomes.



In the dynamic world of development funding, organizations need to be flexible and creative in their tools, partnerships, and vision in order to drive impact and remain relevant through shifting economic and political contexts. However, many development funders face gaps in their ability and resources to execute Blended Finance transactions. Your organization does not have to make the transition all at once, nor does it have to engage with the full spectrum of Blended Finance activities right off the bat. Part of the challenge of engaging in Blended Finance is setting goals based on both your organization's current capabilities and its capacity to change and build new ones.

For Blended Finance approaches to take root in your organization, dedicated "champions" will have to step forward to drive the process. By becoming a champion, your vision will be at the forefront of broadening and deepening the impact your organization has in the world. Blended Finance champions need to challenge their organizations to think differently about their work, break down barriers that have ceased to be beneficial, and bring far more resources to bear on development challenges by folding private capital into major projects in creative and powerful ways. By shepherding your organization through the process of engaging in Blended Finance, you are a "champion" helping it remain vital, relevant, and effective.



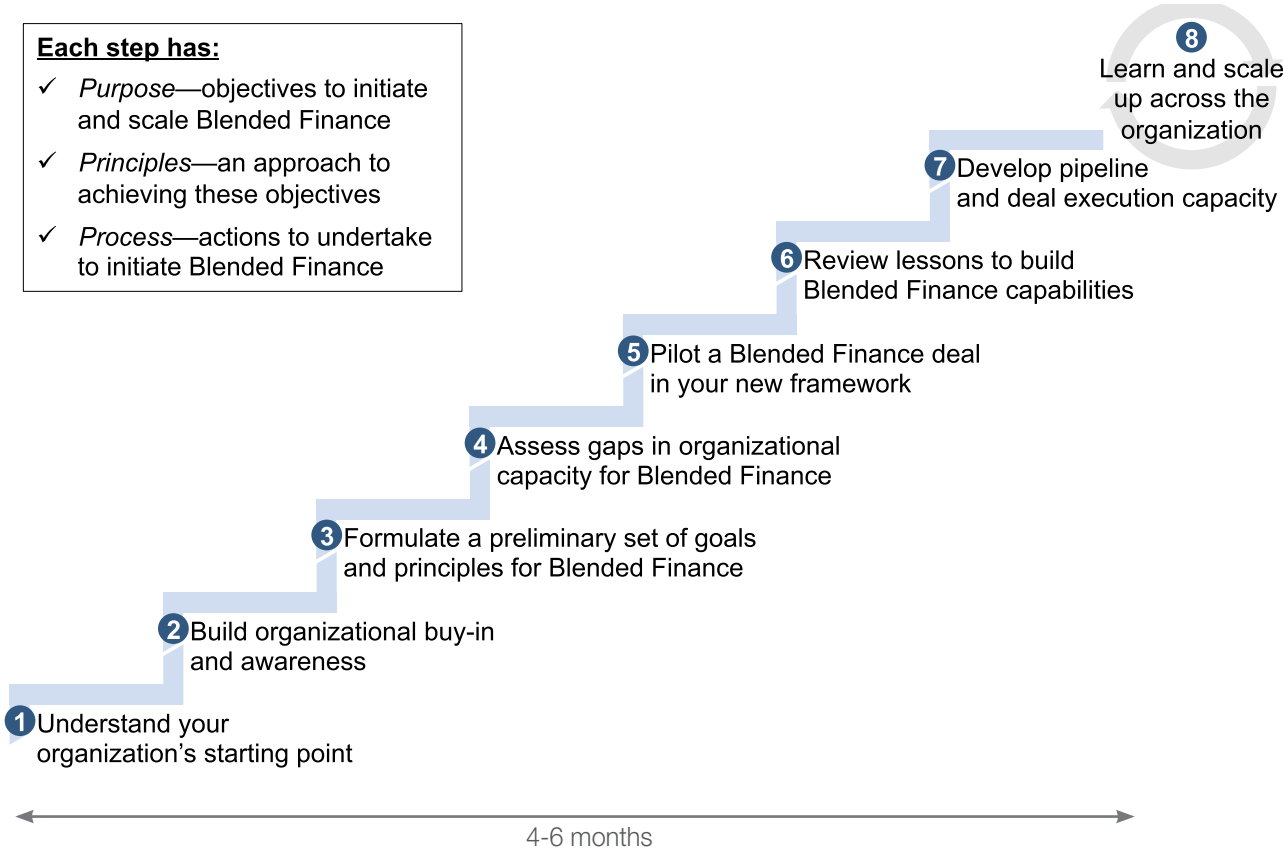
# Section 3:

## Framework for Engaging in Blended Finance

For organizations that do not currently engage in Blended Finance transactions, the first step can seem daunting. Where to begin? How does a development funder learn to speak the language of private investors? How does it seek out and structure partnerships that meet the distinct needs of private sector and development funding organizations? How long would it take?

This section addresses these questions and more, taking you through the process in eight discrete, manageable steps designed to help your organization scale up its engagement with Blended Finance. Regardless of your organization's starting point, your organization can be ready to begin piloting a Blended Finance deal **in as little as four months**.

Figure 2: Framework for Engaging in Blended Finance



This framework provides practical steps for your organization to assess its interest in Blended Finance, determine its capabilities, and execute against its vision. Each step leads to a specific outcome that will help advance your organization on this journey. It is worth noting that while these steps provide a solid basis for assessing and implementing Blended Finance in the context of your organization, the success of this process hinges on the engagement of Blended Finance champions within your organization to drive the change process forward.

### Step 1: Understanding Your Organization's Starting Point

*Expected time: up to 1 week*

**Purpose:** This initial step will help you gather the information you will need to establish a shared understanding within your organization of its current engagement with Blended Finance and level of development impact. By completing the Blended Finance Scorecard, you will be prepared to use this Guide most effectively in setting goals, assessing and closing gaps, and measuring the additional impact that Blended Finance brings to your organization's mission.

**Principles:** Aim for this assessment to be:

- *Evidence-driven*, reflecting both quantitative and qualitative evidence
- *Objective and candid*, reflecting an impartial assessment of your organization's experience, interest and capacity to initiate or scale up Blended Finance

**Process:** This scorecard will ask you to assess your organization's relationship to Blended Finance in terms of experience, skills, engagement, awareness, and interest. It will also require you to describe how your organization measures development impact. Later in this Guide when you revisit lessons learned and assess what gaps will need to be addressed, you can return to your assessments to identify areas for improvement and of strength. Note that *this process is not intended to be time consuming*, but rather to establish a basis for the activity and potential capabilities of your organization.

**Figure 3: Blended Finance Scorecard**

<p><b>Activity</b></p> <ol style="list-style-type: none"> <li>1. Based on the Blended Finance approaches, is the organization already engaged in Blended Finance? If so, which of the models does your organization employ?</li> <li>2. If the organization is already engaged in Blended Finance, what proportion of your issue areas (e.g., neonatal health, SME finance) incorporate at least one Blended Finance project?</li> </ol> <p><b>Permission</b></p> <ol style="list-style-type: none"> <li>3. What aspects of private sector engagement/investment/finance are permitted by the organization charter and/or by the national statutes? (e.g., does your organization have the authority to use financing instruments such as concessional loans, equity investments, or loan guarantees?)</li> </ol> <p><b>Awareness</b></p> <ol style="list-style-type: none"> <li>4. What is the level of awareness amongst staff regarding the opportunities presented by investing with or alongside the private sector for development outcomes?</li> </ol> <p><b>Interest</b></p> <ol style="list-style-type: none"> <li>5. How much of the organization's financing activity involves Blended Finance (% of capital funding)?</li> </ol> <p><b>Capacity</b></p> <ol style="list-style-type: none"> <li>6. How prevalent are financial skills and experience within the organization, particularly related to structured or public-private funds?</li> <li>7. How would you rate the effectiveness within the organization's engagement and ability to partner with private investors?</li> <li>8. Are there motivated and well-positioned staff within the organization who are interested in engaging with private investors? If so, how would you rate their level of interest in doing so?</li> </ol> <p><b>Impact</b></p> <ol style="list-style-type: none"> <li>9. How does your organization track impact as a function of the level of resources invested (e.g., lives impacted or CO<sub>2</sub> abated per \$ invested)?</li> <li>10. Please indicate the top three most important impact metrics for your organization, and current level of impact as measured in the most recent year for which you have data (e.g., # of smallholder farmers positively impacted, # of lives saved through access to essential medicines, etc.).</li> </ol>	<div> <input type="radio"/> None           <input type="radio"/> 1 or 2           <input type="radio"/> Less than 1/2           <input type="radio"/> More than 1/2           <input type="radio"/> All         </div> <div> <input type="radio"/> None           <input type="radio"/> Limited           <input type="radio"/> Moderate           <input type="radio"/> Significant           <input type="radio"/> Universal         </div> <div> <input type="radio"/> None           <input type="radio"/> 0-10%           <input type="radio"/> 11-20%           <input type="radio"/> 21-50%           <input type="radio"/> 51%+         </div> <div> <input type="radio"/> None           <input type="radio"/> Limited           <input type="radio"/> Moderate           <input type="radio"/> Significant           <input type="radio"/> Universal         </div> <div> <input type="radio"/> Ineffective           <input type="radio"/> Poor           <input type="radio"/> Average           <input type="radio"/> Good           <input type="radio"/> Excellent         </div> <div> <input type="radio"/> None           <input type="radio"/> Low           <input type="radio"/> Moderate           <input type="radio"/> High           <input type="radio"/> Very High         </div>
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**Engagement:** This process should be led by a small, committed group of internal champions with some direct experience with your organization's private sector partnerships and/or Blended Finance investments, if relevant

At the end of this step, you should have:

- ✓ A completed Blended Finance Scorecard outlining your organization's experience and capacity in engaging in Blended Finance.
- ✓ A starting point to begin building organizational buy-in and awareness.



**Important consideration.** Your organization needs to make sure it understands any potential legal or institutional barriers preventing co-investments with the private sector. There may be legal or policy constraints to deploying specific financing instruments. Understanding your organization's starting point means becoming aware of such constraints.

## Step 2: Build Organizational Buy-In and Awareness

*Expected time: 4 weeks*

**Purpose:** The process of building organizational buy-in and awareness of the value of Blended Finance is a precondition for scaling up Blended Finance. Its potential benefits and limitations need to be widely understood throughout your organization before you can actively engage in Blended Finance. While building buy-in across your organization is an ongoing process, this step will ask you to make an initial *four week “push”* to support initial Blended Finance investments.

**Principles:** To foster buy-in, the case for Blended Finance needs to be *context-specific*, the case for Blended Finance should be tailored to the priorities and concerns of leaders and staff in your organization as well as the specific environment in which your organization operates. The case should be made as specific as possible, presenting credible information in a format that is easy to communicate, including visuals wherever possible.

**Process:** Prepare a position paper—no more than five pages—for staff at multiple levels of your organization that articulates why now is the time for your organization to adopt elements of a Blended Finance approach, highlighting the case at the *global, environmental, and institutional* levels, as well as explicitly highlighting how potential risks associated with Blended Finance might be managed.

**Figure 4: Position Paper**

1. What is Blended Finance?
2. Why use Blended Finance for development impact, vis-à-vis other financing instruments?
3. Initial benchmark assessment of Blended Finance at your institution
4. The case for Blended Finance in your institution
5. Potential risks and how to mitigate them

The position paper should attempt to:

- **Outline the opportunity for Blended Finance to address development objectives, referencing sources** such as the *Primer* and other resources listed in the Appendix.
- **Leverage the insights** gained from the Scorecard.
- **Refer to any policy guidance** that your organization may have received in the past 12 months.
- **Draw feedback from a series of brainstorming sessions** with key actors within your organization to seek answers to any outstanding questions.
- **Use analytical decision-making frameworks and hard data** wherever possible to resolve disagreements and differences in opinion on whether your organization should pursue Blended Finance and in what fashion. For example, analyse the distribution of your organization’s annual budget by issue area (e.g., health, environment, or SME development), highlighting areas in which you already work

with private sector partners, to help prioritise “quick win” areas for leveraging impact through Blended Finance.

- **Demonstrate alignment with your organization’s overarching mandate** and ensure that the coalition of key actors understand how Blended Finance can benefit the organization by developing a Theory of Change model (as outlined in Figure 5 of the Appendix 2.1).
- **Allow private investors** to articulate their needs and concerns in order to participate in Blended Finance projects.

**Engagement:** Communicate to others in your organization through the position paper, drafted by a financially literate champion(s) working with senior leadership who can engage other internal stakeholders—the risk management team, lead program officers, and other key stakeholders—in reviewing and offer input on the Blended Finance vision. The paper should be a starting point to build buy-in beyond the initial 4-week “push” with periodic activities, including e-newsletter updates to your organization, brown bag lunches, and conference calls to share lessons learned.

### *Spotlight: DFATD build organizational awareness*

Several internal champions for Blended Finance at Canada’s Department of Foreign Affairs, Trade, and Development (DFATD) recognized that a broad-based awareness of Blended Finance across the organization was critical to realizing DFATD’s potential. The internal champions conducted a series of discussions and interviews with a range of DFATD personnel in order to understand staff perspectives on partnering with private investors to achieve development outcomes. At the end of the process, the team developed an internal document explaining Blended Finance and its potential for achieving development outcomes for DFATD and its partners.

At the end of this step, you should have:

- ✓ A position paper that articulates why now is the time for your organization to engage more effectively in Blended Finance, highlighting the case at the *global, environmental, and institutional* levels to enhance your organization’s impact; and
- ✓ A list of key influencers and operational actors within your organization.



**Important consideration.** Building organizational buy-in and awareness of Blended Finance in a public institution cannot be done in a vacuum. Buy-in must be informed by the external environment, including the rationale for using Blended Finance to meet policy objectives, as well as the internal environment, including staff perceptions of partnering with the private sector to achieve development impact.

## Step 3: Formulate a Preliminary Set of Goals and Principles for Blended Finance

*Expected time: 8-12 weeks*

**Purpose:** Your organization's approach to Blended Finance should be focused, measured and deployed selectively to ensure that it is optimally using limited resources and aligning with its overarching mandate. This requires clearly defined goals as well as principles that should be eventually incorporated into your organization's strategy for Blended Finance. An approach based on a sound set of principles can also mitigate concerns over the potential risks associated with deploying funds with Blended Finance in mind.

**Principles:** Your organization's Blended Finance goals should be characterized by four criteria:

- *Specificity*—who will be involved, what will be accomplished, how, and when
- *Realism*—given existing resources and constraints, including government policy, financing tools available, and staff capabilities
- *Timeliness*—anchored to a specific timeline to increase commitment and accountability
- *Attribution*—each goal should be attributed to specific individuals in your organization to ensure execution and incorporation

**Process:** A clearly articulated set of Blended Finance goals should answer questions that address the key topics, in the form (outlined in Appendix 2.2):

### Preparation

- **Why** is your organization trying to engage in Blended Finance?
- **What** financial instruments can your organization use?
- **Which** financial instruments is your organization willing to use?
- **What type of** risk can your organization accept?
- **How much** risk can your organization accept in an individual transaction or across a portfolio?
- **How much** Blended Finance activity can your organization sustain per year?

### Operations and Allocation

- **How** will your organization engage in Blended Finance—directly, or through intermediaries?
- **How** will your organization decide which transactions to pursue?
- **How** will your organization identify investment opportunities?
- **How** will your organization monitor and measure its progress against its goals?
- **Where** should funding to support Blended Finance be focused—e.g. by issue area or geography?

- **Who** within your organization will be responsible for which activity?
- **What** resources are required to deliver the vision?

### Long Term Strategy

- **What** activities will your organization pursue to scale Blended Finance?
- **Who** will your organization work with to scale up Blended Finance activity?
- **What** does your organization's Blended Finance portfolio look like in five years?
  - Annual totals or % of investment portfolio earmarked for Blended Finance per year
  - Proportion of issue areas (e.g., neonatal care) that will involve a Blended Finance project
  - Blended Finance approaches with mandate and priorities

In addition to these goals, principles should also be developed based on your organization's rationale for pursuing Blended Finance and its approach to address potential challenges associated with this approach. Challenges outlined in the literature include:

- **Balancing financial incentives and development principles.** Using development funding to leverage private sector investment can be seen as a waste of funds if an organization use these limited resources to support projects that do not have significant development outcomes (e.g., low value for money).
- **Avoiding crowding out private financing and market distortion.** Crowding out occurs when development finance institutions invest in a project that would have been commercially viable (e.g., that could have attracted full private sector financing) without any support through Blended Finance. Where this occurs, it not only means that scarce development funding has been misspent, but it also has the potential to distort markets and undermine the development of a healthy private sector market.
- **Ensuring transparency while simultaneously protecting commercial confidentiality.** Transparency is important in all areas of development finance operations and, many would argue, particularly so where development funding is used to support and leverage private investments. However, there are certain characteristics of Blended Finance processes – in particular the need for commercial confidentiality when dealing with the private sector – that create a unique set of barriers to full transparency. A clear approach needs to be found that ensures appropriate accountability of development finance while safeguarding commercial confidentiality.

**Engagement:** A range of stakeholders will be involved in providing input to the goal setting including Blended Finance champions, senior leadership, and heads of relevant programmatic areas.



## Spotlight: Canada's DFATD goals for scaling Blended Finance

DFATD's internal Blended Finance champion developed a vision statement and set of clear goals for the use of Blended Finance with input from senior leadership. The team identified the most appropriate approaches to scaling Blended Finance at DFATD in both the near term ("Preparing" and "Facilitating" investments) and long term (including those from the near term as well as "Pioneering" investments and "Market Incentives" mechanisms).

**"DFATD will pioneer innovative Blended Finance models and partnerships to harness massive pools of private capital for development impact, and create shared value, security, and prosperity for all."**

Criteria	Goals for Next 3 Years (2015-2017)
<b>How much</b> Blended Finance activity will DFATD sustain per year?	<input type="checkbox"/> Dedicate up to <b>CAD \$500m annually</b> to Blended Finance transactions, likely with a focus on <b>SMEs, climate change, financial services, agriculture, health</b> and <b>up-stream infrastructure</b> opportunities
<b>Who</b> will DFATD work with to scale its Blended Finance activity?	<input type="checkbox"/> Expand <b>network of "trusted intermediaries"</b> by <b>5-10%</b> , with a focus on partners located in developing countries
<b>What</b> activities will DFATD pursue to scale Blended Finance activity at home and abroad?	<input type="checkbox"/> Make <b>repayable contributions</b> <b>DFATD's primary tool</b> for early-stage and concessional financing opportunities in developing countries <input type="checkbox"/> <b>Aggregate and share key lessons learned</b> from DFATD Blended Finance experience, notably through <b>creation and dissemination of 2-5 case studies</b> of successful DFATD Blended Finance transactions <input type="checkbox"/> Scale and sustain <b>Global Finance Exchange</b>

At the end of this step, you should have:

- ✓ A clearly articulated set of near-term Blended Finance goals that take into account a five-year vision for your organization's Blended Finance activities.
- ✓ A clearly articulated set of principles to guide your Blended Finance operations.
- ✓ An updated position paper that outlines Blended Finance goals and principles.

## Step 4: Assess Gaps in Organizational Capacity for Blended Finance

*Expected time: 4-8 weeks*

**Purpose:** In order for your organization to map out a clear and realistic path to achieving its Blended Finance vision, it must first assess its existing capabilities and areas that need strengthening. Through this process, your organization will gain a comprehensive understanding of its Blended Finance capabilities; determine the Blended Finance mechanisms that your organization is best prepared to scale in the short term; and identify key capacity gaps your organization must fill in order to effectively undertake the Blended Finance approaches it has proposed.

**Principles:** The assessment of capacity gaps should aim to be:

- *Realistic*—an honest assessment of your organization's current Blended Finance activity and capability strengths/weaknesses
- *Holistic*—a comprehensive view of the institution across four organizational dimensions: structure and governance, people and culture, tools and processes, and external engagement

The baseline should also consider all parts of the funder's organization that are relevant to Blended Finance. When assessing your organization's ability to undertake the targeted Blended Finance activities, you should consider:

- *Organizational capacity*—the required tools and capabilities to scale this Blended Finance approach, or the ability to build these requirements over time
- *Demand*—the need for Blended Finance to overcome barriers faced in target Market Segments

**Process:** A series of consultations and internal assessments to provide a holistic overview of your organization should include:

- **One-on-one interviews and focus groups** with internal stakeholders, particularly those who focus on innovation, private sector partnerships, portfolio and risk management, and monitoring and evaluation
- **A complete portfolio mapping** of your existing Blended Finance activity
- **Assessment of internal policies, procedures, and transactional documentation** relevant to Blended

Finance, for example:

- Policy notes on public-private partnerships
- Database of relevant projects related to private sector co-investment
- Term sheets or loan agreements from past investments
- Breakdown of staff by function and experience
- Organizational chart
- **A synthesize of findings** to gauge your organization's capabilities along four organizational dimensions critical to Blended Finance (outlined in Appendix 2.3):

#### Structure and governance

- Structural ability to provide cross-functional support of Blended Finance activity
- Organizational mandate to deploy capital through investment or financing

#### People and culture

- Staff views on working with the private sector
- Organizational culture that promotes entrepreneurship and risk-taking
- Staff background and exposure to finance and investment
- Staff experience in structuring Blended Finance transactions and managing a portfolio

#### Tools and processes

- Processes and best practices for identifying, structuring, and executing Blended Finance transactions

- Reporting and evaluation processes that can accommodate Blended Finance needs

#### External engagement

- Organizational ability to engage proactively in deal origination through formal and informal channels
- Formal relationships or frequent interactions with other national stakeholders such as pension funds or sovereign wealth fund, or globally with other development finance networks and institutions
- **Identification of your greatest strengths to leverage and gaps to be filled**, prioritizing capability gaps that will need to be filled in order to scale Blended Finance (outlined in Appendix 2.4).
- **Determination of the Blended Finance approaches to prioritize**, in consultation with senior stakeholders, for scale in the near and long term based on supply- and demand-side factors and fit with your organization's vision and mandate.
- **Revision of your Blended Finance goals** based on the gaps previously identified in Step 3.

**Engagement:** The process should be led by a small contingent of Blended Finance champions to ensure cooperation and alleviate fears about potential organizational change. Champions should share the findings with senior internal stakeholders to help build further buy-in for future changes that may be necessary in order to fill capacity gaps.

## Spotlight: Canada's DFATD assesses its Blended Finance capacity

DFATD's internal Blended Finance champion and an independent consulting team conducted in-person interviews with staff across the agency, working to uncover key strengths and barriers across the four organizational dimensions critical to Blended Finance. The team synthesized a set of strengths and barriers that DFATD faces in doing Blended Finance:

Dimension	Key Strengths	Barriers/Gaps
<b>Structure &amp; governance</b>	<ul style="list-style-type: none"> <li>• <b>Flexible governance structures:</b> Ability to act as the Government's asset manager to take promising deals forward (e.g., concessional loan funding for C2F)</li> <li>• <b>Flexible investment criteria:</b> Largely sector- and geography-agnostic, enabling investment in a broad range of opportunities</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Lack of formal repayable contribution authority:</b> Currently only authorized to provide grants without repayment, limiting partnership and investment opportunities</li> <li>• <b>Budget cuts:</b> Declining budget reducing scope of potential DFATD investment and capability-building activities</li> </ul>
<b>People &amp; culture</b>	<ul style="list-style-type: none"> <li>• <b>Avid "tiger team":</b> Network of individuals with finance skills and dedication to taking Blended Finance agenda forward</li> <li>• <b>Strong staff interest:</b> Broad staff interest in working with private partners and pursuing more Blended Finance activity</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Insufficient skills:</b> Insufficient firm-wide skills and knowledge to launch and manage broad portfolio of Blended Finance transactions</li> <li>• <b>Lack of alignment:</b> Many staff unfamiliar with an investment approach to development have concerns that Blended Finance could compromise DFATD's mission</li> </ul>
<b>Tools &amp; processes</b>	<ul style="list-style-type: none"> <li>• <b>Robust fiduciary risk assessment process:</b> Easy-to-use tool to assess project risk in holistic manner, currently being modified to accommodate repayable contributions</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Lack of dedicated reporting:</b> No current tracking of Blended Finance activity, rendering its assessment and communication difficult</li> <li>• <b>Insufficient evaluation processes:</b> Lack of coherent impact assessment strategy, contributing to skepticism that Blended Finance will lead to sufficient development outcomes</li> </ul>
<b>External engagement</b>	<ul style="list-style-type: none"> <li>• <b>Pipeline of private investors:</b> &gt;30 private investors interested in working with DFATD</li> <li>• <b>Network of "trusted intermediaries":</b> Long history of working with trusted partners</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Limited bandwidth for business dev't:</b> Not enough staff to work through investor pipeline</li> <li>• <b>Passive role in partnerships:</b> Primarily rely on partners to originate Blended Finance projects, limiting investment opportunities</li> </ul>

At the end of this step, you should have:

- ✓ An assessment of your organization's Blended Finance strengths and capacity gaps across the four key organizational dimensions for Blended Finance.
- ✓ Clearly identified capacity gaps to be filled.
- ✓ Revised goals based on a clear assessment of current capacity to engage in Blended Finance.

## Step 5: Pilot a Blended Finance Deal in Your New Framework

*Expected time: 6-18 months*

**Purpose:** Your organization is now ready to pilot a Blended Finance investment. By starting small and gaining experience, your organization will be in a better position to understand how Blended Finance can play a role in achieving development outcomes, and what capacity constraints or gaps you need to address as you scale. This step involves identifying a potential investment project that satisfies project selection criteria you deem important for Blended Finance, reaching out to private investors to build a partnership; and structuring and executing a Blended Finance transaction.

**Principles:** Your organization should look to use a first transaction to build and test the framework for your approach to Blended Finance, focusing on:

- *Pragmatism*—stay within the scope of your organization's objectives and capabilities to do Blended Finance
- *Leadership*—Blended Finance deals require support from your institution's senior leadership, particularly if your organization has had minimal private sector interaction or prior experience with a private sector partnership

**Process:** If this is your first time proactively identifying an investment opportunity and seeking a private partner, structuring a Blended Finance deal may feel a bit daunting. You may feel perplexed as to where to begin. Where do you go to “look” for an investment opportunity? How do you find these prospective private investor partners? What criteria do you use to assess a project's suitability for Blended Finance? By following a few simple steps you can easily identify both partners and investments and kick-start your organization's engagement with Blended Finance:

- **Develop a short list of target countries and topics in which to invest.** In Step 3, you set goals for how and where Blended Finance investments should be deployed based on your organization's priority geographies and/or issue areas. Those target geographies and issue areas should initially be the focus of your efforts.
- **Establish a tentative list of project selection criteria that reflect your organization's priorities, goals and principles for Blended Finance.** This can be an important

step for reasons of transparency as well as mitigating the risks associated with Blended Finance, such as ensuring that development impact and financial objectives are properly balanced. Your project selection criteria will involve a combination of your organization's desired role across the Market Segments, alongside pragmatic considerations like the type of financing instruments your organization can deploy and the desired impact your organization seeks to achieve in a particular issue area.

- **Build networks with mentor organization and private investors.** Several multilateral and bilateral development finance institutions have adopted Blended Finance approaches for several years. Mentors/advisors can also be identified by networking at conferences, identifying authors of relevant pieces on development finance, or making use of partnerships your institution already has with other similar organizations. Private marketplaces targeting Blended Finance, investor associations, as well as the national Chamber of Commerce in target geographies.
- **Initiate informational discussions with private investors in a group setting or one-on-one.** Share your organization's interests and objectives, and see where they might align with those of private investors. Impact objectives are not always perfectly aligned, but building relationships with potential private investor partners will help you better discern where underlying business activity and objectives may match your organization's Blended Finance goals.
- **Consider sourcing partnerships through formal, competitive channels.** To mitigate the risk that a private partner is selected arbitrarily or in a fashion that creates market distortions, consider creating a competition to select your partners. This can be done in a variety of ways: through an open call for tenders from private equity fund managers or the creation of dedicated “challenge funds” that deliver payments for the achievement of pre-specified outcomes. Consider selection criteria aimed at screening potential partners, including considerations such as reputation in the market, track record of success, implementation capacity, and alignment of mission with your development impact goals.

Once you reach the point of seriously exploring a partnership with a private investor, there are three key questions that you should consider in order to ensure that you have the foundation for a high-performing partnership:

- **Clarity:** Do we understand each other's needs, preferences, and limitations?
- **Compatibility:** Are our goals ultimately compatible with each other? The way to mitigate the risk of misalignment is for each party to state directly its financial and developmental return objectives.
- **Commitment:** Will we each bring the necessary human, financial, and intellectual resources to bear in order to make the partnership a success? The drafting and signing of a brief memorandum of understanding (MoU) is a way to codify the partners' commitment.

Once a partnership has been struck, the investment opportunity identified, and the intent to proceed with a

Blended Finance investment formalized, you should shift into the mode of investment execution and management. From the development funder's perspective, executing on and then managing a Blended Finance investment involves several steps:

- **Assign an investment officer:** This person (who may or may not be a Blended Finance champion) will drive the process forward to ensure the project is properly screened, is presented and managed through internal processes to ensure that the financial transaction is completed, communicate on a regular basis with the investee and the private co-investor, and report back internally as appropriate. Bring the investment officer into the process as early as possible—even prior to formalizing an MoU—as their sense of co-ownership is a critical success factor.
- **Assess risks of the investment:** Develop a 'screening memo', outlining an assessment of risks associated with the investment, ideally led by a specialist risk management officer, in line with your organization's risk management framework. Risks relevant to the development funder may include both financial risks (e.g., risks associated with credit default, investment liquidity, market prices, interest rates, and foreign exchange) and a broad set of non-financial risks, including operational, macroeconomic, strategic, and reputational risks, as well as environmental, social and governance (ESG) risks. If your organization has not yet formalised a financial risk management framework, you can track your assessment of each category of risk for this investment and develop a framework later in the Guide process—a critical step to enable you to develop a balanced portfolio of Blended Finance investments over time (outlined in Appendix 2.5).
- **Draft a term sheet:** Outline the specifics of the transaction in an investment 'term sheet' and execute a contract accordingly. If you have found a mentor at a peer organization, this is a good moment to ask for advice on specific terms. Be sure to involve your internal legal counsel in the process early on.
- **Design a monitoring and evaluation approach:** Your organization will need a verification and reporting protocol to ensure that the investment is being deployed as intended, that key financial and environmental, social, and governance (ESG) guidelines are being followed, and that desired outcomes are being attained. The monitoring and evaluation challenge specific to Blended Finance relates to the need to measure the value added by bringing private capital into an investment. Assessing whether a Blended Finance transaction can be successful is not limited to the ratio of investment raised against grants invested, but rather the evaluation of the development impact of actual projects financed, and the extent to which development funding has enhanced impact. This can often be a challenge, due to the lack of insight into the alternative scenario but can be guided with a checklist on how to assess and measure different types of additionality (outlined in Appendix 2.5) and a structured monitoring and evaluation process (outlined in Appendix 2.6).
- **Develop an implementation plan:** Work with your partner to develop an execution plan for the investment. If this is an intermediary such as a private equity fund, this could be a target for the deployment into a diverse portfolio over

several years; if a direct investment, this will entail a detailed execution timeline with owners of specific tasks.

- **Execute a contract:** Engage your internal legal counsel or an external law firm to draft or negotiate an appropriate contract (e.g., loan agreement) including the key terms itemized in the term sheet and referencing specific aspects of the implementation and monitoring plans.

**Engagement:** Given the fundamental changes that this process can lead to within an organization, it is important to develop clear lines of communication and promote transparency internally. Practical steps to provide this include:

- Creating an informal working group comprised of key actors (the investment officer, Blended Finance champions that work in the geographic or issue areas relevant to the investment) that convenes regularly to discuss progress on the investment and partnership, and to mobilize additional support as needed.
- Providing periodic updates across your organization to provide visibility into the partnership and investment, helping to reinforce organizational buy-in.
- Allowing colleagues to engage directly with the private investor partner so staff can see first-hand that interests are mutually reinforcing and compatible e.g., inviting people from across your organization to attend the signing of a term sheet or schedule a lunchtime presentation).



## Spotlight: Canada's Blended Finance journey begins to scale

Through discussions with the Overseas Private Investment Corporation (OPIC) in 2012, DFATD began exploring investment in a new fund of funds for frontier markets by Canadian investment management firm Sarona Asset Management. DFATD has a strong relationship with US government agencies involved in international development, and the “champions” driving DFATD’s interest were familiar with Sarona’s model and team. Informal brainstorming led to a creative structure later captured in a formal term sheet: a first-loss equity contribution by DFATD of CAD 15 million, with features such as investment-by-investment loss protection and subordinated return of capital. This combination of loss protection and return enhancement in DFATD’s concessional equity investment was designed to leverage the most capital for development impact as possible through the fund. The fund – Sarona Frontier Markets Fund 2 – closed in late 2014 with CAD 185 million, including CAD 107 million from 117 private sector investors including family offices, foundations and municipal pension funds.

At the end of this step, you should have:

- ✓ One active investment with a private investor that has the potential for a Blended Finance “quick win” and provides learning opportunities for your organization.
- ✓ Drafts of formal documents corresponding to different stages of the investment planning process such as a screening memo, Memorandum of Understanding (MoU), term sheet, and a contract detailing the specific commitments and responsibilities.
- ✓ A monitoring and evaluation framework tailored to the needs of Blended Finance.



**Important consideration.** Embedded in your organization’s risk management framework should be a set of policies and guidelines to identify and manage ESG risks of your organization’s investments, also often known as an Environmental and Social Management System (ESMS). There are several ESG toolkits available which can be helpful resources for establishing ESG policies and guidelines for your organization. The IFC’s Performance Standards are another commonly-used ESG resource. These toolkits provide guidance for assessing, monitoring and reporting on ESG risks, as well as evaluation and reporting templates that can be adopted by your organization. While sometimes geared toward private equity fund managers operating in emerging and frontier markets, they nonetheless can be valuable resources for a development funder establishing or revamping ESG policies or processes. Appendix 1 lists a number of resources for ESG that can be used in developing an effective ESMS system (outlined in Appendix 2.8).

## Step 6: Review Lessons to Build Blended Finance Capabilities Across your organization

*Expected time: 4-8 months*

**Purpose:** In this step, you will review your pilot Blended Finance deal. What did blending development funds with a private investor enable you to achieve? What went well or poorly in the process, and can be improved? The purpose of this step is to learn from your initial experience, course correct as required, and identify your organizational capabilities needed to improve and expand Blended Finance activity in your organization. More specifically, you will identify the institutional capabilities to build that are most relevant for Blended Finance, and design an implementation plan to develop capabilities over time and prioritized for near-term “quick wins.” You will also determine an organizational structure for scaling Blended Finance based on your organization’s current makeup, appetite for, and experience with Blended Finance.

**Principles:** When selecting the most relevant capacity gaps and designing an implementation plan to address them, you should seek to be:

- *Realistic*—prioritize building capabilities that can deliver “quick wins” or be more easily incorporated into your organization
- *Resourceful*—explore new pools of talent, looking for relevant and untapped experience or skill sets among current staff, and reimagining potential organizational structures to cut across silos and issue areas

### Process:

- **Present senior stakeholders with a “menu” of options for filling each capacity gap.** Highlight 1-2 recommendations for each gap and support these recommendations with a synthesis of benefits and considerations for each option to help facilitate the identification of key activities from the menu to perform in the near term.
- **Create an implementation plan outlining key activities, timelines, and target outputs/results.** Assign individual responsibility for the implementation of the overall agenda and the execution of specific activities over a 12- to 18-month period.
- **Establish incentive structures and performance outcomes that will support your Blended Finance objectives.** Include targets based on geography, sector and metrics for leveraging private investments.
- **Develop a structure for your organization’s Blended Finance efforts to get to scale.** There is no ideal model for how to mobilize the talent required to scale your Blended Finance activity, but consider the conditions under which these three models might work best:
  - Option 1 - Dedicated unit: House a new unit within your organization, with its own budget, through which all Blended Finance transactions are initiated and managed.



#### Organizational conditions:

- Heads of your organization wants to show public leadership and progress in Blended Finance
- Organization lacks a wide base of investment expertise but has significant interest in Blended Finance
- Option 2 - Cross-functional technical support team: Form a team that provides temporary transaction-specific support to Blended Financing efforts across your organization.

#### Organizational conditions

- Awareness and appetite for Blended Finance are pervasive
- Divisions have some degree of investment ability already, and possibly some experience with Blended Finance.

- Option 3 - Mainstreaming: Hire or train a few people in each department or division to be responsible for initiating, managing, and growing a Blended Finance portfolio.

#### Organizational conditions

- Organization operates in fairly self-contained and separate silos
- A culture of leading from within one's own group rather than employing expertise from other parts of your organization

**Engagement:** Changes should be communicated broadly across your organization, especially to the heads of different programmatic areas, human resources (for hiring and for activities that involve training), and finance and budget departments.

## Spotlight: DFATD builds capacity

Building off of the capacity gap assessment and lessons from early Blended Finance deals, the team developed a “menu” of options for addressing each gap with benefits and key considerations for each option. The team also developed a list of immediate next steps for the internal “tiger team” and Blended Finance champions and a detailed implementation plan:

Dimension	Key capability requirements	Summary of potential next steps (6-12 mo.)
<b>Structure &amp; governance</b>	<ul style="list-style-type: none"><li>● <b>Organizational structure that is supportive of scaling Blended Finance</b></li></ul>	<ul style="list-style-type: none"><li>• Formalize existing “tiger team” into Office of Development Finance (ODF)</li><li>• Define and pilot ODF roles (e.g., transaction structuring support, portfolio risk mgmt.)</li></ul>
<b>People &amp; culture</b>	<ul style="list-style-type: none"><li>● <b>Staff with understanding of Blended Finance value in achieving results and impact goals</b></li><li>● <b>Organizational culture that promotes behaviors required to use Blended Finance</b></li></ul>	<ul style="list-style-type: none"><li>• Leverage existing capacity (“centers of excellence,” cross-staffing)</li><li>• Train staff in Blended Finance basics</li><li>• Hire in capacity</li><li>• Identify other internal champions</li><li>• Launch change management process, with focus on linking Blended Finance to impact and promoting an entrepreneurial culture</li></ul>
<b>Tools &amp; processes</b>	<ul style="list-style-type: none"><li>● <b>Robust reporting and impact evaluation processes</b></li></ul>	<ul style="list-style-type: none"><li>• Lay out Blended Finance investment process</li><li>• Centralize Blended Finance database</li><li>• Plan for M&amp;E from project inception (e.g., metrics to be tracked, budget, timeline)</li></ul>
<b>External engagement</b>	<ul style="list-style-type: none"><li>● <b>Support and buy-in from government and public</b></li></ul>	<ul style="list-style-type: none"><li>• Build evidence base for Blended Finance (e.g., case studies)</li><li>• Improve GoC and public understanding of Blended Finance (e.g., through media content)</li></ul>

At the end of this step, you should have:

- ✓ An implementation plan for addressing Blended Finance capacity gaps that outlines leadership roles, budgets, key activities, timelines, and outcomes over a 12-18 month period.
- ✓ An organizational structure for scaling up Blended Finance across your organization.

## Step 7: Develop Pipeline and Deal Execution Capacity

*Expected time: Annual Reviews*

**Purpose:** At this stage, you have learned from a Blended Finance investment and are now ready to develop a Blended Finance investment “pipeline” (e.g., high-potential projects that meet your impact objectives and are likely attractive to private sector investors) and deal execution capacity. Development funders can address these points by developing partnerships of varying levels of formality or devoting more effort to building these capabilities internally. In either case, your organization will benefit by becoming known by and accessible to a range of private sector partners, so they approach your organization with appropriate and high-potential opportunities for partnership.

### Principles:

- **Specificity:** Your organization’s interests and intent should be defined clearly and specifically. Do you intend to scale Blended Finance in one specific issue area (e.g., green energy) or do you intend to roll Blended Finance out across your organization’s portfolio of development activity? Will you solely seek to mitigate risk through the use of guarantees, or will you also catalyse private capital into early-stage market segments through “Pioneering” capital?
- **Transparency:** All parties should be explicit, systematic, and transparent in sharing what brought them to the table, what they can or cannot contribute to the partnership, and what results they seek in order for the partnership to be successful

**Process:** Given that Blended Finance may be a new approach for your organization, it is important that your organization takes steps to signal its interest in partnering with the private sector in this way. To increase private sector awareness of the opportunities for Blended Finance investments with your organization, you should develop a clear statement of interest with a description of the priority areas, eligibility criteria and contact persons.

- **External communications and outreach.** This can include a variety of activities such as setting up a simple and easy-to-navigate Web page that outlines your organization’s interests in pursuing Blended Finance by issue area and/or funding mechanism; attending conferences for development funders and for investors; and/or contacting other development funders who may refer potential partners to your organization based on clearly-defined interest areas.
- **Resource enhancement.** To further develop your in-house pipeline generation and deal execution capacity, consider augmenting your staff profile to hire additional team members with deal-making experience and private sector networks (see Figures 12 and 13 in Appendix for Blended Finance-specific training and hiring plan). You may consider hiring several new investment officers and, with sufficient scale, locate several individuals in field offices or regional hubs, such as Nairobi to cover East Africa investments.

This local presence can improve the visibility of your organization in the relevant market and thus your ability to source Blended Finance deals, and can also increase the speed of execution. However, many development funders find that simply relocating a few investment officers to the field doesn’t necessarily lead to more deals and better execution. Instead, successful organizations typically strive to ensure that these investment officers are part of an integrated “deal team” including sector or technical experts, legal and contracting professionals, and country or regional specialists.

**Engagement:** Communications both internally and externally is necessary to promote the changes in your organization and develop new partnerships and deal opportunities. This may require your organization to seek help in facilitating communication from:

- An internal communications team or an external agency to help develop a “position” for your organization’s perspective on and approach to and Blended Finance.
- Industry groups, both domestically and in countries of focus, to introduce your organization and identify overlapping interests among member companies or investors.
- Networks of external mentors and trusted advisors to identify channels to the private sector that aid the development of a Blended Finance partnerships strategy.

At the end of this step, you should have:

- ✓ A list of prospective partners and private sector networks, which can be added to over time, to help generate interest and pipeline for future Blended Finance deals.
- ✓ A series of tools for external engagement, including a social media presence, e-newsletters to partners, a dedicated Web site (or page of your existing Web site) describing partnership interests and opportunities, with contact information for external parties to reach internal Blended Finance champions.
- ✓ A recruitment strategy for new deal-making staff, with potential local or regional presence, to facilitate in-house pipeline generation and better deal execution.



**Important consideration.** Note that many development funders find that simply relocating a few investment officers to the field doesn’t necessarily lead to more deals and better execution. Instead, successful organizations typically strive to ensure that these investment officers are part of an integrated “deal team”, including sector or technical experts, legal and contracting professionals, and country or regional specialists.

## Step 8: Learn and Scale Up

*Expected time: Annual Reviews*

**Purpose:** Evaluating and adjusting the Blended Finance strategy and portfolio will allow your organization to assess its progress towards longer-term goals and to course-correct, if needed, as its efforts scale. Your organization may need to accommodate changes in environmental or institutional contexts—for instance, it may learn about financial innovations in the market, new types of partners, or new evidence on the impact of Blended Finance, and use that learning to scale its operations in different directions. The definition of “scale” will vary from organization to organization, and may change over time within an organization as its experience with Blended Finance evolves.

### Principles:

- Measure and assess each and every project, including those that do not come to fruition or are unsuccessful: These assessments should aim for:
  - *Rigour*—employ a robust and impartial process to track, measure, and report progress towards a Blended Finance vision and associated goals
    - Be open and honest about the performance, referring to quantitative metrics when possible to benchmark against other projects.
  - *Flexibility*—demonstrate willingness to learn from experience and adjust/course-correct where needed
  - Frame failures to conclude deals and issues with projects as learning opportunities, providing an opportunity to examine what your organization has learned in the process of engaging in discussions with a private-sector partner or negotiating a contract, even if those discussions or negotiations ultimately break down.

**Process:** Your organization should set up a process for learning from its experiences on an ongoing basis by establishing a timeline for self-assessment (for example, what lessons have been learned after the first twelve months?) In order to do this, your organization should take steps to mirror the learning curve demonstrated in Appendix 2.11:

- **Measure and monitor the impact** of Blended Finance activity:
  - Use a baseline of standardized impact indicators as applied in Step 1 against which to measure progress
  - Adopt a “less is more” approach in order to streamline impact evaluation processes (for example, mandate a maximum of 3-5 important cross-portfolio and 2-3 project-specific metrics per project)
  - Obtain independent impact assessments of Blended Finance transactions from specialist third-party providers
- **Solicit and synthesize annual feedback** from external partners and staff on your organization’s effectiveness in investing with and alongside private sector capital
- **Include formal staff performance reviews** on dimensions relevant to Blended Finance in assessment of capability

gaps (e.g., the number, nature, and size of investment partnerships developed)

- **Monitor the process of organizational change** by revisiting the Scorecard you completed in Step 1. Has your organization made progress in building Blended Finance (a) awareness, (b) interest, and (c) capacity?
- **Adjust organizational goals**, as needed, in light of progress towards specified milestones and staff and external partner feedback:
  - Assess the continued relevance of existing goals for Blended Finance
  - Consider extending the scale and reach of your organization’s efforts in order to take on more Blended Finance investments, additional types of partnerships, and greater influence in the development funder ecosystem as a Blended Finance “champion.”
- **Share your organization’s experiences and lessons** with other development funders through informal networks, publications, and knowledge-sharing platforms. For example, you can draft and publish case studies of Blended Finance investments covering these themes:
  - Who was involved in the transaction? What unique capabilities and expertise did each participant bring to the table? How were participants brought together?
  - What was the structure of the transaction? How did this structure cater to participants’ unique risk-return requirements? What Blended Finance approaches were used?
  - What key lessons did your organization learn from this experience? How might these lessons apply to other aid agencies and development finance providers?

**Engagement:** The feedback process should capture and disseminate learnings across your organization by conducting independent assessments of the Blended Finance portfolio. Oversight should be provided by change champions and individuals responsible for specific Blended Finance activities. An external firm may support the process by providing objectivity in synthesizing periodic feedback from partners and staff.

At the end of this step, you should have:

- ✓ A robust self-assessment that measures the impact of your organization’s Blended Finance activity and monitors the process of organizational change.

# Section 4:

## Conclusion

Blended Finance offers significant opportunities for your organization to catalyse private capital to close the gap on development challenges and support greater development impact. However, prior to deciding how to undertake Blended Finance, your organization must first determine *whether Blended Finance is a fit* with your institution's goals and mandates. Blended Finance can be a key component of an organization's strategy to increase its development impact, but this requires strong commitment across the organization and specific capabilities that span staff skills, organizational effectiveness, and private sector partner engagement.

There is no one-size-fits-all solution to initiating or scaling Blended Finance. Driven by the commitment of internal champions, each institution can determine and adopt an approach that suits its unique mandate, capabilities, and vision for the future. This Guide outlines a step-by-step process that enables your organization to build on its capabilities, partnerships, and investment insights over time, which can rapidly help the organization evolve over a number of months outlined in Appendix 2.12. Helping your organization engage with and scale up Blended Finance is less an end than a beginning. For organizations that embrace the challenge of Blended Finance, the opportunities to increase social impact, environmental stewardship, and inclusive and sustainable growth in a developing world can be exponential.



# Appendix

## Appendix 1 - Blended Finance Resources

### Development Finance Basics and Context

- Development Initiatives: Investments to End Poverty ([http://devinit.org/wp-content/uploads/2013/09/Investments\\_to\\_End\\_Poverty\\_full\\_report.pdf](http://devinit.org/wp-content/uploads/2013/09/Investments_to_End_Poverty_full_report.pdf))
- OECD DAC Table 1 (<https://stats.oecd.org/Index.aspx?DataSetCode=TABLE1>)
- Chelsky, Jeff, “Investment Financing in the Wake of the Crisis: The Role of Multilateral Development Banks,” *World Bank Economic Premise*, June 2013 ([http://www-wds.worldbank.org/external/default/WDSPContentServer/WDSP/IB/2013/06/28/000442464\\_20130628125431/Rendered/PDF/789740BRI0Box377363B00PUBLIC00EP121.pdf](http://www-wds.worldbank.org/external/default/WDSPContentServer/WDSP/IB/2013/06/28/000442464_20130628125431/Rendered/PDF/789740BRI0Box377363B00PUBLIC00EP121.pdf))
- Didymus, John-Thomas, “Huge seed funding gap for African tech startups despite venture capital boom,” *All Voices*, September 2014 (<http://www.allvoices.com/article/100000770>)
- Donor Committee for Enterprise Development, “Donor Partnerships with Business for Private Sector Development: What can we Learn from Experience?”
- GIIN, “Catalytic First-Loss Capital”
- IFC, “International Finance Institutions and Development Through the Private Sector”
- Legland, Ja., “The African project preparation gap,” *Gridlines*, (2007)
- OECD-DAC, “The Role of the Private Sector in the Context of Aid Effectiveness”
- Mustapha, S; Prizzon, A.; Gavas, M. Topic Guide: Blended finance for infrastructure and low-carbon development. Evidence on Demand, UK (2014)
- OPIC, *U.S.-Africa Clean Energy Finance Initiative* (<https://www.opic.gov/sites/default/files/files/ACEF%20One-Pager%2005%2021%202013%20final.pdf>)
- UNFPA/NIDI, (2011) *New donor countries* ([http://resourceflows.org/sites/default/files/RF%20Report%20New%20donor%20countries%20\\_Oct2011\\_.pdf](http://resourceflows.org/sites/default/files/RF%20Report%20New%20donor%20countries%20_Oct2011_.pdf))
- United Nations Conference on Trade and Development, *Development and Globalization: Facts and Figures* (2012) ([http://unctad.org/en/PublicationsLibrary/webgdsdsi2012d2\\_en.pdf](http://unctad.org/en/PublicationsLibrary/webgdsdsi2012d2_en.pdf))
- World Bank, *Global Development Finance 2012* (<http://data.worldbank.org/data-catalog/global-development-finance/gdf-2012>)
- World Bank, *Capital for the Future: Saving and Investment in an Interdependent World* (2013) (<http://siteresources.worldbank.org/EXTDECPROSPECTS/Resources/476882-1368197310537/CapitalForTheFuture.pdf>)

### Development Finance Statistics

- Dalberg Innovative *Financing for Development* report and database
- IMF, *World Economic Outlook* (April 2014) (<http://www.imf.org/external/Pubs/ft/weo/2014/01/pdf/text.pdf>)
- Institute of International Finance, *October 2014 Capital Flows to Emerging Market Economies* (October 2014) (<https://www.iif.com/publication/capital-flows/october-2014-capital-flows-emerging-market-economies>)
- Oakley, David, *Assets under management leave financial crisis behind*, Financial Times (July 2014) (<http://www.ft.com/cms/s/0/34ee713a-0848-11e4-9afc-00144feab7de.html>)
- OECD-DAC database
- Pelosky, Jay, *Emerging markets portfolio globalization: The next big thing*, Pensions & Investments (July 2014) (<http://www.pionline.com/article/20140717/ONLINE/140719890/emerging-markets-portfolio-globalization-the-next-big-thing>)
- United Nations Conference on Trade and Development, *World Investment Report 2014: Investing in the SDGs: An Action Plan* (2014) (<http://unctad.org/en/pages/PublicationWebflyer.aspx?publicationid=937>)
- World Bank Development Indicators database

### Assessing Leverage Ratios in Development Finance

- Climate Investment Funds, “Assessing “Leverage” in the Climate Investment Funds” ([https://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/Assessing\\_leverage\\_in\\_the\\_CIF.pdf](https://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/Assessing_leverage_in_the_CIF.pdf))
- World Economic Forum, “The Green Investment Report” ([http://www3.weforum.org/docs/WEF\\_GreenInvestment\\_Report\\_2013.pdf](http://www3.weforum.org/docs/WEF_GreenInvestment_Report_2013.pdf))

### Market-rate investor priorities and models

- MIGA, “World Investment and Political Risk” 2013 (<http://www.miga.org/resources/index.cfm?stid=1866>)
- Sarona, “Growth That Matters” (2014) (<http://www.saronafund.com/docs/Values%20report%20FINAL.PDF>)

### Environmental, Social and Governance (ESG) resources and international conventions

- CDC Toolkit on ESG for Fund Managers
- FIRST for Sustainability
- FMO ESG Risk Management Tool for Private Equity
- The IFC Performance Standards
- The IFC Environmental, Health and Safety Guidelines



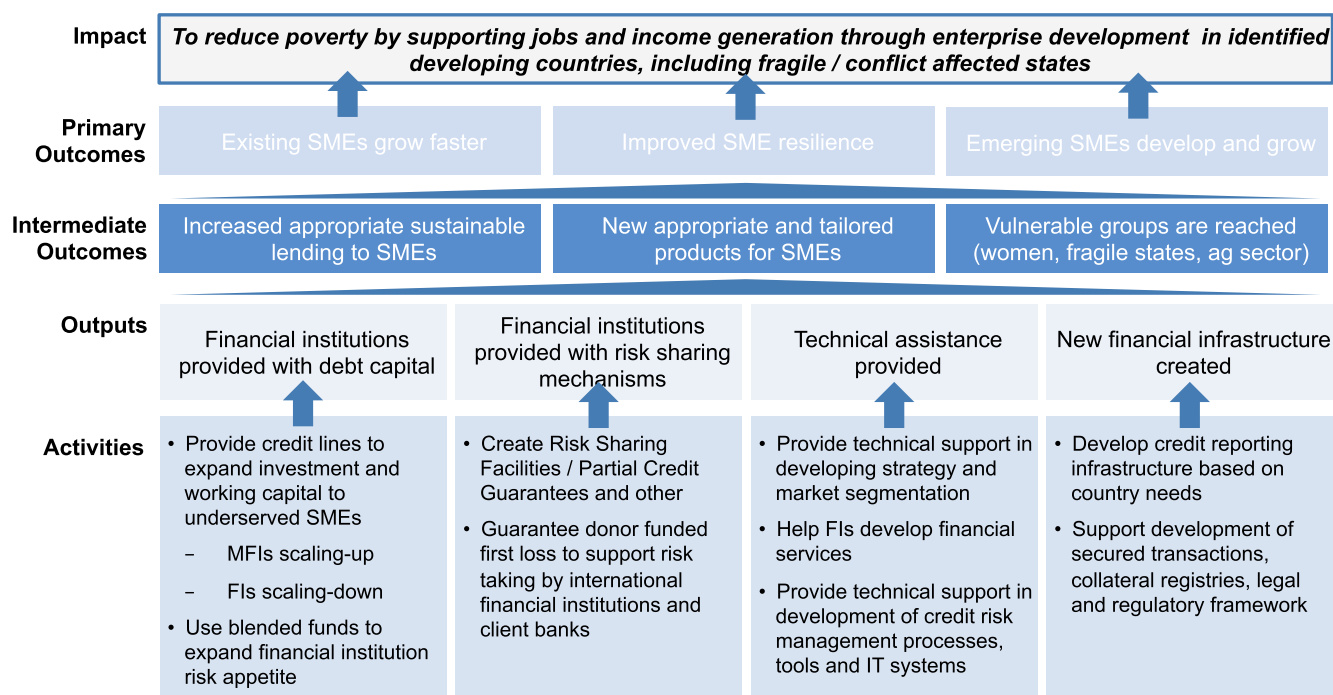
- The IFC Environmental and Social Management Toolkit for Private Equity Funds
- The Equator Principles
- The UN Global Compact
- The UN Global Reporting Initiative
- The UN Principles for Responsible Investment
- The US Private Equity Council Responsible Investment Guidelines
- The EDFI Principles for Responsible Financing and Guidelines for Fund Investments
- The ILO Fundamental Conventions
- The UN Convention against Corruption
- The UN Anti-Corruption Toolkit
- The OECD Anti-Bribery Convention
- The Extractive Industries Transparency Initiative
- The Financial Action Task Force
- The OECD Principles of Corporate Governance
- The DFI Toolkit on Corporate Governance
- The International Private Equity and Venture Capital Valuation Guidelines

## Appendix 2 - References for Development Funders

Critical staff to engage are those with knowledge and connections in five particular areas:

- Private sector partnership
- Finance and investment
- Portfolio and risk management
- Legal frameworks
- Monitoring and evaluation

### Appendix 2.1: Example Theory of Change for a Development Funder investing in a Financial Institution



## Appendix 2.2: Template for Setting Initial Goals

**Vision** \_\_\_\_\_

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↓

Criteria	Goals for Next 3 Years
<b>How much</b> Blended Finance activity will your organization sustain per year?	<input type="checkbox"/>
<b>Who</b> will your organization work with to scale its Blended Finance activity?	<input type="checkbox"/>
<b>What</b> activities will your organization pursue to scale Blended Finance activity at home and abroad?	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>

## Appendix 2.3: for Assessing Gaps in Capacity for Blended Finance

Dimension	Key Strengths	Barriers/Gaps
Structure & governance	• • •	• • •
People & culture	• • •	• • •
Tools & processes	• • •	• • •
External engagement	• •	• •

## Appendix 2.4: Illustration of Prioritization of Near-term Capacity Building

Dim.	Key capability requirements	Importance to Near-Term	Rationale
Structure & governance	Organizational structure that is supportive of scaling Blended Finance	HIGH	Key to build early to support transaction execution and portfolio risk management
	Appropriate authorities to deploy Blended Finance instruments <sup>1</sup>	HIGH	Approval process well underway
People & culture	Staff with baseline level of financial literacy, understanding of how and when to use Blended Finance, and ability to work with private investors	HIGH	Need to empower staff with baseline knowledge & tools to lay foundation for future growth
	Organizational culture that promotes behaviors to scale Blended Finance, including entrepreneurship and risk-taking	HIGH	Need to galvanize support and empower staff to support future growth
	Advanced technical expertise to assist program officers with structuring complex Blended Finance transactions and managing Blended Finance portfolio	MEDIUM	More critical once new, more complex models widely introduced
Tools & processes	Formalized processes and best practices for surfacing, structuring, and executing Blended Finance transactions	MEDIUM	More critical once new, more complex models widely introduced
External engagement	Robust and streamlined reporting and impact evaluation processes to accommodate Blended Finance requirements	HIGH	Should establish norms and best practices upfront; key for staff buy-in
	Support and buy-in from Canadian government and public	HIGH	Ongoing political support will be critical to sustaining Blended Finance agenda
	Proactive deal origination process through formal and proprietary channels	LOW	Already have pipeline of near-term deals ready to go
	Network of informal advisors across public and private investment spheres	MEDIUM	Should build in-house capacity before substantively engaging senior advisors

## Appendix 2.5: Illustrative Outline of an M&E Process for Blended Finance Investment

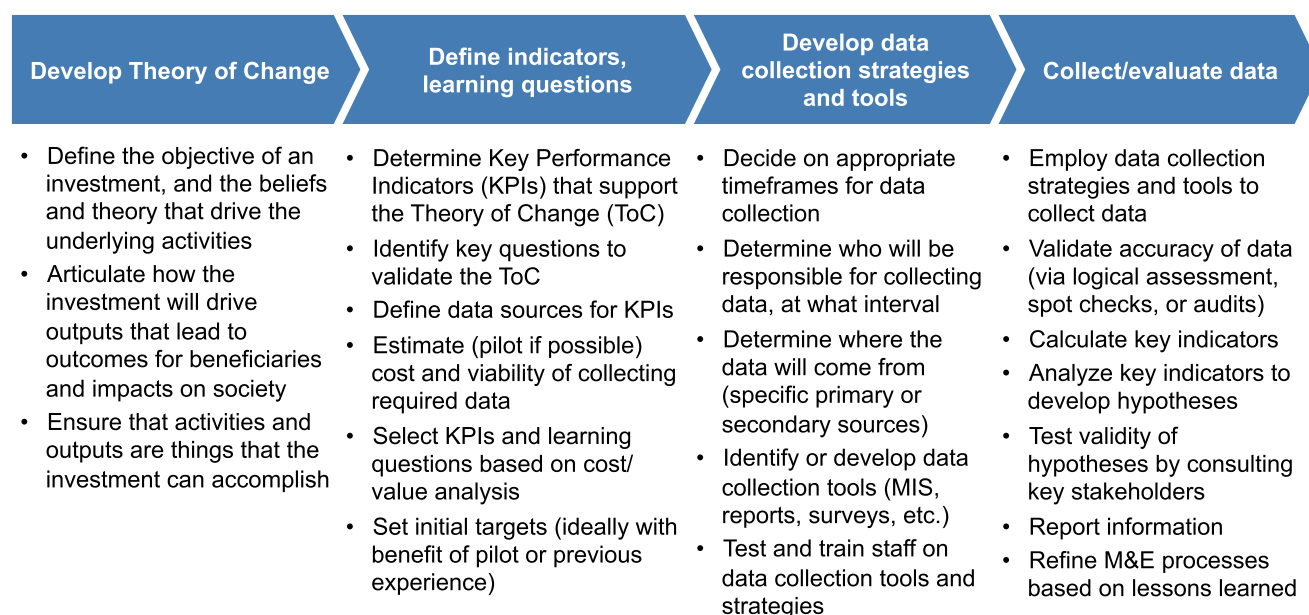
Risk Category	Rating (Low, Medium, High)	Description
Financial		<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
Operational		<input type="checkbox"/>
Macroeconomic		<input type="checkbox"/>
Strategic		<input type="checkbox"/>
Reputational		<input type="checkbox"/>
Environmental		<input type="checkbox"/>
Social		<input type="checkbox"/>
Governance		<input type="checkbox"/>

## Appendix 2.6: Questions for Assessing Additionality of Blended Finance

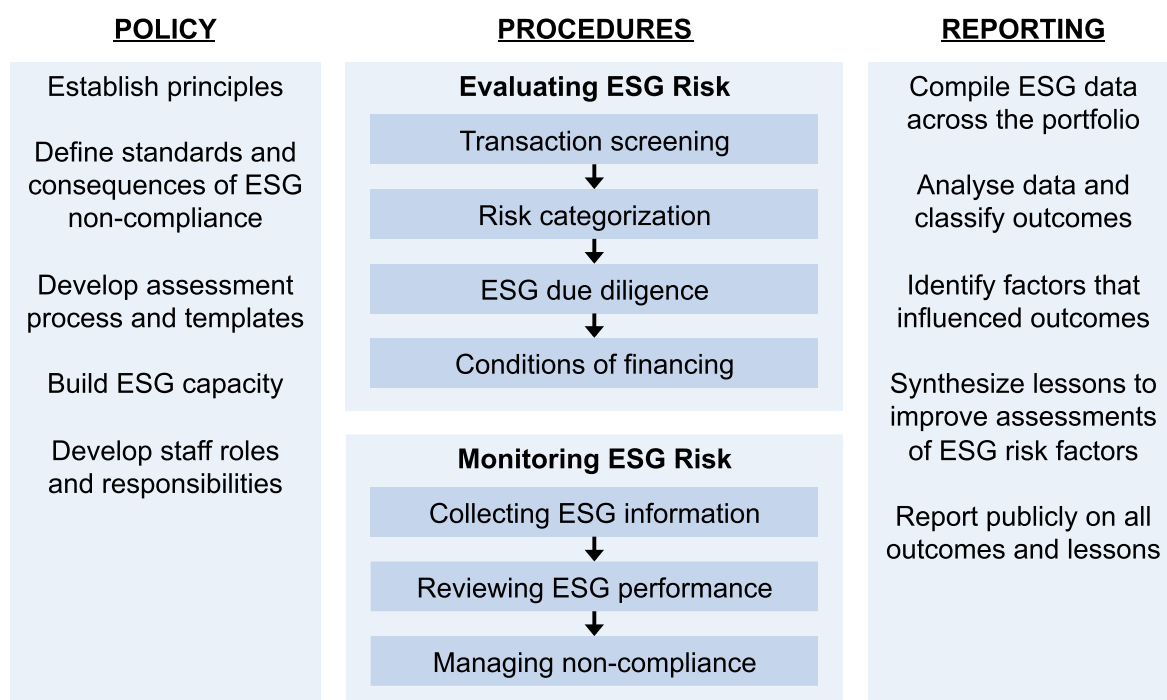
Type of Additionality	Evaluation questions
Financial	Does the project create financial additionality or crowd out private investment?
Economic	When the purpose of the public component goes beyond financial additionality, are there any social and economic benefits that are provided by the grants separate from those resulting from other types of project financing?
Demonstration effect	Does the project have an impact on the probability of subsequent private sector funded projects in the same area?
Project scale	What is the effect of the public component on the scale of the operation or number of project beneficiaries?
Project quality and standards	What is the effect of the public component on the quality of outcomes as well as the project's likely success?
Project timing	What is the effect of the public component on the timing of the operation and delivery of benefits?
Innovation	What innovations in the project result from public support and what are the benefits of that innovation?
Benefits sustainability	What are the spin-off effects of the public component that may improve the sustainability of the project such as influencing reform in the partner country?

Source : Mustapha, S; Prizzon, A.; Gavas, M. Topic Guide: Blended finance for infrastructure and low-carbon development. Evidence on Demand, UK (2014)

## Appendix 2.7: Illustrative Outline of an M&E Process for Blended Finance Investment



## Appendix 2.8: Approach to Developing an Environmental and Social Monitoring System (ESMS)



Source : Adapted from IFC's FIRST for Sustainability.

[http://firstforsustainability.org/risk-management/managing-environmental-and-social-risk-2\\_2/components-of-an-esms/](http://firstforsustainability.org/risk-management/managing-environmental-and-social-risk-2_2/components-of-an-esms/)

## Appendix 2.9: Illustration of a Hiring Plan for Blended Finance

Where to look:	Examples:	Potential approach:
Local universities	<ul style="list-style-type: none"> <li>McGill University</li> <li>University of Toronto</li> <li>Queen's University</li> </ul>	<ul style="list-style-type: none"> <li>Conduct presentations, panels, and/or other events at top schools</li> <li>Liaise with student leaders and professors to identify high-potential candidates</li> </ul>
International business & policy schools	<ul style="list-style-type: none"> <li>University of Ottawa, Teller School</li> <li>HEC Montreal</li> <li>University of Toronto, School of Mgmt.</li> <li>York University, Schulich School</li> </ul>	<ul style="list-style-type: none"> <li>Conduct presentations, panels, and/or other events at top schools</li> <li>Post openings on alumni websites, leveraging DFATD alumni where possible</li> </ul>
Management consulting firms & alumni	<ul style="list-style-type: none"> <li>Bain &amp; Company</li> <li>Boston Consulting Group (BCG)</li> <li>KPMG</li> <li>Stratos Consulting (sustainability-focused)</li> </ul>	<ul style="list-style-type: none"> <li>Conduct formal recruitment through secondment programs</li> <li>Post openings on alumni websites, leveraging DFATD alumni where possible</li> </ul>
Impact investing funds & supporting organizations	<ul style="list-style-type: none"> <li>Purpose Capital</li> <li>MaRS Centre for Impact Investing<sup>1</sup></li> <li>Acumen Fund (staff and fellows)</li> <li>Global Impact Investing Network</li> </ul>	<ul style="list-style-type: none"> <li>Secure referrals through DFATD and GoC staff networks</li> <li>Explore formal partnerships for secondments</li> </ul>
Investment bank social finance programs	<ul style="list-style-type: none"> <li>RBC Generator Fund</li> <li>JPMorgan Social Finance</li> <li>Deloitte Canada</li> </ul>	<ul style="list-style-type: none"> <li>Secure referrals through DFATD and GoC staff networks</li> <li>Explore formal partnerships for secondments</li> </ul>

People & culture

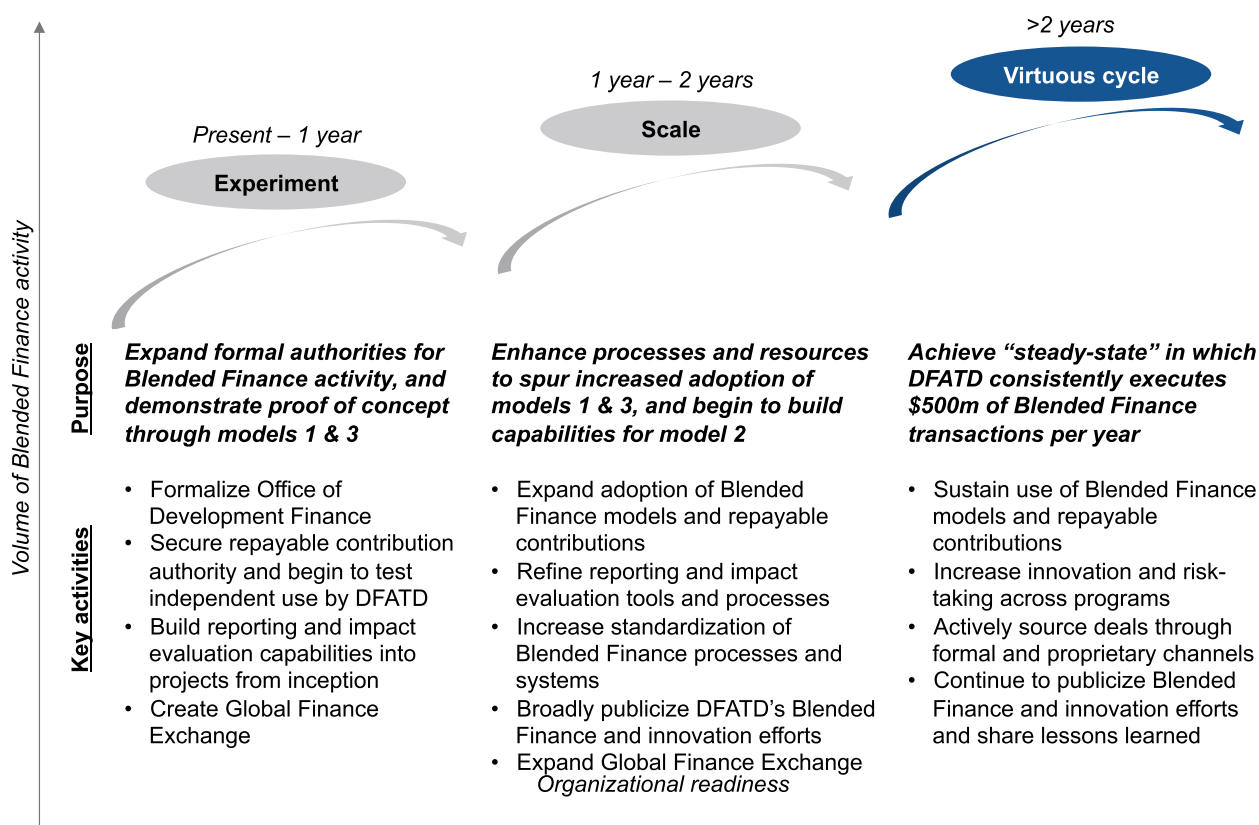
## Appendix 2.10: Illustration of Training Modules to Support Blended Finance

Capital structure & risk	Introduction to securities	Introduction to debt, equity, hybrid securities, and select derivatives (e.g., partial and full credit guarantees)
	Capital structures and financial leverage	Introduction to capital structure and the factors that influence it (e.g., business risk, tax exposure, market conditions)
	Risk and the cost of capital	Overview of how to calculate Weighted Average Cost of Capital, including costs of debt and equity
Financial markets	Overview of emerging markets financing landscape	Overview of key public and private providers of financing for investment in emerging markets, including aid agencies, DFIs, banks, and institutional investors
	Opportunities and challenges of investing in emerging markets	Synthesis of key opportunities (e.g., less competition for deals, high growth) and challenges (e.g., lack of transparency, currency risk) that private investors encounter when investing in emerging markets
Blended Finance models	Models overview	Overview of six broad Blended Finance models, including typical uses and instruments
	DFATD Blended Finance strategy and toolkit	Deep-dive on priority models for DFATD, and overview of how DFATD's financial instruments may be used as grants or to mimic traditional securities within these models
<b>Practicum: Partnering effectively with private investors</b>	<i>"Day in the life" of a private investor</i>	<i>Brown bag lunches or site visits with a series of private investors to understand how different private investors think about investing in emerging markets</i>

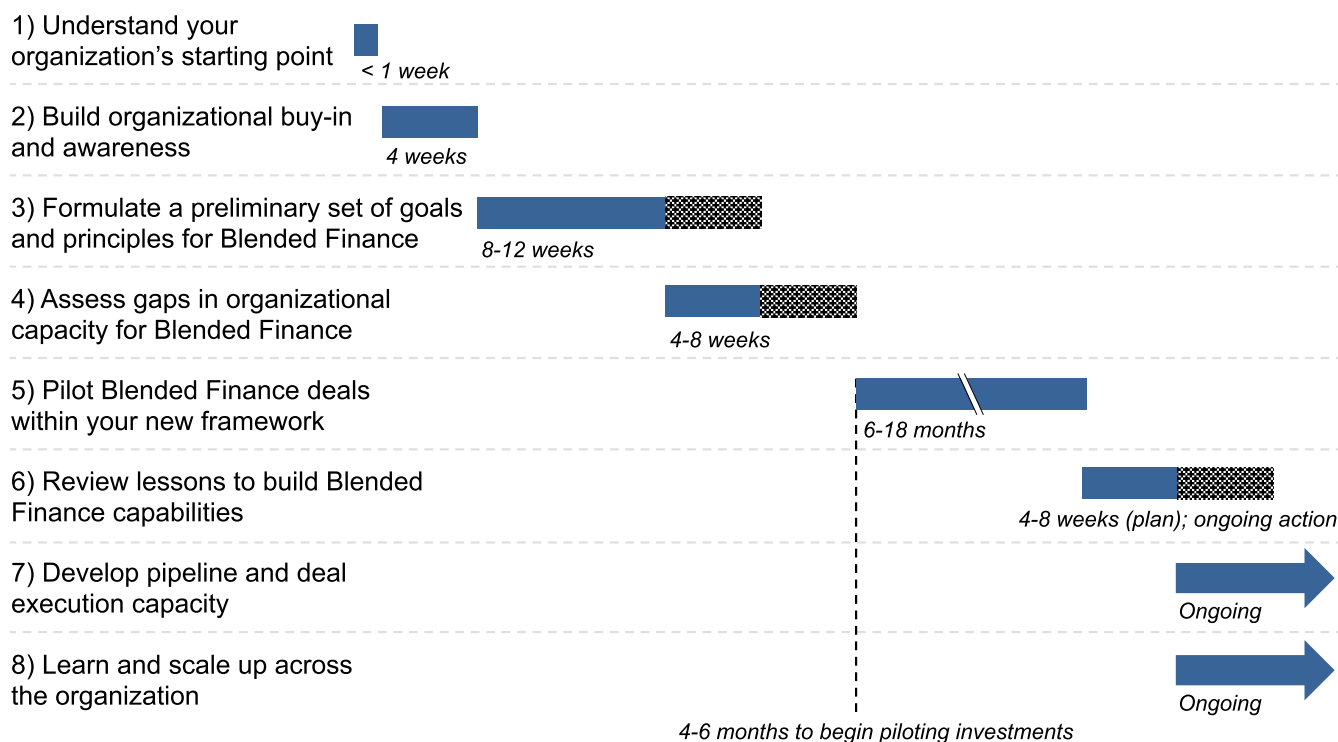
People & culture



## Appendix 2.11: Illustration of the DFATD vision for Blended Finance



## Appendix 2.12: Timeline for Implementing the Blended Finance framework



Appendix 3 - Blended Finance Templates

Blended Finance Scorecard

<p><b>Activity</b></p> <p>1. Based on the Blended Finance approaches, is the organization already engaged in Blended Finance? If so, which of the models does your organization employ?</p> <p>2. If the organization is already engaged in Blended Finance, what proportion of your issue areas (e.g., neonatal health, SME finance) incorporate at least one Blended Finance project?</p> <p><b>Permission</b></p> <p>3. What aspects of private sector engagement/investment/finance are permitted by the organization charter and/or by the national statutes? (e.g., does your organization have the authority to use financing instruments such as concessional loans, equity investments, or loan guarantees?)</p> <p><b>Awareness</b></p> <p>4. What is the level of awareness amongst staff regarding the opportunities presented by investing with or alongside the private sector for development outcomes?</p> <p><b>Interest</b></p> <p>5. How much of the organization’s financing activity involves Blended Finance (% of capital funding)?</p> <p><b>Capacity</b></p> <p>6. How prevalent are financial skills and experience within the organization, particularly related to structured or public-private funds?</p> <p>7. How would you rate the effectiveness within the organization’s engagement and ability to partner with private investors?</p> <p>8. Are there motivated and well-positioned staff within the organization who are interested in engaging with private investors? If so, how would you rate their level of interest in doing so?</p> <p><b>Impact</b></p> <p>9. How does your organization track impact as a function of the level of resources invested (e.g., lives impacted or CO<sub>2</sub> abated per \$ invested)?</p> <p>10. Please indicate the top three most important impact metrics for your organization, and current level of impact as measured in the most recent year for which you have data (e.g., # of smallholder farmers positively impacted, # of lives saved through access to essential medicines, etc.).</p>	<div><div></div><div>None</div></div> <div><div></div><div>1 or 2</div></div> <div><div></div><div>Less than 1/2</div></div> <div><div></div><div>More than 1/2</div></div> <div><div></div><div>All</div></div> <div><div></div><div>None</div></div> <div><div></div><div>Limited</div></div> <div><div></div><div>Moderate</div></div> <div><div></div><div>Significant</div></div> <div><div></div><div>Universal</div></div> <div><div></div><div>None</div></div> <div><div></div><div>0-10%</div></div> <div><div></div><div>11-20%</div></div> <div><div></div><div>21-50%</div></div> <div><div></div><div>51%+</div></div> <div><div></div><div>None</div></div> <div><div></div><div>Limited</div></div> <div><div></div><div>Moderate</div></div> <div><div></div><div>Significant</div></div> <div><div></div><div>Universal</div></div> <div><div></div><div>Ineffective</div></div> <div><div></div><div>Poor</div></div> <div><div></div><div>Average</div></div> <div><div></div><div>Good</div></div> <div><div></div><div>Excellent</div></div> <div><div></div><div>None</div></div> <div><div></div><div>Low</div></div> <div><div></div><div>Moderate</div></div> <div><div></div><div>High</div></div> <div><div></div><div>Very High</div></div>
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Setting Initial Goals

Vision

Criteria	Goals for Next 3 Years
	<div></div>
	<div></div>
	<div><div></div><div></div><div></div></div>

## Assessing Gaps in Capacity for Blended Finance

Dimension	Key Strengths	Barriers/Gaps
Structure & governance	<ul style="list-style-type: none"> <li>•</li> <li>•</li> <li>•</li> </ul>	<ul style="list-style-type: none"> <li>•</li> <li>•</li> <li>•</li> </ul>
People & culture	<ul style="list-style-type: none"> <li>•</li> <li>•</li> <li>•</li> </ul>	<ul style="list-style-type: none"> <li>•</li> <li>•</li> <li>•</li> </ul>
Tools & processes	<ul style="list-style-type: none"> <li>•</li> <li>•</li> <li>•</li> </ul>	<ul style="list-style-type: none"> <li>•</li> <li>•</li> <li>•</li> </ul>
External engagement	<ul style="list-style-type: none"> <li>•</li> <li>•</li> </ul>	<ul style="list-style-type: none"> <li>•</li> <li>•</li> </ul>

## Monitoring and Evaluation Process for Blended Investment

Risk Category	Rating (Low, Medium, High)	Description
Financial		<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
Operational		<input type="checkbox"/>
Macroeconomic		<input type="checkbox"/>
Strategic		<input type="checkbox"/>
Reputational		<input type="checkbox"/>
Environmental		<input type="checkbox"/>
Social		<input type="checkbox"/>
Governance		<input type="checkbox"/>



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