FOF Blended Finance Approach and Roadmap

Who We Are

Future of Fish (FoF) is a U.S.-based, global non-profit organization dedicated to the long-term resilience of fishing communities. We focus on building collaborations that unlock resources to benefit fishers, coastal communities, supply chain companies, and consumers in order for fisheries to be more environmentally and economically sustainable for the people that rely on them. Future of Fish strives to build and sustain vibrant fishing communities worldwide. We do this by identifying opportunities to align market forces to change behavior and implement best practices of supply chain businesses to foster sustainable small-scale fisheries. We research, create, and evaluate new models and scalable solutions to generate systemic change in fisheries through a progression of coordinated activities whereby fishery communities have improved economies, fishers and seafood workers have improved social equity and livelihoods, and natural resources are managed more sustainably.

What We Do

Future of fish envisions a seafood system that includes small scale fishers and their communities, allowing them to capture opportunities and build resilience.

As the seafood system intermediator, Future of Fish promotes holistic solutions for Small Scale Fisheries (SSFs), that are focused in integrating natural and human capital in market-based solutions:

- By **applying human-centered design** to empower women and men in fisheries communities to drive their own sustainable development by making the links between business, livelihoods and ecosystems.
- By **developing valued-added products** branded as storied and traceable fish to connect with and increase the experience of conscious consumerism.
- By **creating systemic, long-term, multi-stakeholder collaborations**, and **considering bold and risk tolerant capita**l.

Future of Fish considers that blended finance approaches offer an opportunity to cover the finance gap in SSF, which are traditionally considered too small and too risky for investors. Our main goal of defining blended finance strategies is to increase the flow of capital by combining investing with capacity building and market-based solutions integrated in a modernized and collaborative sustainable seafood system.

What is Blended Finance

The definition of FOF's Blended Finance Approach and Roadmap follows guidelines and builds from reports of Convergence[1], Conservation Finance Alliance[2], FAO[3], WEF[4], UNDP's BIOFIN[5], GIIN[6], and OCDE[7].:

Blended finance is an emerging strategy to leverage philanthropic and development capital to crowd-in private investment in the pursuit of sustainable development goals.

- Blended finance is an **investment structuring approach** that combines public and private capital, to reduce risks and for institutions to invest together while achieving their own objectives (return, risk and impact)
- Blended finance exists to mobilize investment to SDG projects that are bankable "as is" or require a level of risk mitigation to make them bankable.
- Blended finance is characterised by:
  - **Impact**: supporting impact-based strategies to contribute to achieving the SDGs;
  - **Return**: investments that must generate a positive financial return;
  - **Limit risks:** public and/or philanthropic financing serves as catalytic capital that reduces and limits risks to realise returns in line with market expectations; and
  - **Leverage**: leveraging and crowding in private investment, to increase scale and impact
- Existence of different type of blended finance archetypes:
  - The structure is tailor-made to the problem and the solution proposed.
  - The combination of instruments will depend on the market and system level of development, and the level of risk perception and how to mitigate it.

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[1] Convergence. "Blended Finance 101." Convergence. 2018. https://www.convergence.finance/blended-finance
Convergence. How to Mobilize Private Investment At Scale in Blended Finance.
https://assets.ctfassets.net/4cgqlwde6qy0/5O3FEqDOdXzf2rkEu5XRaP/9a02f9dc9953da94d2a3a537859af283/How_to_Mobilize_Private_Sector1.pdf
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http://s3.amazonaws.com/aws-bsdc/BSDC_and_Convergence__The_State_of_Blended_Finance__July_2017.pdf

[2] Meyers, D., Bohorquez, J., Cumming, T., Emerton, L., Heuvel, O.v.d., Riva, M., and Victurine, R. Conservation Finance: A Framework, Conservation Finance Alliance, 2020.

[3] Series of Blue Finance Guidance Notes, FAO. Blended finance

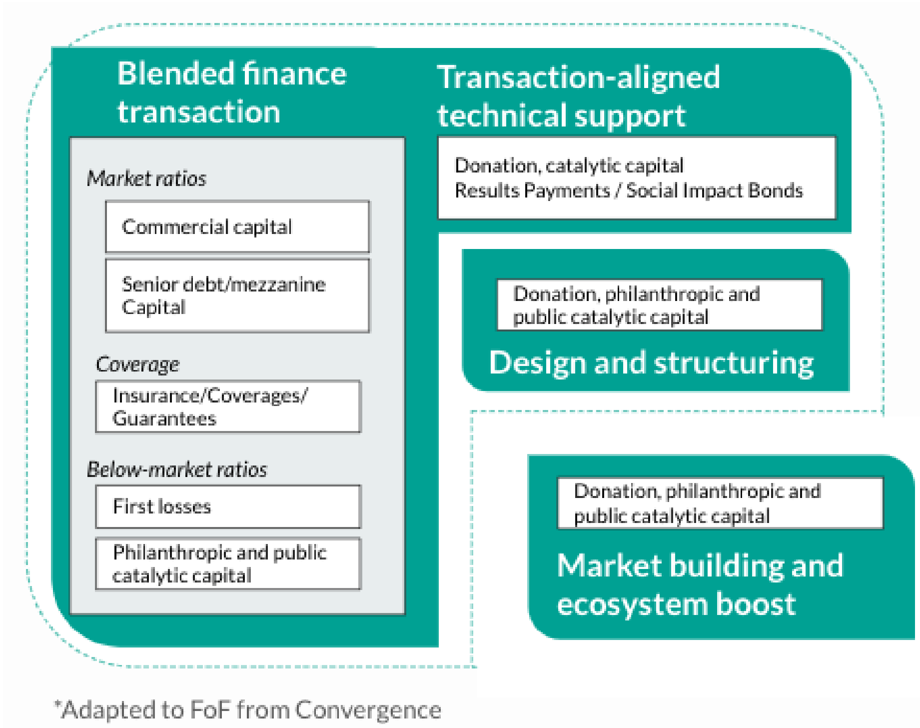
[4] WEF. Blended Finance How to guide.
http://www3.weforum.org/docs/WEF_How_To_Guide_Blended_Finance_report_2015.pdf

[5] BIOFIN, BIOFIN Catalogue of Finance Solutions. UNDP. Accessed January 10th, 2020.
https://www.biodiversityfinance.net/finance-solutions

[6] GIIN, A Resource_for_Structuring_Blended_Finance_Vehicles, 2018.

[7] OECD Development Assistance Committee. "OECD DAC Blended Finance Principles for Unlocking Commercial Finance for the Sustainable Development Goals." OECD. October 2017. https://www.oecd.org/dac/financing-sustainable-development/development-finance-topics/OECDBlended-Finance-Principles.pdf

Figure 1 - Blended Finance Archetypes (Adapted to FoF from Convergence)



There are multiple archetypes, which are defined per the combination of investment instruments and supporting mechanisms, which traditionally have been used by development funders. However blended finance archetypes are designed with the aim of attracting and supporting private sector investors by managing risks and building markets, supporting the capital flow to quasi bankable projects.

Table 1 - Blended finance variables and descriptions (Adapted to FoF from WEF frameworks)

Variable	Description	Categories
Funder Mandates	The remit an individual funder follows when allocated funds.	● Innovation ● Environment ● Social impact ● Economic development
Funder Types	The classification of a funder, which influences the type of capital mechanism employed and their funding mandate	● Development funders include donor agencies, governments, development finance institutions and public philanthropic foundations. ● Philanthropic funders include private foundations, venture philanthropy institutions and angel investors that provide catalytic capital. ● Financial intermediaries are institutions that facilitate the channelling of funds between investor and investee companies or projects, and between lenders and borrowers. ● Private sector capital providers/investors/actors are diversified financial institutions and intermediaries,

		institutional investors (such as pension funds, insurance companies and sovereign wealth funds) and high net-worth individuals. It includes impact and sustainability investors. ● Supply Chain and corporates that provide investments in their supply chain.
Instruments	The type of capital or other resources provided to recipients by the funder Are instruments of direct funding to a project or company, or pool of projects or companies, fund or facility, at various stages.	● Concessional/Flexible debt is debt with favourable terms for the borrower relative to market rates and risks (e.g. longer tenor, lower interest rate). ● Grants are financial awards with no expected repayment or compensation over a fixed period of time. ● Junior equity refers to equity investments accepting lower financial returns in exchange for positive development impact; it has the lowest-priority claim on a company's dividends and, in case of bankruptcy or liquidation, on a company's assets. ● Market rate debt is borrowed money to be repaid, typically with interest. Senior equity refers to ownership in a company where value is determined at the time of investment. ● Subordinated/Junior/Mezzanine debt is debt which, in the event of default, is repaid only after all senior obligations have been satisfied. ● Trade finance is debt financed through lending institutions or directly through supply chain participants.
Supporting mechanisms	Are a set of indirect mechanisms that attract private capital by mitigating risk to address investor barriers across the entire life cycle of a project or enterprise.	● Technical assistance: Advisory services that support the investee project or enterprise to function more effectively and efficiently, creating the potential for long-term commercial sustainability and ultimately improving the investment viability. ● Risk underwriting: Unfunded risk underwriting tools that improve the credit rating by offering better terms and/or additional assurance that investors will be repaid amid unforeseen credit events, effectively shifting the risk-return profile of an investment opportunity enough to enable private investors to commit capital ● Market incentives: Risk management tools that can reduce investor risks from excessive market volatility while seeking to deliver positive returns and limit the downside risk of investing in emerging and frontier markets; these include local currency swaps, interest rate swaps and credit default swaps
Risks	Risks perceived that are limiting investments. Financial and non-financial risk that generate a possibility of losing money on an investment or business venture	● Corporate risk ● Currency risk ● Liquidity risk ● Political risks ● Credit risks ● Market risks Other non-financial risks specially considered in blended

		finance strategies ● Climate change risks ● Early-stage business model risk ● Lack of bankable pipeline ● Lack of standard financial products ● Project “go/no go”: ● Small and segmented investment options
Target investees	Type of recipient to which the funder can allocated funds	● Individuals ● Small and medium enterprises ● Cooperatives/Associations ● Large enterprise ● Start-ups ● Special Purpose Vehicles ● Financial institutions ● Funds
Maturity Segment	This is the stage of a project or company in the investment life cycle per specific barriers raised to deploying private capital.	● 1- Preparing, when significant initial costs are encountered, coupled with uncertain viability and visibility into whether a project will be approved. ● 2. Formation / Pioneering, when entrepreneurs are experimenting with new ideas, products and business models in early-stage investments, and it is difficult for private investors to justify the time and funds to support innovation. ● 3. Facilitating, when ongoing projects and enterprises requiring capital to fund expansion and/or existing operations may offer strong development returns, but the risk-adjusted returns for private investors may be below commercial thresholds. ● 4. Anchoring, when mature or credible enterprises/projects seek capital for scaling or replicating in critical areas of development, but capital providers may be hesitant to invest because of real and perceived macro risks ● 5. Transitioning, when projects and enterprises are at a very mature stage, suited for commercial viability and access to commercial markets, but many private investors lack access to a pipeline of deals that are sufficiently sizeable and scalable to fit within investor mandates.

Future of fish approach to Blended Finance:

Future of fish envisions blended finance as the tool to underpin SSF under the development of holistic market-based solutions for promoting the articulation of a modernised seafood system that considers all the right components to embrace positive environmental and social impact and responsible behavior.

The definition of blended finance is that its capital structure attracts private capital, by creating a risk-return combination acceptable for the private sector. Therefore, to engage private investors, blended finance must produce assets that private investors are motivated to invest in. However, currently, most investment opportunities in SSF are not bankable and do not have an attractive risk-return profile for private sector investors. Blended finance is required to improve the risk return of projects with development impact to comparable market rates. Three significant challenges need to be addressed:

- absolute risk for private investors must be acceptable;
- risk-return profile for investors must be at market prices; and
- reach sizable tickets by pooling of assets and projects across countries and sectors to allow improved diversification and scale for investors.

Considering the current low level of maturity of the majority of SSF with non-bankable projects, the blended finance archetypes need to be intensive in catalytic capital for market building including grants for: research and program design as well as technical assistance for capacity building to increase volume of SSF opportunities and investment deal flow; and as first loss and guarantees to increase investment flow.

The ultimate goal of blended finance is to crowd-in private investment. The process of transitioning SSFs from philanthropic and development support toward private investment is characterized by:

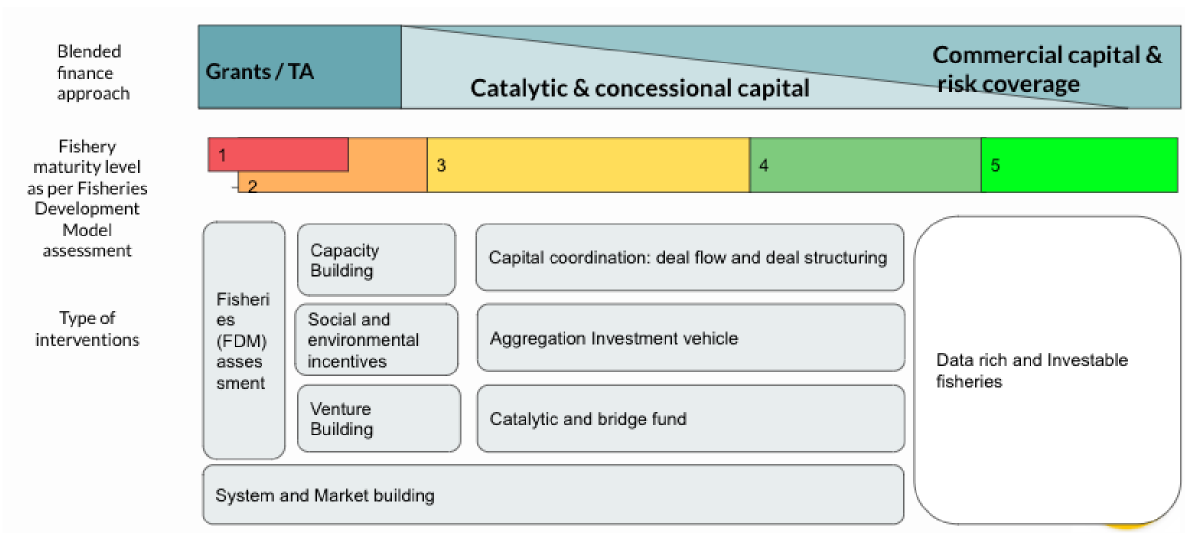
- **Tailoring:** Delivering solutions that are truly fit for purpose - tailored to specific contexts, conditions and in consideration of the SSF's maturity stage. The risk profile, concessionality and hedging of the investment archetype must be according to the maturity stage and market development of the SSF, and aligned to the promotion of environmental and social improvements.
- **Patience:** Any investment in the first maturity phases needs to be done with a long term plan that includes technical assistance and market building grants to provide sufficient enabling conditions including: formalization, associativity and organization, technical capacities, access to assets, business acumen, and governance. Additionally, a flexible and pragmatic design should be considered, with appropriate sequencing, balancing urgent conservation and social priorities with long-term goals.
- **Limiting risks:** While blended finance approaches to SFF need to be risk tolerant, risks can be limited, controlled or mitigated by the combination of instruments within the blended finance approach and the right capacity building and market building support that must be included in the blended finance model with grants and catalytic finance. Typical risks affecting SSFs are:
    - operational risks related to harvesting, production, logistics;
    - governance and organizational risks related to the investee organizations, buy-in of the communities, communications and reputational aspects, leadership and decision-taking process;
    - market, credit and financial risks associated with market access, profitability and general economic impacts; and
    - political and social risks related to the local environment and legal system.
- **Aggregation:** Investors often have minimum transaction sizes to be met. Investment strategies should consider how to aggregate investment opportunities across multiple fishers / cooperatives.
- **Investment readiness:** As the SSF matures, entrepreneurs and business leaders will need to become more skilled in management and marketing. Philanthropic and development organizations should

consider investing in or funding intermediaries that can train and provide support for best practices in seafood supply chains and improve the management capacity of organizations.

- **Additionality:** Financial additionality exists when commercial financiers would not have invested in a development activity without public-sector intervention. As the market matures, consider whether philanthropic and development support are additional to private investment but do not over-subsidize the market.
- **Measuring performance and impact:** The development strategy would need to align triple impact goals with the goals of investors (both public and private) implying a mechanism to measure and manage SMART impact indicators to report to funders.
- **Manage stakeholder engagement and buy-in:** Ensuring that key stakeholders (both the intended beneficiaries and funders, supply chain actors, buyers, and cross-sector partners) are closely involved in the process of identifying, selecting and implementing the blended finance solutions is one of the most critical factors for success. Additionally, long-term sustainability is highly dependent on investing in local technical, managerial and administrative capacity.

Future of fish recognises key instruments to develop the future of seafood systems as SSF's mature through the utilization of its FDM model (FOF classifies the maturity level in 1 to 5 levels, depending of the assessment of the five streams of the FDM) with "immature" characterized by, for example, informality and poor associativity, to "mature" with organization and leadership in business entities leading to sustainable, data rich fisheries (see Figure 2).

Figure 2: Interventions for the blended finance approach depend on the level of maturity of the SSF. Ideally the blended finance approach considers a combination of the interventions in supporting the same SSF and its evolution, thus the process itself limits and reduces the risks of investment.



The following roadmap provides potential strategies to support fishery interventions which consider an instrument or a combination or sequence of instruments through a blended finance approach. Each instrument responds to solve or support a selection of barriers of SSFs that may prevent or impede maturity of the fishery, and are meant as a starting point for further ideation with interested organizations including finance institutions, grant providers and private investors.

Future of Fish Blended Finance Roadmap:

Developing the future of seafood systems may consider different structures, depending on the level of the market development, fisheries maturity level and the structure and strength of the SSF organizations, and other associated risks. Future of Fish's roadmap to design blended finance strategies follows the OECD five principles to guide development of blended finance approaches:

- Anchor blended finance use to a development rationale;
- Design blended finance to increase the mobilisation of commercial finance to ensure additionality, seek leverage, address market failures, and focus on commercial sustainability;
- Tailor blended finance to local context;
- Focus on effective partnering for blended finance; and
- Monitor blended finance for transparency and results.

Blended finance general roadmap:

The following is a general roadmap to build a blended finance approach to a generic project, under a systems and multistakeholder perspective, without getting into the details of the specific financial or hedging instruments to be used and without giving any guidelines in how to set up or raise a fund. The roadmap is defined from a system intermediary or "developer" perspective and aims to define the steps of a blended finance approach. Through the process it's important to identify the stakeholders to engage and design the approach in collaboration, so the strategy incentivizes partners. It's important to engage and design with investors (i.e. private, public, insurers, etc.) who will need to develop their own technical work to meet the needs of the platform.

PHASE 1 - SCOPING

The goal is to understand the context and perform a problem analysis to solve the following questions:

- What are the specific challenges and opportunities you are trying to address?
- What are the key social, political, and economic drivers?
- What are the constraints that need to be resolved to address the drivers?
- What are the key national strategies where we can build on?

1.1 Identify and understand the fishery profile and context.

The goal is to understand the context and main barriers, assessing the fisheries status and stakeholders. Future of Fish applies its Fisheries Development Model, that analyzes the fishery considering 5 streams: value chain, livelihoods, governance, data and technology and deal structuring. The assessment allows us to understand the maturity level of the SSF.

Instead of running a exhaustive diagnosis, this phase can be done via a quick scoping exercise that targets the following (CHECK this scoping tool - background mapping and data):

- Context setting of the community and supply chain

- Mapping the key actors of the supply chain, and that deliver services in the community.
- Understanding and drawing of the key flows: monetary, product and labour. Who intervenes, how and when?
- Do a quick business and finance profile of the target organizations. Collecting key data (at least via informal interviews).

1.2 Define the problem

Once the local context is understood, the goal is to understand the definition of the problem we are trying to solve.

- **Perform a value chain analysis:** Identify the underlying issues leading to the problem specifically analysing: Level of community engagement, organizational structure and governance, barriers and limits of the access to finance, assets and liabilities, tenure, skills, capacities and markets, etc. Consider a brief community needs assessment at a livelihood level and environmental assessment.
- **Prioritize the key financing challenges:** Understand the key financing challenges underlying the specific issue to be solved. Analyze financing challenges, across both supply- and demand-side, involving limited capital, absence of risk diversification, and misaligned incentives.
- **Prioritize the non-financing challenges:** Understand the key non-financing challenges underlying the issue. Analyze financing challenges, across both supply- and demand-side, involving governance, production capacity, distribution channels, infrastructure, etc.
- **Understand and align with National strategies:** Specifically the national programs and resources available for conservation and climate change goals, as well as socio-economic development programs and strategies to reach SDGs

PHASE 2 - DESIGN

The goal of the design phase is to analyse what is the solution and how a blended finance approach is suitable to underpin it. The design phase helps to answer the following questions:

- What are the potential market based-solutions and how can they deliver 3E impacts?
- What type of financial, non-financial and social capital support is needed to support these solutions? What type of support would be required depending on the scale of maturity?
- Who are the key stakeholders including decision-makers and cost-bearers?

In order to understand, in more detail, which solutions might be most appropriate, the following should be explored:

- Engage stakeholders and experts to establish a broad list of existing and potential finance solutions targeting the issues and evaluate how to combine those to serve the market-based solution and create incentives for 3E impacts.
- Elaborate a clear description of each finance solution to allow prioritization based on potential impact and likelihood of success.
- Evaluate and choose a mix of finance solutions addressing: finance, risk, planning/timing, and integration.
- Define the map of actors, goals, barriers and risks.

2.1 Define the solution

Once the problem is defined and considering the priority areas, the market-based solution can then be framed that can underpin human and natural capital to a 3E impact approach.

- **Frame the solution.**
    - High-level seafood system or market-based solution design: what, why, how, who, when; and
    - Define the theory of change, identifying the actions, outcome and impact goals.

- **High-level framework of the key elements to develop the solution.**
    - **National strategies.** Build the solution leveraging national strategies as socio-economic development, gender and social equity, entrepreneurship and trading, etc. This with the objective of aligning incentives and goals, and being able to unlock finance for the solution.
    - **Stakeholders.** Consider key actors and roles in pursuing the theory of change. Think out of the box and beyond the fisheries value chain and check for potential incentives and solutions at a cross-sector and/or community level to increase environmental and social impacts.
    - **Product and final market.** Consider the product mix and the market opportunities, focus on traceability, quality and value-added strategies to position a branded storied product.
    - **Business model**. Consider the business model and the adequate organizational structure; and assess the assets and infrastructure needs.
    - **Incentives**. Consider the social and environmental impact goals related to the market-based solution, and how to integrate economic and social incentives in the model.
    - **Social behavior.** Consider social engagement, leadership and communication challenges.
    - **Capacity building.** What is needed to reach the investment readiness of the SSF involved in the market-based solution
    - **Digital culture.** Data collection and management in the areas of identification and formalization, traceability and business acumen, market penetration, fisheries governance, and financial inclusion and payments.
    - **Investment readiness.** What is the level of credit worthiness of the existing SSF organizations or key stakeholders (anchor value chain firms). Financial statements should be evaluated.
    - **Fisheries governance and enforcement.** Duties, obligations and considerations to define the solution and even integrate it to enhance and improve a responsible fisheries governance system

- **Scope & investment/impact baselines to understand scale and needs**.
    - Potential key 3E indicators
    - Number and profile of stakeholders involved and benefiting from the solution
    - Proforma financial modeling
    - Investment criteria

2.2 Evaluate the potential for blended finance and select the appropriate archetype:

- Engage stakeholders and experts to establish a broad list of existing and potential finance solutions targeting the issues.
- Elaborate a clear description of each finance solution to allow prioritization.
- Prioritize finance solutions based on potential impact and likelihood of success.
- Choose a mix of finance solutions addressing: finance, risk, planning/timing, and integration.

Determine the potential for adopting a blended finance approach and assess what is appropriate: what type of structure, when and how.

The structure is tailor-made to the problem and the solution proposed. The combination of instruments will depend on the market and system level of development, and the level of risk perception and how to mitigate it.

- **Evaluate the risk profile of the solution**
    - Operational, Financial and market risks
    - Climate change and Environmental risks
    - Organizational and operational risks
    - Social and political risks

- **Evaluate the appropriate archetype.** Identify instruments that address key financing challenges and business support. Follow the archetypes depending on needs assessment and the solution needs:
    - Identify the specific archetype and combination of financial and non-financial instruments;
    - Assess whether the combined funding is adequate, what kind of structure, when and how;
    - Define an investment plan according to the solution, and shortlist the instruments by intervention stage;
    - Other instruments, including non-financial tools, may be needed to achieve the desired impact from the blended finance transaction; and
    - Perform additional analyses to identify trade-offs between shortlisted instruments and traditional funding alternatives to finalize instrument selection.

- **Evaluate the roles.** Identify the key actors to build the archetype and determine the instruments needed. Identify barriers and opportunities for each of the actors.
    - Map blended finance actors.
        - Existing/new private players interested in engaging at local and international levels;
        - Finance implications for implementation, legal issues, costs, implementation needs;
        - Define the roles and additionality of private and public sector;
        - Shortlists of available funds/instruments that fit to the archetype; and
        - Public sector roles: local, national and international level.
    - Map market and cross-sector actors.
        - Committing and securing the market if possible;
        - Existing/new private players interested in engaging; and
        - Define the roles and additionality of the private and public sector.

- Map seafood producers and supply chain actors.
    - The actors that are the potential investees; and
    - Related supply chain actors that can be potential anchor firms.
- Map NGOs and capacity building experts:
    - NGOs and capacity building experts in specific strategies that would be needed to deployed to reduce risks and build the system; and
    - Local NGOs and service providers at a local level, that serve as community engagement and communications.
- Map community engagement initiatives:
    - Define the roles and additionality; and
    - Level of engagement and governance.

Figure 3: Evaluation framework for to determine if a blended finance strategy is appropriate for a target funder.

How to evaluate the potential of the blended finance strategy, considering the role, interest and instrument used by each actor? (Adapted by FoF from GIIN report)

<u>General review of MAP of Actors:</u>

1. Role

- What are the core competencies that each stakeholder can contribute to the structuring and implementation of this blended finance structure and during post-investment activities?

2. Impact objectives

- What are my impact expectations, and how will impact be measured and managed?
- Which Sustainable Development Goals am I seeking to address through this investment?
- Is there alignment among stakeholders regarding impact expectations?

3. Risks to mitigate

- What specific type(s) of risk needs to be mitigated (e.g., unproven business model or market, misperceived risk, lack of creditworthiness) in order to attract the capital required?
- How does the provision of the guarantee mitigate the risk(s)?

<u>Evaluation depending on the type of instruments considered</u>

A) <u>If catalytical capital provided</u>

- What is the minimal level of catalytic capital required?
- Is permanent subsidy required, or is subsidy temporarily being provided?
- If the catalytic capital is temporary, at what point will it be withdrawn, and what milestones should be achieved before decreasing coverage?
- Will the guarantee cover the fund or the underlying transactions?
- Will the guarantee cover all investors or only senior investors?
- Is there precedent to justify calculations for the level of catalytic capital required?
- What are the proof points that would signal that catalytic capital is no longer required?
- How should the catalytic tool be priced?
- What is the cost of capital and/or return expectations (e.g., capital maintenance)?

- What measures are in place to avoid moral hazard or market distortion through the provision of catalytic capital?
- Is there a simpler way to design this structure to reduce transaction costs?

Consideration per Role:

For investee:

- What type of risk do the investors see in my business model and have I taken steps to mitigate it (e.g., collateral, financial management processes)?
- Are there additional restrictions that will be placed to deploy the investment?

For investor:

- What is my absolute risk appetite?
- What level of risk will I accept for the proposed rate of return?

For DFI/Catalytic fund:

- What is my expected leverage ratio?
- How will I price the guarantee and manage my own risk in the event a guarantee is called?
- What internal policies and procedures must be in place to provide the guarantee (e.g., approval process, legal documentation)?

B) If Technical assistance provided

- What kind of technical assistance is being provided?
- When is the technical assistance being provided, (e.g., before the investment, during the investment period)?
- Is permanent subsidy required, or is subsidy temporarily being provided? At what point will it be withdrawn, and what milestones should be achieved before decreasing technical assistance?
- How is the technical assistance being funded?
- Is the cost of the technical assistance being incorporated into calculations of financial performance? If not, is there risk of market distortion?

Consideration per Role:

For Technical assistance provider

- Who will receive technical assistance, and how do I ensure additionality of the technical assistance?

For Investor

- Are there restrictions that will be placed on how I deploy or manage capital as a result of taking on technical assistance?
- How will I monitor and evaluate the value the technical assistance provider is delivering to the investee?
- What customer-service metrics can I devise with the investee for this purpose?

For Investee

- What type of risk do the investors see in my business model and have I taken steps to mitigate it (e.g., collateral, financial management processes)?
- How will I access technical assistance funds? Will this have implications on timelines for accessing investment capital?

- Are there additional restrictions that will be placed on me as a result of taking on technical assistance?
- How will I evaluate the value the technical assistance provider is delivering to my business?
- What customer-service metrics can I devise with the funder manager for this purpose?

GENERAL QUESTIONS FOR ALIGNMENT

- Is there mutual understanding among stakeholders of each other's rationale and motivations for pursuing this investment?
- What is the anticipated timeline for this blended finance structure to materialize? Am I comfortable with this timeline?
- What are any unresolved issues and possible solutions to advance discussions?

PHASE 3: STRUCTURING AND IMPLEMENTATION

During this phase, and after understanding the context, defining the solution and evaluating the potential of the blended finance approach and its conceptualization, the work is focused in the technical design and implementation. During this phase, the following questions should be addressed in order to ensure an investment structure and proposal is robust.

- How best to engage with program partners and what fundraising needs are necessary to launch the initiative?
- Are actual figures and real data available to develop a financial model and the term sheets of the instruments?
- Is the blended finance model and instruments are aligned to support the defined 3E impact indicators?
- How are the impact indicators monitored and evaluated (can the traceability and data systems be leveraged in the blended finance scheme)?
- Are there any policies and regulations that support priority finance mechanisms?
- How do you integrate the blended finance model in a sustainable systems strategy, prioritizing social and environmental incentives, and implement it using adaptive management and multi stakeholder collaboration?

3.1 Blended finance structuring and implementation:

During this phase the blended finance vehicle should be designed and any pre-deployment activities including grants and catalytic capital to cover the costs of design, intermediation and market creation should be secured.

Plan:

- Convening key stakeholders for collaboration co-design sessions
- Identify project champions and key expert resources;
- Identify internal and external experts in each of the instruments being considered to support the design and implementation of the transaction;
- Leverage local capacity and knowledge to assess gaps and risks.

- Plan an outreach engagement and blended finance design iteration process;
- In case of fundraising, develop a strategy and planning per stages, instruments and specific activities, needs and goals; and
- Plan specific needs for technical implementation of fund/vehicle, or set up the contracts needed as led by the investment management team.

Outreach:

- Socialization and buy-in of all stakeholders;
- Crowd in new stakeholders;
- Convey and align stakeholders in their specific roles; and
- Outreach to new funders.

Design:

- Assess risks of the investment:
- Draft a term sheet for each instrument
- Consider legal, financial, and funding aspects of each instrument
- Define the financial model and assess how the intervention can become financially sustainable;
- Include traceability tools and leverage data use in the definition of the model, instruments development, creation of incentives, and development of stakeholder activities;
- Define governance and regulations if new vehicles are deployed;
- Define operational plans if technical assistance programs are developed;
- Consider financial and legal requirements to implement the structure;
- Design a monitoring and evaluation approach of 3E indicators and overall implementation strategy:
- Identify impact indicators and how to integrate incentives for investors, investees and service providers; and
- Make sure that goals and objectives of stakeholders are aligned.

Implementation:

- Develop an implementation plan, adapted to the blended finance model, needs, and stages;
- Engagement of stakeholders of the project and of the system, to reduce risks beyond the use of financial instruments and by the consolidation of partnerships and market building;
- Measure and monitor the impact, develop a baseline of program indicators and specific 3E indicators used by the investors and to incentivize stakeholders; and
- If several instruments are in development or any technical assistance is provided, make sure to define a solid implementation unit with policies and regulations in place to implement the program.

APPENDIX

Figure 4: Elements of an investment/business proposal

The following elements should be included in the investment/business proposal:

1- Overview of the need and opportunity
2- Overview of the solution and goals.

- Overall statement
- Key Metrics

3- The business model:

- Concept
- Phases
- Stakeholders
- Organization and Governance
- Products and services being sold
- Cash Flows and commercial viability
- External dependencies, context, legal, etc.
- Execution team
- Risks and mitigation strategies

4- The investment model:

- The financial instruments to fund the business model (including technical assistance).
- Size of instruments and basic terms.
- Investor types and the finance they provide at different stages of project maturity.
- The exit strategy.
- Innovative features of the investment model.