Gordon Institute of Business Science
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An exploratory study into the critical success factors for effective stakeholder engagement in blended finance projects

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Abstract

It is estimated that to meet the 17 Sustainable Development Goals (SDGs) by the goal date of 2030, between $ 5-7 trillion of development financing is required annually. Blended finance has been highlighted as an innovative financing solution in which to achieve the SDGs. Blended finance, through multistakeholder partnerships, combines development finance and philanthropic funds to mobilise or leverage private capital flows to sustainable development projects, which aim to deliver both development impact and financial return. While blended finance has grown in prominence, significant concerns have been noted concerning stakeholder engagement, primarily around the lack of alignment, communication, monitoring and evaluation and the inability to engage with local stakeholders, which impedes transparency and accountability.

Exploratory qualitative research, through the lens of stakeholder theory, was undertaken. Eleven semi-structured interviews were conducted with a range of local and international blended finance actors. The aim was to identify the critical factors for successful stakeholder engagement in blended finance and to determine whether stakeholder engagement would enhance the delivery of blended finance.

The primary finding of this study highlighted the serious need for coordinated and inclusive stakeholder management within blended finance projects. Seven factors were identified to enhance stakeholder engagement. Stakeholder engagement was identified as being critical to the delivery of blended finance, particularly in attempts to build scalable and replicable models.

Keywords

Blended finance, stakeholder theory, stakeholder engagement, sustainability management, Sustainable Development Goals

Declaration

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

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List of abbreviations

AAAA	Addis Ababa Action Agenda
MDGs	Millennium Development Goals
SDGs	Sustainable Development Goals
ODA	Official Development Assistance
UN	United Nations
DFI	Development Finance Institutions
MDB	Multilateral Development Banks
NGO	Non-Governmental Organisations
LDC	Least Developed Countries
OECD	Organisation for Economic Co-operation and Developme
WEF	World Economic Forum
GDP	Gross Domestic Profit
SIFs	Strategic Investment Funds
ISO	International Organization for Standardisation
M&E	Monitoring and Evaluation
WHO	World Health Organisation

Chapter 1: Introduction

1.1 Introduction and description of the problem

Blended finance projects are multistakeholder partnerships that combine and leverage finance to enhance development in critical sectors. As blended finance enters into the mainstream dialogue of development finance, it has become a vital area of interest for business and development research. Within the discourse of academia and reports from multiple supranational organisations, the design and implementation of blended finance projects call for enhanced stakeholder engagement and participation (Liverman, 2018; Mawdsley, 2018; Pereira, 2017a; Romero, 2017). The heightened demand for active stakeholder engagement is in response to significant challenges noted through existing blended finance projects around the ethics, rhetoric and implementation of stakeholder engagement (Clark, Reed, & Sunderland, 2018; Pereira, 2017a; Romero, 2017).

1.1.1 Defining blended finance

In recent years, blended finance has gained momentum as a viable and sustainable development financing solution that leverages funding from a wide range of stakeholders, into sustainable development initiatives (Choritz, Lorenzato, & Santoro, 2018; Küblböck & Grohs, 2019; Mawdsley, 2018). Blended finance is officially defined as the use of development finance and philanthropic funds, strategically aimed at mobilising capital in developing and emerging markets (ReDesigning Development Finance Initiative, 2015). The mission of blended finance is to channel investment, being private capital, to sectors while delivering development impact and financial returns (ReDesigning Development Finance Initiative, 2015).

1.1.2 The importance of blended finance

At the United Nations (UN) Third International Conference on Financing for Development in 2015, held in Addis Ababa, Ethiopia, UN Member States reached consensus of the importance of blended finance in order to meet the developmental financing requirements of the Sustainable Development Goals (United Nations, 2015a; Mawdsley, 2018; Adams, 2017). The Sustainable Development Goals (SDGs) consist of 17 goals which have 169 targets; which aim to address significant

global challenges and serve as a follow-up to the Millenium Development Goals (MDGs) (Griggs, 2013). The SDGs aim to address environmental degradation, climate change, poverty and inequality, food insecurity and global education challenges, amongst many other significant challenges (Griggs, 2013). As an update from the MDGs, the importance of global partnerships has been highlighted as an important goal for the SDGs. The SDGs require a new and unprecedented level of global cooperation which seeks to challenge the economic playing field through partnerships that deliver both impact and returns (Convergence, 2017; United Nations, 2015b; Griggs, 2013)

1.1.3 The demand for private sector participation

Within the agenda of sustainable development; the role, responsibility and participation of the private sector is frequent within development and business discourse (Pereira, 2018; Adams, 2017; Mawdsley, 2018; Küblböck & Grohs, 2019). Private sector investment is cited as relatively low, with a small fraction of worldwide-invested assets including pension funds, insurers, banks and transnational corporations invested in the SDGs (Organisation for Economic Co-operation and Development, 2016). Therefore, there is a heightened demand and need to mobilise the private sector to invest. Blended finance has shown to be an attractive opportunity which leverages limited philanthropic and public resources with private capital to deliver impact and risk-adjusted returns (ReDesigning Development Finance Initiative, 2015).

By bringing private, public and philanthropic funders to the table, blended finance aims reduce investment risks and incentivise the private sector to finance development, underpinned by public priorities for sustainable development (United Nations, 2015a). Private finance has substituted aid at the centre of global and national development initiatives (Adams, 2017; Romero, 2017). Most recently, the demand for private sector participation in the Paris Climate Agreement has been a priority of the United Nations calling for bold and innovative solutions to mitigate against climate change (Nauman, 2019).

The ability to leverage and unlock capital in order to accelerate sustainable development was key on the agenda at the 74th UN General Assembly; with calls for philanthropic and private sector leadership to provide financial support to enhance systems change in order to reach the SDGs (Nauman, 2019; Lieberman, Igoe,

Cheney, & Saldinger, 2019). Private sector presence within discussions around the SDGs and development finance, through the implementation of blended finance, has seen more cooperation with multilateral and development finance institutions (Lieberman, Igoe, Cheney, & Saldinger, 2019).

1.1.4 The role and scope of coordinating contributions

Blending takes place through multistakeholder partnerships; and through different types of instruments of which target development projects in a range of sectors. These projects aim to meet particular development objectives in critical areas; including health, energy, water and sanitation, environmental, transport, urban development, skills development and education (Pereira, 2017a).

The coordination of contributions from a wide range of multistakeholder partners provides the opportunity to remove barriers that impede scale and investment potential, including that poorly functioning financial markets, knowledge and capacity gap and political and economic uncertainty (Pereira, 2017a; Mawdsley, 2018; Choritz, Lorenzato, & Santoro, 2018). With the global aim of meeting the SDGs, the international development finance community have highlighted the goals cannot be achieved by 2030 without the commitment of the private sector and investors (ReDesigning Development Finance Initiative, 2015; Adams, 2017; Mawdsley, 2018). It is estimated that $5 - 7 trillion annually is needed (United Nations, 2014). Through private capital blended in strategic development projects and used in a complementary way, blended finance has been highlighted as critical for closing the gap (ReDesigning Development Finance Initiative, 2015).

Accordingly, there are significant funding deficits needed to realise the SDGs (United Nations, 2014). In this respect; annual gaps in the provision of funding to address the SDGs are felt in several sectors. The below table summarises these gaps and considers the total investment required less the estimated current investment, in sectors that blended finance aims to operate.

Table 1: Annual Sustainable Development Goal Gap

Key SDG Sectors	Annual gaps in the provision of funding
Power	$ 370 – 690 billion
Transport	$ 50 – 470 billion

Telecommunications	$ 70 – 240 billion
Water and sanitation	$ 260 billion
Food security and agriculture	$ 260 billion
Climate change mitigation	$ 380 – 680 billion
Climate change adaptation	$ 60–100 billion
Eco-systems/ biodiversity	$ 210 billion
Health	$ 140 billion
Education	$ 250 billion

Table: Adapted from (United Nations, 2014)*, World Investment Report 2014: Investing in the SDGs: An Action Plan.*

To date, over $140 billion has been invested in blended finance mechanisms in sustainable development projects within developing countries (Convergence, 2019). Blending projects range in size from less than $1 million to over $8 billion, with a median deal size of $64 million (Convergence, 2019). The majority of blended finance projects in 2018 took place in Sub-Saharan Africa; where 42% of Blended Finance projects; with an average deal size of $125 million (Convergence, 2018). However, in 2019, while blended finance investments in Sub-Saharan were the highest and most frequent, they appeared to decline with Asia emerging as a frontier for blended finance (Convergence, 2019).

1.1.5 Blended finance instruments

Blending takes place through of range of instruments, including equity instruments which include subordinate, risk and junior capital, risk, mezzanine and debt instruments, grants, guarantees, social impact bonds and technical assistance (Küblböck & Grohs, 2019). These instruments aim to leverage additional resources into development projects. As diverse as the instruments are, so too are the various blending actors. Participation in blending instruments takes place through actions which include financing, management, research and advocacy; which range in participation from the design to implementation of a blended finance project.

Across the globe, over 800 organisations have made financial commitments to projects since 2015, of which 75% of these actors are private sector actors including

commercial investors and philanthropic organisations (Convergence, 2018). Through providing finance or acting as intermediaries for blending, public sector actors, such as Multilateral Development Banks (MDBs) and Development Finance Institutions (DFIs), combine private capital with their capital which allows for investment at below-market terms, in order to support projects that have higher barriers to entry (Merchant, 2019; Küblböck & Grohs, 2019). While public sector actors are the most active within blended finance, with DFIs and MDBs accounting for 24% and 23% of active investments in blending projects (Merchant, 2019; Convergence, 2018).

1.1.6 A critique of blended finance

The growth of blended finance within the global development finance dialogue continues. Blended finance has been ratified by numerous supranational organisations, multilateral finance institutions and national development agendas as an important and viable solution in which to address substantial development challenges faced across the globe. However, in understanding blended finance, significant challenges have been identified, particularly around stakeholder engagement (Pereira, 2017a; Romero, 2017; Liverman, 2018). As Multistakeholderpartnerships, ensuring effective engagement becomes critical for future investments within blended finance projects (Romero, 2017; Pereira, 2017a; Choritz, Lorenzato, & Santoro, 2018). Existing projects that incorporate blended finance have been criticised for their lack of transparency and accountability particularly in terms of engagements with beneficiary nations and local communities (Romero, 2017; Pereira, 2018; Choritz, Lorenzato, & Santoro, 2018; Battacharya & Khan, 2019; Liverman, 2018).

The lack of consensus and alignments impedes the ability to assess impact and engage stakeholders meaningfully and effectively. At a project design level, the desire for financial returns and private sector participation affects ownership of projects and the alignment of consensus to a development impact, with criticism suggesting preferential treatment towards the private sector which fails to incorporate broader stakeholder participation (Pereira, 2017a; Adams, 2017; Clark, Reed, & Sunderland, 2018; Huwyler, Kappeli, Serafimova, Swanson, & Tobin, 2014).

In relation to project implementation, challenges include the lack of consultation, coordination, reporting, ineffective monitoring and evaluation as well as the lack of

accountability for beneficiaries to participate, channelling their concerns and holding donors accountable (Pereira, 2017a; Saarinen & Godfrey, 2019; Liverman, 2018; Mawdsley, 2018) . Underpinning these challenges is the lack of alignment at both a project design and project implementation level, which broadly affects consensus on project outcomes and impact, financial returns, monitoring and evaluation and reporting (Brest, Gilson, & Wolfson, 2018; Rode, Pinzon, Stabile, Pirker, Bauch, Iribarrem, Sammon, Llerena, Alves, Orihuela & Wittmer, 2019).

1.2 Theoretical lens for this study

As salient as blended finance is to the development finance and the Sustainable Development Goals dialogues, it is vital to consider the role, participation and presence of stakeholders within these multistakeholder partnerships. Therefore, the problem will be explored through the theoretical lens of stakeholder theory. Stakeholder theory is considered perhaps the most important theoretical paradigms in which to consider in environmental, social and sustainability research (Hörsich, Freeman, & Schaltegger, 2014; Frynas & Yamahaki, 2016). There is the need for greater consideration in organisations, and institutions, for the democratic participation of stakeholders in governance and business, particularly in light of the interconnectedness of stakeholders and their effect on organisations (Crane, 2018). Understanding the internal and external drivers that illuminate relations between the social context and internal and external actors, will seek to enhance consideration of responsiveness and responsibility (Frynas & Yamahaki, 2016).

Through the lens of stakeholder theory, the research considers the future factors for stakeholder engagement to ensure meaningful participation and engagements. Stakeholder theory is complex and comprehensive and has provided a variety of debates that have intersected society and business management (Barney & Harrison, 2018). Stakeholder theory is the organisational responsibility as a whole to the system, how an organisation demonstrates responsibility through decisions and actions concerning all its stakeholders (Barney & Harrison, 2018). It is important to acknowledge that stakeholder theory considers relationships with multiple stakeholders (Freeman, Phillips, & Sisodia, 2018), it reflects multiple factors of which value is created and distributed through relationships with stakeholders (Barney & Harrison, 2018; Bridoux & Vishwanathan, 2018; Freudenreich, Ludeke-Freund, & Schaltegger, 2019). Stakeholder theory considers the broader social embeddedness

of organisations, with the purpose of creating value for all stakeholders (Freeman, 2010).

The evolution of stakeholder theory and the practice of stakeholder engagement has seen the move from stakeholders being purely beneficial to the strategic intention of the firm to the ethical, normative considerations of stakeholders and its relationship with sustainability management (Hörsich, Freeman, & Schaltegger, 2014). Sustainability management considers the evaluation and implementation of socioeconomic and environmental factors that impact actions and decision in relation to both stakeholders and the environment (Starik & Kanashiro, 2013). This as a response to individuals, organisations, and societies becoming more conscious of their influence and impact on environmental and socioeconomic realities (Starik & Kanashiro, 2013). The alignment to sustainability management and stakeholder theory consider similar conversations about the purpose and scope of business, in light of the interdependencies between an organisation and its societal and natural environments (Hörsich, Freeman, & Schaltegger, 2014).

Hörsich, Freeman and Schaltegger (2014) advance the studies of stakeholder theory and sustainability management through a framework which highlights factors that would enhance stakeholder engagement and advance sustainability within specific contexts. Hörsich, Freeman and Schaltegger (2014) further suggest that all stakeholders should and can fulfil certain functions concerning sustainability, and cooperation between stakeholders will lead to mutual value creation. The framework offered by Hörsich, Freeman and Schaltegger considers certain factors as pertinent to enabling effective stakeholder engagement which challenges business to balance the interests of varying stakeholders. These factors include education, mutual value creation and regulation, which would ultimately guide stakeholder interactions business on sustainability as collective value towards mutually sustainable interests (Hörsich, Freeman, & Schaltegger, 2014).

1.3 Purpose of the research

As a result of the growing prominence of blended finance within the development and private sector space, and as multiple layers of participation exist amongst stakeholders within blended finance projects, it is critical to explore and understand the factors of stakeholder engagement. This understanding is particularly relevant in light of the future implementation of blended finance projects.

By understanding the factors for stakeholder engagement, through the lens of stakeholder theory, it is hoped that this research will aid future practitioners and actors in creating alignment and enhancing stakeholder engagement within blended finance projects. Enhancing stakeholder engagement will be critical for future decision-making and strategy formulation, which seeks to improve sustainability and incorporation of the SDGs into the business agenda.

Through this theoretical lens, this research has been explored through the actors that shape the blended finance narrative. This study, exploratory in its design, will investigate the possibility of a conceptual model that would enhance stakeholder engagement. Furthermore it would assist future partnerships effectively engage with stakeholders blended finance in a responsible and inclusive way, by assuring value and participation of key stakeholders.

The objectives of this research are, therefore, to engage, through a qualitative study, key actors within the space to determine the factors of successful stakeholder engagement within blended finance projects.

1.4 Research problem

Despite its prominence, there are specific concerns around the participation and engagement of stakeholders within existing projects. Recent literature suggests that these challenges, however, there is a gap in terms of identifying the factors that may enhance engagement. The research has the following objectives: -

The objectives of this research will be to;

- Establish the major factors that drive successful stakeholder engagement in blended finance projects
    - Investigate recent literature in stakeholder engagement in sustainability management, to understand whether identified factors would be beneficial for stakeholder engagement in blended finance projects.
- Understand whether successful stakeholder engagement enhances blended finance project outcomes

Chapter 2: Literature Review

2.1 Introduction to literature review

The literature review has been broken down into two parts. The first part considers blended finance as a development finance construct. Characteristics of blended finance have been considered, including its definition, blending structures and opportunities for blended finance. Furthermore, as critical to this research, the critiques of blended finance have been considered.

The second part explores stakeholder theory, from its early conception, evolution and definitions. It then considers the most recent developments in stakeholder theory and its alignment to sustainability management. Finally, the literature review concludes with themes discovered, which informs the development of the research questions.

2.2 Introduction to blended finance

The Sustainable Development Goals (SDGs) were adopted on the 12 September 2015 at the United National General Assembly. The SDGs have been described as broader, more complex and more ambitious than their predecessors, the Millennium Development Goals (MDGs) (Liverman, 2018). There is continuity with the MDGs in areas such as health, education and poverty reduction (Liverman, 2018). The SDGs include more goals that have an environmental focus, with the SDGs aimed at all, rather than just the developing world (Liverman, 2018). Based on the complexity of meeting the SDGs, the international development community has called for constructive engagement on innovative models of financing (Liverman, 2018; Mawdsley, 2018; Clark, Reed, & Sunderland, 2018).

With the MDGs being driven primarily by Official Development Assistance (ODA) and foreign aid, it was noted that the finance needed for the SDGs would far succeed that required by the MDGs; with the slogan ‘from billions to trillions’ doing the rounds in financing discussions (Mawdsley, 2018; Clark, Reed, & Sunderland, 2018; Attridge & Engen, 2019). A key shift in the dialogue of the Millennium Development Goals to that of the Sustainable Development Goals, has been the call for a broad range of financing mechanisms and the participation and responsibility of the private sector in enhancing the action agenda of the SDGs (Mawdsley, 2018; Adams, 2017; Küblböck & Grohs, 2019; Attridge & Engen, 2019; Fowler & Biekart, 2017; Thiele & Gerber,

2017). Financing mechanisms include those that fall under the umbrella of innovative finance, including financing solutions that are characterised by channelling private money, from global financial markets, in scalable and effective ways (Thiele & Gerber, 2017).

2.2.1 Defining blended finance

There are multiple definitions of blended finance, with definitions offered by academics and supranational organisations. With many varying definitions, complications arise as these varying definitions result in important implementation differences (Pereira, 2017a). As one of the earlier definitions, blended finance as defined by Romero (2013) is an instrument which links grant funding through ODAs, with loans provided from publicly-run institutions or private lenders. This definition explicitly outlines that blended finance is primarily the combination of loans and grants and exclude the potential for the mobilisation of other funds and other funders both public or private (Pereira, 2017a).

Mustapha, Prizzon and Gavas (2014) refer to blended finance through the usage of grants or grant-equivalent instruments, in a complementary away, alongside non-grant financing from both private or public sources. The aim is the provision of financing to projects on terms that are sustainable and financially viable. The definition considers that blending can occur through multiple sources of public and private funding, and requires further mobilisation of funds to enhance project viability and sustainability (Mustapha, Prizzon, & Gavas, 2014; Pereira, 2017a). The evolving definition moves away from solely relying on ODAs, through grants, but for the consideration that blended finance can incorporate various other forms of public finance including export credits and securities (Pereira, 2017a).

Schwank and Hilger (2015) through their report for the United Nations Department of Economic and Social Affairs, define blended finance as grants or grant-equivalent finance combined with non-concessional finance (loans) which leverage finance at longer maturities or below-market rates, as compared to what can be provided by the market. While this definition considers the use of various types of concessional public funds, combined with that of various types of non-concessional private funds, it does have limitations. The main limitation is that this definition specifies that private funds can only come through loans; however, a host of private finance opportunities arise through technical assistance, investment grants, loan guarantees, first-loss

structures and equity investment (Pereira, 2017a). Schwank and Hilger's (2015) definition refers to the fact that additional funds can be mobilised into the blended finance, as long as it is on terms that include tax incentives and capacity building.

Varying definitions have the potential, as highlighted, to create implementation differences. These definitions translate into several obligations in terms of how funds are utilised and reported, which can affect the transparency surrounding the use of concessional and non-concessional funds. The use of non-concessional funds creates implications of interest, based on the economic interest of donor countries (Pereira, 2017a; Küblböck & Grohs, 2019; Attridge & Engen, 2019). Due to the confusion over the criteria and due to the need for greater transparency, the OECD through consultation with a wide range of organisations released the official definition of blended finance.

The official definition is a result of a jointly-led initiative by the OECD and the World Economic Forum, the ReDesigning Development Finance Initiative. ReDesigning Development Finance Initiative (2015) officially defined blended finance as "the strategic use of development finance and philanthropic funds to mobilise capital flows to emerging and frontier markets; deliberately channelling private investment to sectors of high-development impact while delivering returns" (p. 4). The coordinating effort of the OECD in delivery an official definition has the hopes of creating a set of reporting standards that will guide the future design of blended finance projects (Küblböck & Grohs, 2019). Since the official definition has been released, it has been adopted by numerous academics including Jomo, Chowdhury, Sharma and Platz, (2016), Thiele and Gerber (2017), Pereira (2017a), Pereira (2017b), Clark, Reed and Sunderland (2018), Halland, Dixon, Monk and Young (2018), Rode, et al (2019) and, Attridge and Engen (2019).

The official definition is, however, vague. It does not specify what type of public-private funds can or are being used, and it doesn't exclude the potential range of different funding mechanisms (Pereira, 2017a; Choritz, Lorenzato, & Santoro, 2018; Küblböck & Grohs, 2019). The absence of clarity surrounding both the official and other definitions, particularly surrounding sources of funding leads to significant difficulty in obtaining systemic insights for future public and private participation (Küblböck & Grohs, 2019). These inconsistencies demonstrate the lack of alignment and coordination between various actors within the design and implementation of blended finance projects (Küblböck & Grohs, 2019; Attridge & Engen, 2019).

Further critiques of the varying and inconsistent definitions suggest a lack of understanding of how much finance is being mobilised and whether projects fit the mandate of a blended finance project (Attridge & Engen, 2019). The concept, like that of Public-Private Partnerships, is not clearly defined and includes a vast array of arrangements, which vie for attention and recognition that they are indeed blended finance projects. The challenge of understanding the various mechanisms and actors is complicated by a myriad of definitions and classifications, whereby there is an urgent call for collaborative and holistic framework and regulations (Clark, Reed, & Sunderland, 2018; Adams, 2017; Attridge & Engen, 2019). The nature of blended finance structures and the lack of encompassing definitions and frameworks are further hampered by the complexity of participation of a multitude of stakeholders from varying institutions and communities, thus making alignment and reporting significantly difficult (Attridge & Engen, 2019; Fowler & Biekart, 2017).

2.2.2 The history and scope of blended finance

In 2015, three major landmark agreements were set forth highlighting the collective commitment towards sustainable development; including the 2030 Agenda for Sustainable Development, the Paris Agreement on Climate Change and the Addis Ababa Action Agenda for Financing Development (Adams, 2017). Blended finance was ratified into the Addis Ababa Action Agenda (AAAA) and has become critical to the dialogue of developmental financing, policy and economics. Blended finance has the potential to share risk and reward through stringent accountability mechanisms which meet social and environmental standards (United Nations, 2015). Through AAAA, the concept of blended finance was endorsed and ratified, it highlighted the important role of the private sector; placing significant emphasis on partnerships and collaborations (Adams, 2017; Mawdsley, 2018).

Various reports refer to the scale of development finance needed in order to meet the gaps identified between current development financing and what was needed in order to meet the Sustainable Development Goals. Between $5 – 7 trillion is needed a year is needed to solely finance the Sustainable Development Goals (United Nations, 2014). The large investment sum needed for financing the SDG agenda is open to considerable debate, the enormity of the goals highlights the financing challenge which considers water, universal coverage to adequate housing, sanitation and climate change mitigation through renewable energy; the largest portion of the

need going to infrastructure development (Kenny, 2015; Clark, Reed, & Sunderland, 2018).

Traditionally, ODA finance has been described as beneficial particularly for the poorest of countries, where ODA accounts for on average two-thirds of government revenues and international resources, however, it has been described as limited with very few countries reaching the 0,7% aid target of Gross Domestic Profit (GDP) spend (Kenny, 2015). ODA investment has been described as insufficient to deal with the scope of work needed. The availability of public funds for investment purposes, since the Global Financial Crisis, has decreased substantially (Egler & Frazao, 2016). The gap between public investment spend on infrastructure and climate change projects have increased (Egler & Frazao, 2016).

Concerning the nature of projects; climate change and infrastructure, projects can be particularly complex for sole funding from an ODA or a DFI, as these projects are expensive, payback periods are long, and within many countries, there are significant market or bureaucratic limitations (Kenny, 2015; Romero, 2017). International and local DFI's face the same challenge with inequitable distribution of funds with many portfolios underrepresented and many DFIs are perceived to lack scale and attractiveness, and face considerable difficulty in finding further partners for investment (Kenny, 2015).

The assertion then, is that while traditional development financing models matter, they are insufficient to meet the targets set by the SDGs. The landscape of blended finance is the result of decades of institutional development evolution, from the Bretton Woods Conference to the collaborative partnership-led dialogue that calls for ownership of global challenges from a wide range of stakeholders (Adams, 2017; Halland, Dixon, Monk, & Young, 2018; Fowler & Biekart, 2017). In order to engage with the disconnect present between global ambitions and financial realities, transformation is required across the scale of geographies, policies and economies (Clark, Reed, & Sunderland, 2018). Within AAAA, the aim is to incorporate a range of financial mechanisms that call on a range of stakeholders to fill the gap including blended finance, grant and grant-like funds through ODAs and DFIs, domestic resource mobilisation as well as tax and trade cooperation (Kenny, 2015). Thus, it is important to note that blended finance is not the sole tool of AAAA, but a complementary tool that enhances the involvement of the private sector in a sustainable way (Kenny, 2015; Romero, 2017).

Blended finance responds to calls to upscale financial activities with private stakeholders having been requested to drive and shape global development (Mawdsley, 2018; Bayliss & Van Waeyenberge, 2016; Kenny, 2015; Clark, Reed, & Sunderland, 2018; Egler & Frazao, 2016). Blended finance has been described as an evolved mechanism of the traditional Public-Private Partnerships, which were highlighted as important at AAAA, particularly in its use for promoting infrastructure development (Jomo, Chowdhury, Sharma, & Platz, 2016). However, in difference, blended finance focuses on a significantly wide range of social good projects rather than just infrastructure. Blended finance also utilises the ability to negotiate and rebalance the risk-reward features of traditional PPPs through early-entrant costs and first-loss clauses between public and private actors (United Nations Department of Economic and Social Affairs, 2016; Romero, 2017). Thus, blended finance creates a broader platform for which to negotiate with further funders at a reduced risk, with many funders entering into projects as leverage funders, first-loss funders or through the provision of technical assistance.

Within the narrative of private participation and greater corporate citizenship within the development space, private sector companies are becoming concerned with not only their social and environmental performance but with the need to drive greater sustainability for the world as a whole (Shiu & Yang, 2016; Adams, 2017). Notably, this significant rise of corporate executives discussing sustainability has led to various investor groups concerned with the impact of investment portfolios (Emerson, 2003). The SDGs, unlike the MDGs, has captured the attention of the business community with companies signing to and committing to global compacts that highlight measures for reducing corporate footprint, as well addressing critical social movements which have impacted the world of business like never before (Adams, 2017).

Multistakeholder partnerships, it was hoped through the deployment of blended finance, will ensure a common language of sustainable development with the ultimate goal of poverty reduction through the long-term development of green economies, infrastructure development, protected labour and improved commitments to corporate social responsibility (Mawdsley, 2018). Blended finance through these partnerships and within the development finance space has the hopes of encouraging innovation and efficiency, which in turn would encourage economic growth (Mawdsley, 2018; Romero, 2017).

It was calculated that between $80 – 90 trillion of untapped assets were available for the crowding in of private and philanthropic funds, in a complementary way with increased public spending (Adams, 2017). More recent discussions on private partnerships have focused on utilising the abundance of global corporate savings for blending initiatives, which seek to scale investment into infrastructure development into emerging economies; creating a financialised approach to development (Bayliss & Van Waeyenberge, 2016). It is suggested that the size of domestic institutional savings have increased, this due to the rapid growth of populations and economies (Halland, Dixon, Monk, & Young, 2018). There has also been a growth in cross-border investments and global institutional investments in emerging market bonds, and equities have grown (Halland, Dixon, Monk, & Young, 2018).

2.2.3 The structures of blended finance

2.2.3.1 Actors within blended finance: Where does the money come from and who are the main actors

Amongst development finance practitioners, the ability to 'mobilise', 'leverage' or 'catalyse' funds has been crucial to the discourse of blended finance. With blending requiring blended capital from various asset owners of which include fiduciary capital and philanthropic capital. There are multiple tools of blended finance including social impact bonds and guarantee mechanisms in which multiple actors provide different levels of funding and support based on the required outcome and return. Blending takes places by either standing alongside existing projects for development projects to scale, or alternatively blending takes place through seed investment or solely has technical assistance which enables the funding and establishment of pilot projects.

Blended finance combines multistakeholder partnerships which are typically government-backed (usually through DFIs) with combined philanthropic and private ownership structures (Clark, Reed, & Sunderland, 2018; Halland, Dixon, Monk, & Young, 2018; Rode, et al., 2019). DFIs seek partnerships with investment banks, sovereign wealth funds, venture capital, hedge funds, and global corporations; with the aim of leveraging investments into development finance (Mawdsley, 2018; Halland, Dixon, Monk, & Young, 2018; Pereira, 2017a; Thiele & Gerber, 2017).

Key to these blending instruments is the ability to collaborate with like-minded partners who can pool resources, funds and expertise; with strategic co-investment taking advantage of informational and geographic advantages (Halland, Dixon,

Monk, & Young, 2018; Rode, et al., 2019). Stakeholders, within blended finance instruments, are broken down into two categories.

Table 2: Stakeholders involved in the design and implementation of blended finance

Blended finance phase	Stakeholders
Design phase	DFI, Private Finance, representatives from donor and recipient governments, non-governmental organisations (NGOs), trade unions
Implementation phase	Intermediaries, project partners inclusive of design phase stakeholders, communities and implementing NGOs and service providers.

Table: Adapted from (Pereira, 2018)*, Aligning Blended Finance to Development Effectiveness: Where We Are At*

2.2.3.2 Structuring around returns

It has long been thought that a trade-off exists between social impact and financial return (Emerson, 2003; Bannick, Goldman, Kubzansky, & Saltuk, 2017). The zero-sum dissonance of traditional markets value financial returns, with investors battling to consider how to navigate a space that expands the framework to metrics other than strictly financial metrics (Emerson, 2003). Emerson's (2003) work on the blended value proposition gave rise the notion of the triple bottom line. Socially-motivated investors have shifted the paradigm with new ways of thinking whereby it is not either/or but rather both/and – the core nature of investment should not be a tradeoff between social and financial interest but the development of a value proposition that embeds both financial and social return (Emerson, 2003; Brest, Gilson, & Wolfson, 2018).

The rise of mechanisms, such as impact investing and blended finance, seeks to act as an intermediary between social/development impact and financial return (Bannick, Goldman, Kubzansky, & Saltuk, 2017). As such, these mechanisms fall within, or near the centre of the continuum of returns; whereby projects need to have a direct impact that incorporates both financial and social return (Bannick, Goldman, Kubzansky, & Saltuk, 2017; Yates & Marra, 2016). New measures including the Social Return on Investment, particularly in social impact bonds, whereby the

combination of resources, activities, processes and outcomes are evaluated, more inclusively, to include the return to multiple stakeholders and beneficiaries rather than the few who are empowered to make resource allocation decisions (Yates & Marra, 2016).

However, financial returns are easier to measure, as compared to social or development impact; which affects the ability to monitor actual impact with expected impact (Bannick, Goldman, Kubzansky, & Saltuk, 2017). It is argued that due to the challenges of measuring social value, and lack of alignment on social outcomes, enhancing social value for investors is significantly more difficult (Brest, Gilson, & Wolfson, 2018). It is suggested that the blended finance and related investments can grow more responsible if investors and project stakeholders are candid about the necessary conditions for social and development value and how these conditions can be respected, and measured (Brest, Gilson, & Wolfson, 2018). It is suggested that there needs to be alignment on the outcome and the delivery of social value rather than on the pursuit of value alignment (Brest, Gilson, & Wolfson, 2018).

2.2.3.3 The need for additionality

The additionality principle is a critical driver in determining the structure and the impact of blended finance projects. Blending structures, whether as an early adopter at design phase or joining thereafter to ensure project scalability, need to exhibit additionality. This principle considers that projects would benefit from the additional value of a specific form of finance, in that support is actually required (Pereira, 2017a; Bilal & Große-Puppendahl, 2016).

The principle considers that those who will enter into blended structures are eligible, and that the funding would meet the purpose of what the structure intends, rather than simply enhancing the return profile. Blended finance considers financial additionality in which a particular project is reliant on the blended finance structure and investment in order to be implemented, and development additionality considers that through the blended finance structure, the project should achieve better development results and outcomes (Pereira, 2017a; Bilal & Große-Puppendahl, 2016; Küblböck & Grohs, 2019; Choritz, Lorenzato, & Santoro, 2018)

Additionality becomes a key driver of determining project eligibility in that it is about assessing causation, and whether a proposed activity or outcome is the result of an intervention (Gillenwater, 2012). Thus, the question considers that from the baseline,

would the additionality of an intervention lead to the proposed outcome. Therefore, additionality is crucial in order to ensure that funding through blended finance structures is appropriately used and project outcomes are delivered in this regard (Michaelowa, Hermwille, Obergassel, & Butzengeiger, 2019). For example, within a blended climate change projects, additionality would consider whether the project would deliver corresponding emission reduction that wouldn't have happened in the absence of the project (Michaelowa, Hermwille, Obergassel, & Butzengeiger, 2019).

Structure partners report difficulties in qualifying and attributing what would have happened with or without the additional mobilised finance, and in the absence of the control situation are proving insufficient to meet investor expectations (Organisation for Economic Co-operation and Development, 2018). The criteria of additionality are complex, and each partner within a blended structure needs to claim their own additionality which leads to a reporting overlap and duplication of reported outcomes. The challenge of additionality becomes important in assessing the impact and outcomes of blending structures, and the monitoring and evaluation of said projects based on a theory of change. Thus, given the complexity of additionality, measuring and assessing a cohesive understanding of project outcomes is essential; and projects need to prove both financial and development additionality to a range of stakeholders (Pereira, 2017b; Choritz, Lorenzato, & Santoro, 2018).

2.2.3.4 The structure complexity

The main aim of blended finance is the ability to leverage private spend with that of public or philanthropic funding; either at the design of a project or through the duration of a particular project. As a solution, blended finance as a mechanism considers multiple tools to enhance the funding available for social development, including that of development impact bonds which are deepening the financial logics in development narratives (Mawdsley, 2018). Blended finance tools include risk underwriting, technical assistance, market incentives and direct funding which seek to position blended finance as a transformative solution to future development efforts, including meeting the SDGs (Pererira, 2017). As such blending involves investments of all kinds; public, philanthropic, private; enhancing and complementing public funds through direct investment, bonds, lending and philanthropy; all blended through innovative financing models (ReDesigning Development Finance Initiative, 2015). The most commonly used structures are considered below

2.2.3.5 Social impact bonds

Social impact bonds are debt-based partnerships whereby investors' funds are allocated towards a programme with the need to lever sustainable outcomes, such as the creation of employment, skills development and infrastructure development (Ortiz, Cummins, & Karunanethy, 2017). Bonds represent an alternative or additional debt funding instrument. Funding has already been given through bank loans at a project design and pilot phase, and therefore funds can be leveraged for the operational phase of a project (Egler & Frazao, 2016). These bonds present the opportunity for further investment in listed and tradable securities that offer risk-adjusted returns and a certain level of liquidity (Egler & Frazao, 2016).

Green and climate bonds are prominent in this regard, whereby fixed-income securities are issued to leverage finance for low-carbon, climate-resilient solutions (Egler & Frazao, 2016; Clark, Reed, & Sunderland, 2018). These projects are aimed at providing solutions which include sustainable agriculture, sustainable water management, renewable energy, clean transportation, climate change adaptation, and pollution prevention (International Finance Corporation, 2016). Climate and green bonds can achieve attractive risk-adjusted returns whilst satisfying green mandates, offering a hedge through carbon transition risks in portfolios that have assets which are emission-intensive (International Finance Corporation, 2016).

Green and climate funding has seen some of the largest spend within blended finance projects, in 2014, over $361 billion was spent on climate finance, with over $141 billion leveraged from private investors (International Finance Corporation, 2016). Between 2016 – 2030, it is estimated that climate investment opportunities will tally to over $23 trillion (International Finance Corporation, 2016).

2.2.3.5.1 Strategic investment funds

Strategic investment funds (SIFs) which seek to blend in private investors and investments into priority sectors of a particular domestic economy, (Halland, Dixon, Monk, & Young, 2018). Strategic Investment Funds continue to grow in prominence, with over 20 countries establishing SIFs with a strong commercial orientation to achieve policy objectives. The strategic focus is on developing community-based models which channel private and public investment to low-income and other underserved communities; with the aim of providing credit, capital and training (Yin, 2016). As such, these funds have the explicit aim of attracting co-investment to

projects which have difficulty in attracting private sector investment (Halland, Dixon, Monk, & Young, 2018).

Private sectors funders within these SIF structures are generally cognisant of the policy mandate of which the SIF are constructed. Therefore, investors are more willing to provide patient capital with long-term maturities, are able to address first-mover/first-loss issues, solve for coordination problems and take on early-stage risks, knowing that returns will be more long-term (Halland, Dixon, Monk, & Young, 2018). While state-led, SIFs are generally independent of both the private and public sectors; SIFs are managed functionally and organisationally by the private sector (Halland, Dixon, Monk, & Young, 2018). SIFs primarily invest in infrastructure, renewable energy and SMME development and focus on projects that are replicable with demonstrable effects (Halland, Dixon, Monk, & Young, 2018).

2.2.3.5.2 Guarantees

Guarantees, or equivalent insurance products derisk SDG-aligned investments, through credit enhancement tool with the aim of attracting and incentivising private investment (Lee, Betru, & Horrocks, 2018). Guarantees are amongst some of the most widely used blending mechanisms, with 20% of blended projects incorporating guarantees (Benn, Sangaré, & Hos, 2017). Guarantees have the aim of providing immediate leverage, whereby private investors are incentivised to increase financing, which accelerates projects and impact (Lee, Betru, & Horrocks, 2018). Default rates are lower on guarantees, thus the provision on such guarantees is at a lower cost,which means that there is greater potential for public partners and stakeholders to meet development objectives (Lee, Betru, & Horrocks, 2018).

Furthermore, it is suggested that increasing the use of guarantees will further attract the necessary private capital in which to achieve the SDGs, as it aligns with the private-sector search for economic momentum within developing markets (Lee, Betru, & Horrocks, 2018). In addition, guarantees have been highlighted as being important for LDCs in the development of infrastructure and energy projects, whereby guarantees reduce the cost of development (Kenny, 2015), however are low due to private sector interest (Kenny, 2015).

Critically, there needs to be alignment in the establishment of guarantees and public policy in order to ensure accountability, development effectiveness and returns (Lee, Betru, & Horrocks, 2018). Guarantees often compete with loans, particularly through

development financing in LDCs, however in combination with other blending mechanisms and stakeholder partnerships, they have the potential to leverage further private investment (Kenny, 2015). Kenny (2015) suggests that in order to increase the use of guarantees, mechanisms need to be established that enhance transparency, whereby investment rules do not favour providers or particular donor countries (Kenny, 2015).

2.2.3.5.3 Technical assistance

Technical assistance is funding that provides support during different phases of a project, such as feasibility studies and capacity building; during both project design and implementation (Küblböck & Grohs, 2019). Technical assistance, through initial financing, has the aim of attracting further private sector funders and leveraging further finance by funding actions that would seek to enhance an enabling environment (Stadelmann & Falconer, 2015). As such, technical assistance is crucial in closing gaps, including that of knowledge, policy, regulatory and risk; that may impede initial or further investment (Stadelmann & Falconer, 2015).

Dollar (2001) suggests that technical assistance works towards alleviating policy challenges and requires, in order to be effective, a demand for institutional change. Where there is significant interest and effective engagement in the institutional change in order to alleviate the burden of weak policy, technical assistance has proven developmental effectiveness (Dollar, 2001).

2.2.4 The motivation for blended finance

Blended finance can play a critical role bringing together a range of stakeholders and resources to unlock funding for projects that enable the agenda of the SDGs. Blended finance can ensure risk-adjusted returns in line with investor requirements. Co-investment platforms garner higher investment returns, particularly partner locational advantages in monitoring and identifying projects (Halland, Dixon, Monk, & Young, 2018). In addition, the ability to pool resources bolsters returns through the sharing of costs including that due diligence, research and monitoring (Halland, Dixon, Monk, & Young, 2018). It is not purely the sharing of costs, but the ability to leverage skills, expertise and capacity; as well as the institutional knowledge and complex relationships with stakeholders that can become beneficial outcomes between actors within blended finance. Blended finance allows for a range of actors to coordinate their resources, capabilities and competencies to bridge funding gaps

that impeded development objectives (ReDesigning Development Finance Initiative, 2015).

Collaboration provides better deal flows and further opportunities for diversification that can be sourced through local partners who can identify, source and validate potential projects (Halland, Dixon, Monk, & Young, 2018; Rode, et al., 2019). Headline risk can be minimised and political risk can be mitigated (Halland, Dixon, Monk, & Young, 2018; Choritz, Lorenzato, & Santoro, 2018). The ability to share risks ensures greater returns, as it is suggested that common barriers in emerging and frontier markets include lower returns due to the high level of risk (ReDesigning Development Finance Initiative, 2015).

Through blending mechanisms, in addition to the ability to share risk and better collaboration outcomes; blended finance has the potential to reduce transaction costs and importantly enhance the scalability and sustainability of outcomes (Rode, et al., 2019). Blended finance mechanisms within conservation have seen the promotion of projects that have a large degree of scalability, through landscape-level investments. The Forever Costa Rica project saw a $57 million blended finance project, which led by a range of private and public stakeholders, committed to funding a conservation project which was significantly larger scale than if the funders had approached the same project individually (Linden, McCormick, Barkthorn, Ullman, Castilleja, Winterson & Green, 2012). In addition, while complex, the deal bought together knowledge, resources and commitments to permanently conserve a large landmass (Linden, et al., 2012; Rode, et al., 2019). Through the combined commitment and through various knowledge-sharing platforms, the partnership has built a replicable model for conservation that is able to problem-solve, and be both adaptive and resilient (Linden, et al., 2012).

2.2.5 A critique of blended finance

2.2.5.1 Ownership and aligning private sector intentions

Significant concerns have arisen with existing blended finance projects. Notably, the imbalance between large corporate interests and ability of institutions to action certain public agendas (Adams, 2017; Pereira, 2017a; Clark, Reed, & Sunderland, 2018). The proliferation of corporate actors collaborating through global compacts and partnerships has seen a shift in priorities driven by financial considerations, which have had significant programme consequences. During the Swine Flu crisis

the World Health Organisation (WHO) established partnerships with certain pharmaceuticals, who through their association with WHO, used the opportunity to launch new vaccine contracts with Governments who were desperate for their support (Adams, 2017).

There have been numerous incidences of partnerships that have eroded accountability and governance and sabotaged policy coherence. Certain blended finance mechanism have not been designed to allow for ownership of developing countries; nor have been in alignment with national plans and strategies (Pereira, 2017a). In addition, many blended finance mechanisms preclude the work and policies of existing donor government particularly on private sector engagement and DFI's have tended to adopt an approach of neutrality to the private sector and defined targets (Pereira, 2018). Without collective engagement, the potential privatisation of development assistance distorts the direction of public policy and can have severe limitations for fostering future participation in development finance (Fowler & Biekart, 2017).

Furthermore, development finance institutes and public sector donors tend to adopt strategies and frameworks that favour private sector participation and engagement rather than comprehensive frameworks that consider stakeholder engagement from multi-partner perspectives, including that of recipient community- level participation (Pereira, 2018). Ownership of DFIs becomes a key challenge whereby DFIs owned solely by nations tend to lack board participation and engagement and measures of accountability acting in the sole interest of partners. Whilst multi-sector DFIs tend to have greater accountability through larger board interests. It was found than national bodies, such as parliaments, have no direct decision-making or oversight role of wholly-owned DFIs and their policies, other than annual reports that are review by parliamentary committees (Pereira, 2018).

There is a perceived view that the public sectors of emerging and developed economies should curtail to private sector demands. The assumption the public sector would benefit from greater financial resources and the efficiency and effectiveness of big business, however not considered in this equation is how ineffective and inefficient large corporates have been in sustaining public goods and human rights (Adams, 2017). For governments, the overreliance on partnerships has led to the focus on the sale and promotion of partnership pipeline projects rather than designing comprehensive public service plans (Bayliss & Van Waeyenberge, 2016).

In addition, it is suggested that blended finance mechanisms have traditionally had the view that they must benefit both developing and donor country; through enhanced trade and opportunities for investment and thus blending mechanisms should be mutually beneficial (Pereira, 2018). Mutually beneficial value creation can be positive for both donor and beneficiary nation-state. However it is suggested that it may have the unintended incentive to increase the use of the blended finance instruments and through substitution effects, it can lead to the reduction of the pool of available grant funding (Pereira, 2018). This has been noted in the Least Developed Countries (LDCs) whereby there has been a notable decline in ODA.

With blending mechanisms have been on the rise as a sustainable way of funding the SDGs, there is an overall decrease in the amount of aid or ODA. With more ODA going towards blending initiatives, it decreases the availability of aid in which to fund basic infrastructure and social services in LDC countries (Choritz, Lorenzato, & Santoro, 2018; Attridge & Engen, 2019; Chowdhury, 2018). The decline in aid is felt in countries that are most need of concessional resources and most vulnerable to external shocks (Chowdhury, 2018). Adams (2017) states LDC are less likely to receive potential investment in the form of blended finance projects, than developing countries, due to the perceived risk and inability to manage projects. This is significant as it makes it notably harder for LDCs to fund development projects, in line with their national strategic objectives and thus meet the SDGs.

In addition, there is a disconnect between investors seeking projects that are assured positive financial returns, rather than projects seeking funding due to a lack of perceived viability (Clark, Reed, & Sunderland, 2018; Huwyler, Kappeli, Serafimova, Swanson, & Tobin, 2014; Egler & Frazao, 2016). Investors chose projects whereby there is a perceived financial return, which has been a challenge for certain sectors including conservation finance whereby conservation-based revenue streams are considered less competitive and more long-term as compared to competing market opportunities which are more short-term (Huwyler, Kappeli, Serafimova, Swanson, & Tobin, 2014). Furthermore, the complexity of certain sectors impedes investors, whereby sociopolitical constraints delay the commercialisation of revenue mechanisms; such as the acquisition of long-term leases for conservation projects which may affect local communities and political instability may arise (Huwyler, Kappeli, Serafimova, Swanson, & Tobin, 2014; Egler & Frazao, 2016).

Similarly, based on the notion that investors seek positive financial returns, often investment and blended finance mechanisms preclude investments into the Least Developed Countries (LDC), whereby there is urgent need that SDG finance should benefit 47 LDC countries to ensure that they are not left behind (Choritz, Lorenzato, & Santoro, 2018). Of $81 billion mobilised for developing countries, of this $5,5 billion was invested in LDC countries, and on average of amounts mobilised within a blended mechanism are less than one-third of amounts mobilised in developing countries (Choritz, Lorenzato, & Santoro, 2018; Attridge & Engen, 2019).

There are numerous reasons as to why LDC countries are less able to attract private capital and investment through blended finance projects. There are high barriers to private capital in LDCs. These barriers relate to perceived risks relating to macroeconomic, governance, regulatory and infrastructure factors at the enabling environment level; as well as operational and contract risks, small deal size and untested business models at the project level (Choritz, Lorenzato, & Santoro, 2018; Battacharya & Khan, 2019; Attridge & Engen, 2019). Thus, the riskier, smaller and less-tested markets of LDC countries prove challenging in attracting private capital through blending mechanisms, with private capital providers acknowledging the low-risk appetite in which to invest based on the need to the credit ratings; the lack of awareness of investable projects; the strength or lack thereof, of institutions in which to facilitate deals and mandates that solely focus on delivering commercial returns (Choritz, Lorenzato, & Santoro, 2018).

Barriers to private investment are often intrinsic and systemic concerns that adversely affect the ability to create an enabling environment; thus, exposing blending instruments to an array of challenges (Battacharya & Khan, 2019). However, certain blending instruments have been developed in Bangladesh and Uganda solely to build capacity, provide technical support, mitigate against risks and leverage further funding in which to attract further blending mechanisms which have enhanced development additionality (Battacharya & Khan, 2019). Through risk management instruments are used to reduce investor exposure which are effective in building investor confidence, thus improving the flow of private investment in risky and low-yielding sectors (Battacharya & Khan, 2019).

2.2.5.2 Monitoring and measuring impact

Monitoring and evaluation is a critical aspect of a blended finance mechanism, ensuring compliance with performance standards and project expectations, as well as mitigating against problems and potential negative impacts (Pereira, 2018; Choritz, Lorenzato, & Santoro, 2018). As previously highlighted, the lack of common frameworks and regulations surrounding blended finance leads to ambiguity the development of blended finance projects. The complexity of the various structures, their definitions and classifications lead to the difficulty of finding consensus on reporting requirements and standards (Clark, Reed, & Sunderland, 2018; Egler & Frazao, 2016; Adams, 2017; Brest, Gilson, & Wolfson, 2018; Pereira, 2018).

Monitoring and evaluation should feed into knowledge transfer and stakeholder participation, with a proactive role played by all partners on the defining and evaluating the impact metrics both during project design and implementation (Choritz, Lorenzato, & Santoro, 2018). The disconnect between ownership and alignment of monitoring and evaluation, alignment and theories of change is evident with these assessments not being undertaken at either stage (Choritz, Lorenzato, & Santoro, 2018). Whilst reports suggest that understandings of financial return and additional mobilised finance have been explicit, there is a lack of assessment related to development impact (European Commission, 2016; Choritz, Lorenzato, & Santoro, 2018; Battacharya & Khan, 2019).

In a recent Oxfam study which reviewed blended finance projects in agriculture and food security in developing and LDCs, it was found that monitoring and evaluation tend to favour quantitative data including the number of jobs created and the stakeholders accessing credit however lack qualitative data in terms of the poverty reduction, gender or inequality (Saarinen & Godfrey, 2019). The lack of a theory of change as aligned to all stakeholders is limited and there is insufficient information on results reporting; thus, leading to an overall information gap on the impact of blended finance (Saarinen & Godfrey, 2019). Thus, based on the lack of evidence about the extent of development outcomes, the lack of transparency and reporting on outcomes leads to questions on the assumptions that blended finance is inherently good and efficient in which to achieve development results. Therefore, in order to critically evaluate blended finance projects, evidence needs to accompany a theory of change that is aligned to all partners (Saarinen & Godfrey, 2019).

Efforts to monitor the flows of public and private financing through partnerships is often met by commercial privacy barriers; flows have become significantly difficult to track; of which have considerable implications for the transparency of public funds and expenditure (Mawdsley, 2018; Egler & Frazao, 2016). Due to the nature of private financing within development projects, private organisations are under no obligation to publicly disclose financial investments made in the sustainable development with DFI or blended finance projects (Clark, Reed, & Sunderland, 2018; Egler & Frazao, 2016). The inability to provide transparent reporting on financial flows, as well as incomplete and asymmetrical information leads to noted barriers for future financial flows, which influence a wide range of stakeholders from communities to nation-states (Clark, Reed, & Sunderland, 2018; Adams, 2017). In addition to the barriers presented, data and information provided for public consumption is often dated and basic and thus it becomes difficult to hold project partners to account for projects (Pereira, 2017a; Choritz, Lorenzato, & Santoro, 2018).

There is very little information about how certain projects implement monitoring and evaluation, particularly in relation to ownership and responsibility of the practice. There is a significant lack of understanding concerning who owns monitoring and evaluation, particularly how frequently it should take place (Pereira, 2018). There is a lack of openness about monitoring and evaluation as well as the lack of clarity about consultations and actors involved; which makes it particularly difficult for local stakeholders to understand mitigation measures, environmental and social plans as well as complaint mechanisms (Pereira, 2018; Pereira, 2017a).

As such, Brest, Gilson and Wolfson (2018) suggest that too much emphasis is placed solely on value alignment when considering partners, and more needs to be placed on social value creation. Project outcomes are derailed when partners seek value alignment only, with little attention on the alignment on outcomes. Alignment needs to address the inability to reach consensus on project outcomes, impact and financial returns and how those are should be delivered and measured. Vague measurement standards impose risks on stakeholders, imposing risks to measurement of social good (Brest, Gilson, & Wolfson, 2018; Rode, et al., 2019).

2.2.5.3 Accountability and transparency

There is a growing concern, based on the lack of alignment at project design, that transparency and governance are affected. Notably in blended finance, the public

sector mandate to enhance the enabling environment investment, through negotiated regulations has meant publicly accountable governance and stakeholder engagement has been lost (Adams, 2017).

Pereira (2018) found that whilst analysing various blended finance instruments hosted by European DFIs on to their investments in developing countries, found that out of 11 countries and DFIs included in the study, none had a structured process or a requirement to undertake consultation with local stakeholders of developing countries. Further, Pereira (2018) reported that three DFIs had structured processes that included engagement with donor countries and other stakeholders through the design phase. Consultation is not a requirement of DFI level, and is generally presumed to take place through a project partner, however with very little accountability that consultations do indeed take place (Pereira, 2018).

Further to this study, it was suggested that there was very little data on whether DFIs indeed monitored projects, and the impact of these projects. One DFI, Norfund, conducts an annual assessment to ensure that local communities and local project partners are fulfilling their mandates in terms of clean energy, finance and food security in largely LDC economies. Further to this study, only one of 11 DFI-led blended finance mechanisms had readily available data. Ten mechanisms performed poorly in terms of the provision of accessible information and had no policy on access to information or had no information on disclosure request procedures (Pereira, 2018). Of the 11 DFI-led BF projects, all received an average to poor performance in relation to complaint mechanisms.

The lack of participation with developing country governments and stakeholders within the process, presents a very serious obstacle to ensuring that affected communities are able to hold project funders accountable or ensure participation in decision-making processes (Pereira, 2017a; Romero, 2017). Ownership and the responsibility of risk have largely been ignored within discussions around blended finance and development finance (Mawdsley, 2018). Further, the lack of effective coordination and engagement between stakeholders results in deals not coming to fruition or being halted after execution, with risks and rewards being shared unfairly (Choritz, Lorenzato, & Santoro, 2018). Participation requires the regional or public perspective, the community perspective and the financial perspective, and the design of mechanisms need to incorporate an understanding of these perspectives and explicit and implicit interactions between these perspectives (Rode, et al., 2019).

The lack of consultation, participation and engagement, particularly local communities, means that projects are designed in a way that does not consider the local communities and this can negatively affect local communities (Choritz, Lorenzato, & Santoro, 2018; Battacharya & Khan, 2019). The inability and delay in managing stakeholder engagement at project design and implementation phase can ultimately influence public perception and impede scalability, replicability and the sustainability of blended finance projects (Choritz, Lorenzato, & Santoro, 2018).

The lack of transparency in data, as well as the lack of sufficient complaint mechanisms within blended finance projects are detrimental to ensuring mutual accountability. The ability of local communities or recipients to complain or request action is important in facilitating accountability to project design stakeholders (Pereira, 2018; Choritz, Lorenzato, & Santoro, 2018; Battacharya & Khan, 2019). Ineffective complaint mechanisms impede the ability to identify problems and develop corrective measures, and create significant reputation risks for participating stakeholders (Pereira, 2018).

2.2.5.4 Conclusion for blended finance

The literature on blended finance highlights both opportunities for growth and development, however there are important concerns to acknowledge that could potentially impede the future of blended finance. While it is important to attract private sector investment, it is as important to maintain national policy integrity. At the centre of these multistakeholder partnerships, are a range of various stakeholders who represent various sectors and bodies and thus ensuring effective stakeholder engagement is critical.

Thus, if blended finance is to work as a coordinated action and given the growing prominence of the SDGs by the business sector; new tools, models and frameworks for engagement, stakeholder participation and reporting are overdue (Adams, 2017; Clark, Reed, & Sunderland, 2018; Choritz, Lorenzato, & Santoro, 2018). Integrity measures that safeguard partnership objectives are critical. Blended finance collaborations are alliances of self-selected collaborators with their own agendas, who lack neutrality; therefore, there is critical need to monitor risks, assess contributions, establish system-wide norms and standards and improve the flow of information and participation from stakeholders (Adams, 2017; Romero, 2017).

Thus, in order to ensure integrity, responsibilities need to not only be shared, but they also need to be well defined and measured in order to protect the public interest (Adams, 2017). Partnerships need to be embedded in policy adherence that focuses strictly on the benefit of sustainable development. The adoption of diverse measures that secure fiscal space for social protection, transparency and accountability have been proven to work in emerging economies and create greater participation and ownership within public-private partnerships; which correspond to the implementation of development initiatives (Ortiz, Cummins, & Karunanethy, 2017).

Serious strategic direction is needed; discussions need to be had on the understanding of the most pressing and urgent development needs as well as engaging with key stakeholders including NGOs and public officials, of whom should participate in the debates around blended finance (Pereira, 2017a; Choritz, Lorenzato, & Santoro, 2018)..

2.3 Stakeholder theory: the theoretical lens for this research

2.3.1 Introduction to stakeholder theory

The notable increase in attention of stakeholders within academia and business management research over the last 50 years highlights greater need for understanding of the context and environment of business (Pedrini & Ferri, 2019). There is increased pressure on companies to meaningfully engage and embed stakeholder considerations into their actions (Pedrini & Ferri, 2019).

The evolution of stakeholder theory has seen three distinct periods emerge. These periods have highlighted how the construct has evolved in light in light of consciousness of companies and the business environment to that and those which exist within the system. Laplume, Sonpar and Litz (2008) highlight that period one can be described as the incubation phase which set forth an introduction to stakeholder theory where academics, such as Freeman took centre stage. Period two saw the incremental growth of stakeholder theory through the works of Donaldson and Preston which introduced the descriptive, normative and instrumental stakeholder theories (Laplume, Sonpar, & Litz, 2008). Period three has seen the maturity of stakeholder theory whereby it has become increasingly important in managerial discourse due to cognisance placed on the external social issues that affect institutions as a whole (Laplume, Sonpar, & Litz, 2008).

As such more recently, stakeholder theory and the practice of stakeholder engagement has seen a shift that aligns it with Corporate Social Responsibility however this association, some theorists argue, ignores the non-human environment; including that of institutions and systems (Barney & Harrison, 2018; Freeman, Phillips, & Sisodia, 2018). Hörsich, Freeman and Schaltegger (2014) highlight that stakeholder theory can most usefully be applied to sustainability management. Whereby sustainability management considers stakeholders within both the environment and socioeconomic systems (Starik & Kanashiro, 2013).

Furthermore, more recently stakeholder theory has begun to take notice of constructs around the exchange of value and trust, with the understanding that stakeholders are interconnected, whereby a firm's engagement towards one stakeholder are visible and thus can influence members within the stakeholder ecosystem (Crane, 2018).

This section will seek to explore the history, evolution and current understanding of stakeholder theory, and will then consider stakeholder engagement as the practice of stakeholder theory.

2.3.2 History of Stakeholder Theory and Freeman's contribution

The earliest detailing of stakeholder theory considered the way in which firms could organise their stakeholders and information about these stakeholders in order to undertake strategic planning (Carroll & Nasi, 1997; Freeman, Phillips, & Sisodia, 2018). The concept of an approach to stakeholders was first outlined during a conference in Finland, whereby Swedish academics Eric Rhenman and Bengt Stymne released their book *"Foretagsledning I En Foranderlig Varld"* in 1965, which translated to Corporate Management in a Changing World (Carroll & Nasi, 1997). Through this work and the conference proceedings, stakeholders were defined in an organisation as individual and groups who depend on a firm in order to achieve their goals, and importantly who the firm is dependent on for their own existence (Carroll & Nasi, 1997). Thus, stakeholder theory becomes widely used in academic and business dialogues; from the late 1960s to 1970s, with the aim business strategy and policy more effective. (Carroll & Nasi, 1997; Freeman, Phillips, & Sisodia, 2018).

An introduction to stakeholder theory would be incomplete without acknowledging the seminal work of Freeman. Through his renowned book, Strategic Management: A Stakeholder Approach, released in 1984 and again in 2010; Freeman advanced a

stakeholder approach which emphasised the consideration of external environment having a stake in the firm (Freeman, 1984). Freeman argued that the firm can no longer ignore the external environment; as institutions were not static and subject to change; through both internal and external change (Freeman, 1984). Acknowledging businesses and organisations as social institutions, Freeman (1984) adapted the traditional Managerial View of the Firm to a broader and more holistic Stakeholder View of the Firm; which considers the external, and internal, stakeholders with whom have a stake in the firm (Freeman, 1984). As such, stakeholder theory advanced that within an ecosystem of different institutions and actors; shareholders represent but one group amongst several others and it is the responsibility of the firm to engage and satisfy the needs of its stakeholders (Freeman, 2010). Freeman (2010) argues that in the effecting the delivery of strategy and performance of the firm, business success can be assured when they can deliver maximum value to its stakeholders.

In light of Freeman's seminal works, of which bought stakeholder theory to the fore, it is essential to consider the varying and evolving definitions of stakeholder theory. Stakeholder theory initially found the stakeholder as that who has a legitimate interest in the firm and can affect or is affected by the organisation's objectives (Freeman, 1984). Therefore as a strategist, one must consider the groups that impact the firm and respond to the groups that the firm affects (Freeman, 1984). Stakeholder theory is a response to the firm insistence of responsibility to the stockholder, and thus the definition evolved to be that of individuals and groups whom either benefit or can be harmed by the firm and those whose rights are either violated or valued by corporate actions (Evan & Freeman, 1988). Responsibility in terms of management of a firm centred on the ability to maintain a balance between stakeholders, for corporate survival (Evan & Freeman, 1988). Earlier definitions of stakeholder theory encompassed the view of the firm and the ability of the firm to appease its stakeholders as a purely strategic decision; whereby the stakeholder interests were seen as playing as intrinsic to enhancing firm performance (Laplume, Sonpar, & Litz, 2008).

While this draws to more socially responsive management theory, criticisms of this definition suggest that the 'can effect' criteria causes the stakeholder to lose significance (Laplume, Sonpar, & Litz, 2008). Also, Key (1999) suggests that stakeholder theory, as proposed by Freeman, is inadequate in explaining the process in which stakeholder theory can be adopted by firms, this due to the incomplete

linkage between the internalities and externalities that affect the firm and of which the firm affects. In addition, a critique of Freeman suggests that due to these external variables, the environment of business is complicated. The complexity of the system, where companies operate, and the subsequent analysis needed of the system has received insufficient attention concerning Freemans' stakeholder theory (Key, 1999; Wood, 1991).

Further, Freeman's stakeholder theory provides an inadequate environmental assessment, focusing instead on the business and society/social issues, rather than the physical environment as a stakeholder (Key, 1999; Barney & Harrison, 2018). Also, as Freeman had hoped, the integration of stakeholder theory into strategy research would enable better firm performance; however, the aforementioned lack of process has led to the struggle on integration (Marti & Gond, 2019). It is suggested, based on Freeman's earlier works, that there is a perception of trade-off between a course of action that encompasses stakeholders and is morally sound, verse a course of action that is economically profitable, whereby managing stakeholders would have outcomes detrimental to the firm's bottom line (Marti & Gond, 2019).

However, it is acknowledged, that while the Freemans' earlier definitions of stakeholder theory have drawn criticism, they have centred stakeholders as legitimate to business practice, and been seized upon as a vital discourse in which to considered the broader system of which firms operate (Wood, 1991; Key, 1999). Further, stakeholder theory seeks to challenge the dominant paradigm of the economic view of the firm and the stock/shareholder as a predominant interest to the firm (Key, 1999; Mainardes, Alves, & Raposo, 2011).

2.3.3 Further definitions of stakeholder theory

As an offshoot of Freeman's seminal work, a variety of interpretations of stakeholder theory have emerged; with varying diversity and implication (Donaldson & Preston, 1995). Based on the complexity of the system, as an earlier critique of Freeman, Rowley (1997) suggests that instead of considering stakeholders theory with the centre being that of the firm, it would be more beneficial to examine stakeholder theory through the lens of networks and network theory. Thus, the complexity of the system allows for a range of relationships and connections that seek to provide a greater analytical examination (Rowley, 1997; Key, 1999).

Stakeholder theory, therefore, considers multiple, independent stakeholder demands and serves to identify within the network, how organisations can and should respond to concurrent influences of various stakeholders (Rowley, 1997). Stakeholder influence and action, therefore, move beyond dyadic interactions towards understanding patterns and interactions within interactions, as well as relationships amongst stakeholders which influence the firm (Rowley, 1997). Therefore, stakeholder theory evolves to consider a broader, societal view of stakeholders, their influences and the relationships they have on each other in a network of actors, with the firm or firms sitting as focal actors. Firms answer to simultaneous demands of multiple stakeholders who exhibit unique patterns of influence, and thus the dyadic view of stakeholder theory is insufficient to explain the complexity of the environment and advance processes that will enable firms to manage this complexity (Rowley, 1997; Key, 1999).

As stakeholder theory began to gain more traction, the varying nature of its descriptive accuracy, its instrumental power and its normative validity began to take hold (Donaldson & Preston, 1995). As such, it would be essential to refer to the work of Donaldson and Preston (1995) who presented three varying aspects of stakeholder theory; descriptive, normative and instrumental. It is argued that these different aspects of stakeholder theory have different values and their values differ in use, resting on different bases, such as normative stakeholder theory resting on a base that is ethical and philosophical (Donaldson & Preston, 1995). Donaldson and Preston (1996) suggest that indeed the model framework for stakeholder theory is that descriptive, normative and instrumental stakeholder theories rest on each other, and while quite distinct are interrelated. The work of Donaldson and Preston is considered crucial to the understanding stakeholder theory in that it is perhaps the more pragmatic approach to stakeholder theory, in contracts to Freeman's more philosophical view (Steurer, 2006). The systematic nature of the three aspects considers a triple-perspective view of stakeholder theory which considers its conceptual, corporate and stakeholder perspective (Steurer, 2006).

2.3.3.1 Descriptive stakeholder theory

Descriptive stakeholder theory reflects how firms consider their stakeholders, and essentially what the firm is, as descriptive of the constellation of competitive and cooperative interests which possess value and influence, with the firm as the focal actor (Donaldson & Preston, 1995). Therefore, it is the specific, descriptive,

corporate characteristics and behaviours that encompass the nature of the firm, including the way leadership manages the firm and its stakeholders and way in which boards think about the interests of the firms' constituencies (Donaldson & Preston, 1995). Descriptive stakeholder theory encapsulates the sense of what the world "really" is, how firms identify, manage and interact with their stakeholders (Freeman, 1999).

Descriptive stakeholder theory encompasses the ability to identify stakeholders and their salience based on urgency, power and legitimacy (Mitchell, Agle, & Wood, 1997). Power considers the actor within the relationship as having power, whether it be coercive, utilitarian or normative power as a means in which to impose will within the relationship (Mitchell, Agle, & Wood, 1997). Legitimacy refers to the notion of what is considered socially acceptable and expected in structures or behaviours, and when coupled with power, there is an attempt to determine whether relationships are legitimate or not; whereby an entity or individual has legitimate standing within society or within its relationship with the organisation (Mitchell, Agle, & Wood, 1997). Urgency considers whether stakeholder claims and relationships are time-sensitive in their nature and whether this time-sensitivity is critical for the ongoing well-being of the firm, therefore whether these stakeholders and their claims on the firm call for immediate attention (Mitchell, Agle, & Wood, 1997).

The ability to categorise stakeholders based on whether they fall have legitimacy, power and urgency becomes central to Mitchell, Agle and Woods (1997) view of descriptive stakeholder theory. In seeking to explore the complexity of these factors, it considers how these factors are interrelated and fluid, these factors are neither static nor inert, as stakeholders are constantly changing in their salience to the firm, with different degrees and types of attention depending on the attributes they possess; which can vary from issue to issue and from time to time (Mitchell, Agle, & Wood, 1997).

Therefore, descriptive stakeholder theory seeks to ensure that firms are able to manage and identify their stakeholders based on their salience to the firm, which would seek to enhance legitimate claims and protect legitimate interest (Mitchell, Agle, & Wood, 1997). Further, descriptive stakeholder theory seeks to explain which of the firm's stakeholders are important, when they are important and how resources should be allocated to those stakeholders (Jawahar & Mclaughlin, 2001).

Further, descriptive stakeholder theory considers that stakeholders are identified and considered important based on their potential to satisfy organizational needs, with some stakeholders becoming more or less important based on where a firm is in relation its organizational life-cycle (Jawahar & Mclaughlin, 2001). Therefore, as firms needs change over time, stakeholders are identified based on their importance and influence to the firm over that period of time; thus, considering the finite resources of a firm with managers dealing with the nature of competition and the pressures exerted by stakeholders (Jawahar & Mclaughlin, 2001). Inherent in this, is the descriptive analysis which focuses on relationships and the conflicts of interest between stakeholders and how the management of organisations cope with the difficulties of managing multiple objectives (Mainardes, Alves, & Raposo, 2011).

Descriptive stakeholder theory calls for an understanding of the different strategies that encompass different stakeholders at different times, but also how firms should deal with the same stakeholder at different times; based on the available resources and stages of an organisations life-cycle (Jawahar & Mclaughlin, 2001). Further, in the considering corporate sustainability, descriptive stakeholder theory considers the paradox perspective in which firms and decision-makers deal with tensions about sustainability issues through descriptive constructs (Hahn, Frigge, Pinkse, & Preuss, 2018). The ability of managers to respond to identify these tensions that influence sustainability becomes essential in designing robust and meaningful responses to stakeholders (Hahn, Frigge, Pinkse, & Preuss, 2018).

In relation to the view of descriptive stakeholder theory, the challenge considers how organisation do actually deal with their stakeholders, including how do stakeholders make claims to corporations and how do stakeholders try and achieve their claims and considering the brevity of issues faced by firms, which issues are actually considered (Steurer, 2006). Thus, these questions consider what is essentially desirable with that which is real in relation to mapping stakeholder strategy (Mainardes, Alves, & Raposo, 2011).

2.3.3.2 Instrumental Stakeholder Theory

Instrumental stakeholder theory considers whether it is beneficial to take stakeholders into account, establishing a framework based on connections between the practice of stakeholder management and the performance of the organisation (Donaldson & Preston, 1995). Therefore, instrumental stakeholder theory considers

the management of beneficial stakeholders that would enable the firm to reach its corporate goals (Donaldson & Preston, 1995). The theory posits that organisations that practice stakeholder engagement practices will be successful, all things being equal, in terms of growth and profitability (Donaldson & Preston, 1995). Identification of the connections or lack thereof, of stakeholders which will enhance the goal of achieving organisational objectives (Donaldson & Preston, 1995).

Therefore, instrumental stakeholder theory considers the “means” and the “ends” whereby certain outcomes and performance will be enhanced through strategic management of stakeholders, with the assumption that corporate decision-making incorporates both stakeholder engagement and marketplace success as a means to the end (Jones & Wicks, 1999). Therefore, instrumental stakeholder theory considers that if you want firms want to maximise shareholder value, they ought to pay attention to key and valuable stakeholders (Freeman, 1999). Good stakeholder management is thus instrumental in its value, whereby firms view stakeholders within the environment who need to be managed in order to gain revenue, profits and ultimately returns to shareholders (Berman, Wicks, Kotham, & Jones, 1999).

In addition, instrumental stakeholder theory also considers the attention paid to stakeholders that may affect firm decisions negatively (Berman, Wicks, Kotham, & Jones, 1999). Stakeholder engagement, based on the instrumental stakeholder theory, is essential for a firm’s strategy, whereby the stakeholders and the types of relationships will produce the better performance outcomes for the firm (Berman, Wicks, Kotham, & Jones, 1999). The instrumental perspective has become increasingly popular as researchers have highlighted stakeholders as a key factor for both better performance and competitive advantage (Mainardes, Alves, & Raposo, 2011). Instrumental stakeholder theory is based on relational pressures that stakeholders may apply and subsequently ow organizational strategy is formed with those stakeholders in consideration (Mainardes, Alves, & Raposo, 2011).

Certain results are dependent on behaviour towards stakeholders, of which firms contract with stakeholders on the basis of mutual trust and cooperation, they will have a competitive advantage over those that do not engage in the same contract (Jones, 1995). This considers the relationships of firms and their stakeholders within a contract metaphor whereby managers are contracting agents for their firms and markets tend towards equilibrium and efficient contracting (Jones, 1995). Firms that practice opportunistic behaviour, or opportunism, in relation to their stakeholders will

have a competitive disadvantage, where the costs of opportunism and averting or reducing opportunistic behaviour can be significant for a firm (Jones, 1995). Jones, Harrison and Felps (2018) advance this theory by suggesting that in addition to mutual trust and cooperation, knowledge-sharing becomes a valuable characteristic of a performance consequence for a firm who engages with its stakeholders. Thus, relational contracts of which the flows of knowledge happen between stakeholders are able to achieve higher net value, and thus an important capability to be developed by the firm (Jones, Harrison, & Felps, 2018).

Instrumental stakeholder theory has received its share of criticism in terms of the inability to deliver mutual returns. The balance of the benefits generated in terms of a firm's strategic relationship with its stakeholders can be skewed, in which not all parties benefit equally and justly (Mainardes, Alves, & Raposo, 2011). Achieving balance in order to deliver performance can be challenging as instrumental stakeholder theory doesn't provide an alignment as to how to benefit parties both justly and equally, with the consideration that the network of stakeholders who affect and can be affected by the firm as infinite (Mainardes, Alves, & Raposo, 2011).

Therefore, representations of stakeholders and engagement are simplified based on greatest influence, and therefore there is potential to ignore certain stakeholders based on the fact that they do not have instrumental value and or serve strategic interest. Marti and Gond (2019) find Jones, Harrison and Felps' (2018) view on the competitive advantage of instrumental stakeholder theory dangerous. The critique of Jones, Harrison and Felps' (2018) view centres on the fact instrumental stakeholder theory is removed from the goals of stakeholder theory whereby an approach that directs instrumentality towards ethical considerations becomes hard to imitate and rare (Marti & Gond, 2019). The view is that linking instrumentality and ability to achieve competitive advantage to ethical considerations is flawed (Marti & Gond, 2019). Marti and Gond (2019) argue that stakeholder theory should be explicitly normative in which business has to make morally- and ethically sound approaches to business.

2.3.3.3 Normative Stakeholder Theory

Normative stakeholder theory often associated as being the heart of stakeholder theory (Friedman & Miles, 2006). Normative stakeholder theory considers that stakeholders have valid interests in the organisation and thus are identified by their

interests and therefore are of intrinsic value to the organisation (Donaldson & Preston, 1995). This intrinsic value is guided by the notion that stakeholders merit consideration, based on whom they are; not because they have the ability to further the interests of others, including that of shareholders (Donaldson & Preston, 1995).

Normative stakeholder theory interprets the action of the firm under guidelines that are moral and philosophical in their nature. Whereas instrumental considers the notion that if a firm wants to achieve a certain result, then this particular stakeholder should be engaged with; however normative at its core considers that firms should or shouldn't do something based on the duality of whether it's right or wrong (Donaldson & Preston, 1995).

The normative approach towards the definition considers, in light of stakeholder theory, how the organisation should be managed and how leaders should act (Evan & Freeman, 1988). The narrative interpretation of normative stakeholder theory posits what 'ought to be' with a narrative account of moral behaviour within a stakeholder context; whereby managers interact with stakeholders in an ethically complete fashion (Jones & Wicks, 1999). Within this view, rather than the means to end the argument of instrumental, the focus is on what a firm is meant to do as both a means and ends; this considers objectives that are linked to stakeholder engagement and thus mutually reinforcing (Jones & Wicks, 1999).

A firm establishes a core set of moral principles, in relation to how it treats its stakeholders, as a fundamental driver for decision-making (Berman, Wicks, Kotham, & Jones, 1999). Organisational engagements are thus defined by interests of stakeholders, whereby stakeholders act from different positions of power and legitimacy; and thus, these engagements depend on the organisations ability to negotiate and find sustainable and cooperative solutions (Friedman & Miles, 2006).

The normative dimension of stakeholder theory has come to include various ethical considerations; including the rights to property and feminist ethics; at the centre, the consideration for the view that stakeholders should be considered equally (Evan & Freeman, 1988). Further dimensions include that of the construct of the social contracts (Evan & Freeman, 1988; Phillips, 2003) within the understanding of derivative and normative legitimacy, fairness and justice (Phillips, 2003; Miles, 2015). Arguing that this moral view is essential, it is suggested that stakeholder theory; is ever more important as formal organisations are the dominant institution and with

increasingly unethical misconduct and corporate negligence towards communities and the natural environment being all too frequent (Laplume, Sonpar, & Litz, 2008).

Based on the reference of normative stakeholder theory is a practice of society, the way in which a firm lives in a good or ideal society and thus what ought to be done in order to achieve good; significant criticism of normative theory relates to what is the meaning of good and on what moral principles are actions based (Friedman & Miles, 2006). Therefore, if what is good and moral are linked to norms, which are both times and place-specific, thus how does one consider cultural diversity and cultural relativism.

In addition, Freeman (1999) suggests that it is difficult to link normative stakeholder theory to real firms and real stakeholders, thus the need for an instrumental claim which is far more practical and strategic in its nature. Further challenges in this respect are highlighted in that the definition of moral is ambiguous, the stakeholder spectrum and its classification are variable to many conditions and the balancing of respective interests can cause inherent problems and thus at the core, normative stakeholder theory can be impractical and it lacks a solid foundation (Lepineux, 2005). The inability to consider the broad place of civil society has been identified as further criticism of normative stakeholder theory, as highlighted by Lepineux (2005). Lepineux (2005) considers that normative stakeholder theory thus needs to be embedded in broader considerations of social cohesion and the role of firms within civil society. This particularly so, within the broader context of ‘a global society’ and the impact and influence of inequality between developed and developing countries (Lepineux, 2005). Lepineux (2005) considers a model of stakeholder mapping which considers the organisation at the centre, with its societal (mapped through global society, national society and social groups and institutions) and business stakeholders (mapped through shareholders, internal business and external business stakeholders) mapped basis of social cohesion as a foundation for normative stakeholder theory.

In relation to the behaviour motives for stakeholder participation and influence; the shift in the theory details the shift from general assumptions of self-interested stakeholders to the more heterogeneous distribution of diverse behavioural types among stakeholders (Hahn, 2015). In this regard, reciprocal stakeholder relations consider corporate behaviour based on normative beliefs about the meaning of prosocial corporate behaviour through the application of fairness norms; whereby

reciprocal stakeholders bear the costs of either positive or negative behaviour (Hahn, 2015). The notion of reciprocal, value-driven normative behaviour lends itself to new constructs with stakeholder theory; as it provides insights into clarifying the different institutional and strategic settings towards the formation of stakeholder expectations as well as the conditions of which stakeholders can implement normative demands and impact performance (Hahn, 2015).

2.3.3.4 Convergent stakeholder theory with normative stakeholder theory at the centre

Further, the theoretical implications and challenges of both descriptive, instrumental and normative stakeholders imply the need for a convergent view on stakeholder theory; with normative stakeholder theory as the fundamental foundation (Jones & Wicks, 1999). Whilst the convergent view of stakeholder theory highlights the to have a synthesized view of stakeholder theory, whereby the interests of legitimate stakeholders all have value; whereby it is must be assumed that no set of interest dominates over others (Jones & Wicks, 1999). Taking into account the convergence of these ideas, it is important that boundaries are established as to how a stakeholder group is constituted, as well as how membership is defined, and the nature of the relationship that exists with a firm (Mainardes, Alves, & Raposo, 2011).

It is important to explore the varying definitions of stakeholder thinking as it is aiming to create a narrative that helps researchers and practitioners understand and remedy problems of stakeholders and business. These problems come to afore in understanding the creation and trade of value, the problem of connecting ethics and capitalism and a narrative that helps manager and management address such challenges (Freeman, 2010; Marti & Gond, 2019).

2.3.4 Stakeholder theory and the practice of stakeholder engagement

Stakeholder theory, through the practice of stakeholder engagement is seen as corporate responsibility in action (Greenwood, 2007). However, there is an assumption that a firm that engages with its stakeholders is considered responsible, however stakeholder engagement is complex and therefore it is not exclusively the sphere of corporate responsible firms nor is it the exclusive domain of socially responsible activities within firms (Greenwood, 2007). Whilst stakeholder engagement has moral elements, it should be considered a morally neutral activity as firms may engage with stakeholders purely to further organisational objectives

rather than out of a sense of moral or ethical obligation; such as through corporate governance or risk management mitigation strategies (Greenwood, 2007).

The consideration of stakeholder engagement as a relationship between organisations and its stakeholders becomes a vital characteristic of stakeholder engagement (Greenwood, 2007; Noland & Phillips, 2010). Noland and Philips (2010) suggest it that it is not just about the actions, but the value of relationships and the meaning of those relationships to an organisation. Stakeholder engagement, as a practice of stakeholder theory, has too considered that it is not sufficient just to interact with a stakeholder, which logically necessary as a business (Noland & Phillips, 2010). Stakeholder engagement should involve a recognition, respect and a deeper engagement that takes into account social, economic and environmental effects of an organisation on its environment (Noland & Phillips, 2010). Noland and Phillips (2010) argue that ethical considerations of stakeholder engagement, in which open, honest, and respectful engagement are vital to a organisation's strategy, whereby consider their normative role in society.

2.3.5 Stakeholder theory, value creation and sustainability

The shift in stakeholder theory towards a more reciprocal and mutually-beneficial discourse; no longer places the firm at the centre of guiding these relations but sees the cohesive participation of stakeholders in a network of relationships.

Thus, stakeholder theory explores that in which stakeholder relationship are mutually beneficial, in which stakeholders are co-creators and recipients of value in the joint-value creation process (Freudenreich, Ludeke-Freund, & Schaltegger, 2019). Reciprocal value creation seeks to enhance knowledge sharing, reduced transaction costs and greater moral motivation (Jones, Harrison, & Felps, 2018).

Thus, in new business models of sustainability, the need to incorporate value creation as a basis of stakeholder engagement considers whom value is created with and for what purpose. Value-creation mechanisms within the realm of stakeholder theory seek to explore enhancing managerial competencies whereby mutually beneficial value is captured and enhanced through outcomes whereby firms are able to build synergistic social and economic value for their stakeholders (Tantalo & Priem, 2014). The articulation and identification of a firms values and that of its stakeholders are increasingly important for leaders and managers of the business today (Pinto, 2019). Value created both with and for individual groups has been

highlighted as a critical area for future exploration; whereby stakeholders have a dual role in sustainability problems and solutions (Freudenreich, Ludeke-Freund, & Schaltegger, 2019).

Value considers how businesses are able to drive both value and profits in order to ensure stakeholders participation (Montabon, Pagell, & Wu, 2016). The value and utility stakeholders require is far more than economic profit. In order to retain participation and support, value needs to be explored; what it means, how it is created and how it is measured and shared amongst the firm and its stakeholders (Harrison & Wicks, 2013). Further too, understanding value and the ability to integrate stakeholder participation has further benefits and continues to drive the importance and relevancy of stakeholder theory as a critical theoretical framework. Placing commitment on stakeholders can lead to innovation and efficiency, as new information from the point of stakeholder participation can guide an organisation toward superior performance (Harrison & Wicks, 2013; Jones, Harrison, & Felps, 2018).

2.3.6 Stakeholder theory and sustainability management

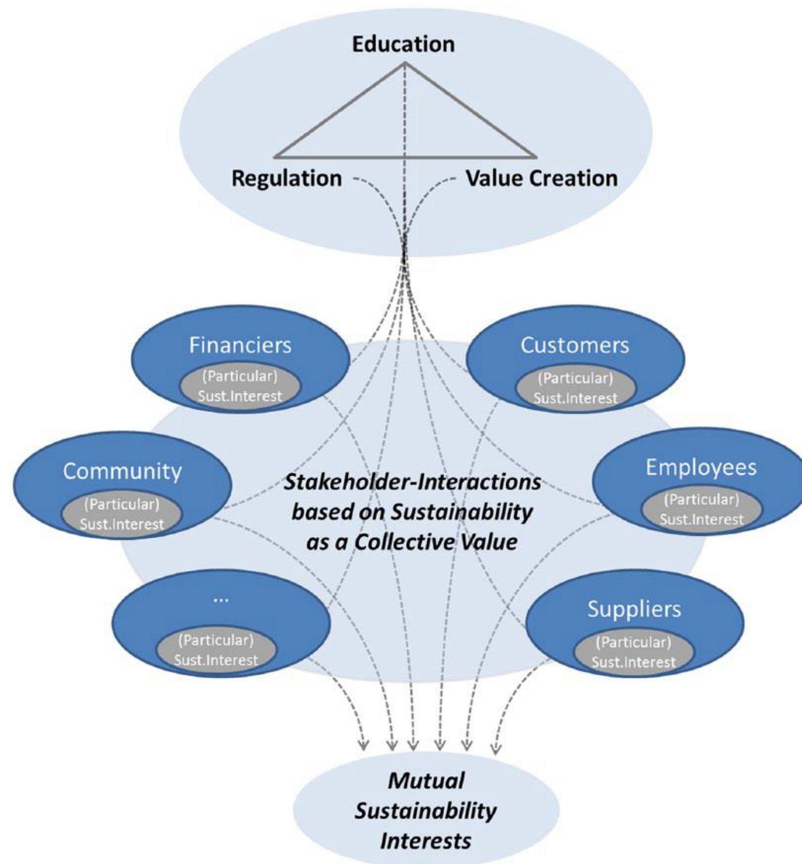
More recently, stakeholder theory has considered the considerable shift of businesses whom have become more conscious to the external environment of business, particularly in light of discourses surrounding responsible and ethical leadership and the Sustainable Development Goals. The SDGs have captured the attention of the business community with leadership in leading global corporations highlighting their attempts towards the realisation of the SDGs within their strategic agendas (Adams, 2017).Thus, stakeholder theory, particularly normative stakeholder theory, has transitioned from stakeholders as being beneficial to strategic management to the ethical considerations of stakeholders. Therefore, more recently, normative stakeholder theory considers the societal expectations for behaviour that stems from social discourses within the broader societal and institutional context of organisations (Hahn, 2015). Sustainability should be addressed and measured in an integrative fashion to must account for all its stakeholders through the entire network; firms need to explicitly recognise all its stakeholders, even those without an economic stake in the firm and treat those stakeholders as equally valid (Montabon, Pagell, & Wu, 2016).

Hörsich, Freeman and Schaltegger (2014) highlight the ethical, normative role of stakeholder theory's relationship with sustainability management, and vice versa. Furthermore, value creation sits at the heart, whereby reciprocal and mutual value creation drive sustainability and an organisation's relationship with its stakeholders (Hörsich, Freeman, & Schaltegger, 2014). Hörsich, Freeman and Schaltegger (2014) highlight that sustainability management is driven by societal, ecological and economic goals more explicitly than stakeholder theory; and time and durability factors play a greater role in sustainability management.

However, stakeholder theory, the practice of stakeholder engagement and sustainability management is important due to its contribution to sustainable development. Hörsich, Freeman and Schaltegger (2014) cite the importance of understanding stakeholder theory within sustainability management in that stakeholder engagement has the potential to anchor sustainability in the mindset of stakeholders, creating mutual sustainability interests and empowers societal and civil society stakeholders to act as intermediaries between nature, socioeconomic challenges and the organisation.

Further, Hörsich, Freeman and Schaltegger (2014) present a conceptual framework of interrelated factors that have been highlighted as being critical for which to achieve stakeholder engagement with sustainability in mind. This conceptual framework has the goal of strengthening sustainability in the mindsets of stakeholders, whereby mutual value is created that empowers stakeholders.

Figure 1: Hörsich, Freeman and Schaltegger (2014) Conceptual Framework Sustainability Management



Note. From Hörsich, Freeman and Schaltegger (2014). Applying Stakeholder Theory in Sustainability Management: Links, Similarities, Dissimilarities and a Conceptual Framework

This conceptual model highlights three factors that are identified as being crucial to for incorporating and empowering stakeholders in sustainability management. With the aim of enabling the value of sustainability as a mutual interest for stakeholders, identifying stakeholders and providing insights on the mechanisms that will enable participation with sustainability in mind (Hörsich, Freeman, & Schaltegger, 2014). Three factors are mentioned include education, value creation and education.

Education considers the ability of organisations to increase efforts in education, whereby knowledge-sharing becomes a key business practice in which to engage stakeholders, particularly in relation to sustainability (Hörsich, Freeman, & Schaltegger, 2014). Education, within this context considers the ability of organisations to share with stakeholders projects and plans that pertain to sustainability which helps raise awareness and empowers stakeholders (Hörsich, Freeman, & Schaltegger, 2014). There is also need to share with broader sectors in

order to increase awareness on sustainability and the potential benefits that are associated with them.

Regulations considers the need to development of regulations and standards that govern progress towards sustainability, through ISO standards and various regulations (Hörsich, Freeman, & Schaltegger, 2014). Strong incentives in which encourage stakeholders to cooperate are essential in which to ensure organisations and projects comply with sustainability and in this regard, awards are given to stakeholders and organisations to ensure their mutual cooperation (Hörsich, Freeman, & Schaltegger, 2014). Awards and setting standards can help to raise awareness amongst organisations, and further incentivise organisations to enhance their stakeholder and sustainability management processes (Hörsich, Freeman, & Schaltegger, 2014).

Value creation, *Hörsich, Freeman and Schaltegger (2014)* identify as being a crucial factor for stakeholder engagement. Mutually reciprocal value creation considers the creation of new and innovative solutions that enhance engagement and sustainability. Value creation as tied to both stakeholder theory and sustainability management in its view of enhancing engagement between stakeholder through activities that are economically successful but create sustainability and development impact (Hörsich, Freeman, & Schaltegger, 2014). Further, as linked to stakeholder theory, the idea of value creation considers the network of stakeholders whereby value should not solely be for one stakeholder to the organisation but linked to a network of stakeholders based on their interactions (Hörsich, Freeman, & Schaltegger, 2014).

2.4 Conclusion

By its nature, blended finance aims to advance sustainability as it has explicitly been aligned to achieving the SDGs. There are significant parallels to blended finance, stakeholder theory and sustainability management in that all three constructs call on the societal embeddedness of organisations, and their relationship with the stakeholders, the system and the environment.

In relation to blended finance and its more recent popularity as an innovative development financing solution, it is important to acknowledge that the literature highlights the need for greater stakeholder engagement, this in response to challenges noted in existing projects. Stakeholder theory, through the practice of

stakeholder engagement considers that organisations need to consider, empower and create value for stakeholders. Sustainability management advances the critical need for organisations to drive and embed sustainability in the mindsets of stakeholders, and society in general. Thus, these constructs consider the role of organisations and the important contribution that needs to be made towards sustainable development within the economy and society (Schaltegger & Burrit, 2005).

Further, Hörsich, Freeman and Schaltegger (2014) have developed a conceptual model that highlights certain factors which would be beneficial in which to drive stakeholder participation and engagement in relation to sustainability. In light of their contribution, it would be important to consider these factors in the context of blended finance.

The literature has identified four themes:

Theme 1: The complexity of blended finance as a development financing solution

Theme 2: Existing challenges in terms of stakeholder engagement in blended finance

Theme 3: Convergence of stakeholder theory and its implication for stakeholder engagement

Theme 4: Stakeholder theory and the practice of stakeholder engagement in sustainability management

As the business environment evolves and the demand for greater attention to sustainability and the Sustainable Development Goals, so too has the dialogue of stakeholder theory. It is upon organisations to places emphasis on the ability to map, coordinate and engage in mutually beneficial, strategic, value-creation methodologies to ensure relevancy in evolving business environments. As such, in navigating the concepts of blended finance, there is greater demand to be cognizant of the needs, value and potential relationships of stakeholders.

Chapter 3: Research Questions

3.1 Introduction

In determining the successful factors of stakeholder engagement, the research will aim to meet the following objectives.

- Establish the major factors that drive successful stakeholder engagement in blended finance projects
    - Investigate the relationship between these factors and whether they correlate with recent literature in stakeholder engagement in sustainability management
- Understand whether successful stakeholder engagement enhances blended finance project outcomes

Based on the finding of the literature review, the following key themes have been identified:

Theme 1: The complexity of blended finance as a development financing solution

Theme 2: Existing challenges in terms of stakeholder engagement in blended finance

Theme 3: Convergence of stakeholder theory and its implication for stakeholder engagement

Theme 4: Stakeholder theory and the practice of stakeholder engagement in sustainability management

The literature review, including the exploration of the problem in Chapter 1, sought to explore the complexity of blended finance, challenges faced in terms of meaningful engagement within blended finance practitioners and the theoretical lens of stakeholder theory and whether it may offer solutions in order to address the aforementioned challenges and address the following research questions.

3.2 Research Questions

Research Question 1: Establish the major factors that drive successful stakeholder engagement in blended finance projects

This research question intends to explore, with the respondents, the necessary factors that would enhance successful stakeholder engagement in blended finance projects. The question probes the factors that would improve the participation of stakeholders in designing effective projects that would lay the groundwork for effective engagement during implementation. The literature highlighted a range of challenges concerning stakeholder engagement in blended finance projects, and thus the researcher will aim to identify whether there are factors that would enhance engagement during both the design and implementation of blended finance.

Within this question, the research will also investigate whether factors mentioned by Hörsich, Freeman and Schaltegger (2014) would be relevant within the context of blended finance. Hörsich, Freeman and Schaltegger (2014) present a conceptual model that aligns stakeholder engagement to sustainability management. In light of the drive for sustainability, the researcher identified parallels with that of blended finance and therefore sought to investigate whether the three factors were relevant for successful stakeholder engagement within the context of blended finance.

Research Question 2: Does successful stakeholder engagement enhance blended finance outcomes?

This question sought to address whether stakeholder engagement would indeed enhance blended finance outcomes. The challenges, as highlighted during the literature review, highlight significant concerns around stakeholder engagement and therefore, this question sought to understand from respondents the extent of these challenges from the experiential knowledge of the respondents. This question aimed to understand as to whether implementing enhanced stakeholder engagement, would be beneficial to the delivery of blended finance, thus improving blended finance outcomes. This question, therefore, explores the impact of project delivery due to a lack of acknowledgement or engagement with stakeholders within blended finance projects.

3.3 Conclusion

The research questions were explored through a semi-structured interview which was guided by the interview schedule, attached in Appendix 1. Each question was designed to be exploratory, and an inductive approach was chosen. Respondents were guided to share their views on stakeholder engagement, and thus, their responses will be explored in subsequent chapters with the aim of answering these two research questions.

Chapter 4: Research Methodology

4.1 Introduction

The research design of this project was chosen to explore the factors of stakeholder engagement in blended finance. The literature review provided significant insights on the nature of blended finance, challenges faced as well as the convergence of stakeholder theory and the implications on both stakeholder engagement and sustainability management.

The literature review cited significant concerns concerning stakeholder engagement on existing blended finance projects. Therefore, the research has been designed to engage respondents on factors of stakeholder engagement that would advance blended finance.

4.2 Research design

4.2.1 Philosophy

The research conducted is qualitative, exploratory research underpinned by interpretivist philosophy. Understanding the research philosophy is critical to developing a research approach. Holden and Lynch (2004) cite that research philosophy considers deeper philosophical reflection as to why the research is being conducted, whereby the methodological choice is a consequence of a philosophical stance.

This research is underpinned by an interpretivist philosophy. Interpretivism relates to the study of social phenomena, social actors within a deeper understanding of a particular environment (Saunders & Lewis, 2018). According to Mack, interpretivism has been heavily influenced by hermeneutics – the study of meaning; and phenology – which considers subjective interpretations and perceptions (Mack, 2010). Therefore, interpretivism, according to Mack (2010) is based on ontological assumptions of social reality as seen by multiple people with multiple perspectives (Mack, 2010).

The philosophical stance of interpretivism, based on an epistemological position considers the ability to obtain phenomenological insights and revelations from humans as conscious beings, from the first-person point of view (Holden & Lynch, 2004). As a subjective enquiry, based on the interpretivist philosophical stance, the

research drew on experiences of actors within blended finance, with knowledge obtain relating particularly to experiences and insights on stakeholder engagement.

4.2.2 Approach

The approach used within this research was inductive, which aimed to build on theory from the findings. By using an inductive approach, the research will use detailed data to derive themes, concepts or models, based on interpretations of the data by the researcher (Thomas, 2006). The aim of an inductive approach, which was aligned to the research question, will be to focus on meaning, explore why a particular situation exists and develop ideas through induction from the in-depth data (O'Gorman & MacIntosh, 2015). The literature informed the research question, and thus the research aimed to build on theoretical understandings of stakeholder theory and sustainability management. Furthermore, the researched aimed to explore whether there were factors, underpinned by the research that would enhance stakeholder engagement within the context of blended finance.

4.2.3 Methodological choice

The methodological choice undertaken within this research project was a mono-method qualitative study which allowed for a thorough and in-depth exploration in the topic of blended finance. The chosen interpretivist paradigm was aligned with a qualitative research methodology which sought to understand and unravel what lies behind a particular phenomenon (O'Gorman & MacIntosh, 2015). The phenomenon explored was that of blended finance, a relatively new concept within the field of development finance. The literature noted significant concerns about stakeholder engagement within blended finance and thus through a qualitative study, the research delved into understanding stakeholder engagement within blended finance.

4.2.4 Design

The design of the research was purposefully chosen to be explorative and therefore, was designed as an exploratory study. According to Saunders and Lewis (2018), exploratory research engages with insights and understanding about a particular issue or situation. There was a need to explore new areas within a field of study, explore insights and enquire into on a particular subject (Saunders & Lewis, 2018). After identifying within the literature review, challenges noted in term of stakeholder

engagement, this research aimed to develop new insights into factors of stakeholder engagement which would enhance the delivery of blended finance.

The strategy, underpinned by the research design, methodology and philosophy, was undertaken through semi-structured interviews, which allowed for in-depth exploration into perspectives and understandings of the complexity of blended finance and stakeholder engagement. Semi-structured interviews are a critical qualitative technique whereby the researcher set predetermined questions which are detailed in Appendix 2: Interview Schedule.

In semi-structured interviews, questions and the order of those question vary based on the information provided by a particular respondent; and additional questions may be required to explore the subject or topic (Saunders & Lewis, 2018). According to Rubin and Rubin (2005), qualitative semi-structured interviews take the shape of conversations; whereby the researcher gently guides the respondent in a discussion. The researcher aimed to elicit both depth and detail on the topic by following up on responses given during the discussion (Rubin & Rubin, 2005).

The mechanism used within this research were semi-structured interviews, which were conversational. The researcher through discussion gathered data about the topic of blended finance and stakeholder engagement.

4.2.5 Time horizons

The research is cross-sectional study. A cross-sectional research allows for the collation of data from participants at a particular time; with the collection of data taking from multiple groups of people (Saunders & Lewis, 2018). The research engaged with respondents on their current views of blended finance, while many highlighted past experiences and future views, the viewpoint was current, at the point of time of when the interviews were conducted.

4.3 Population

The population identified for the semi-structured interviews included executives, management and investment specialists within development finance and the financial investment space, as well as representatives from supranational organisations and philanthropic bodies who are participants in multi-stakeholder blended finance projects. In order to create respondent triangulation, the population

was identified from both the private and development spaces, alongside various specialists in order to provide ranging insights into blended finance.

4.4 Unit of Analysis

The unit of analysis within this research were the individuals with whom will partake in the semi-structured interviews. These individuals represent organisations, institutions and groups that participate in blended finance projects. Therefore, within this qualitative study, the unit of analysis becomes the social construct of individuals and organisations that they represent (Saunders & Lewis, 2018).

4.5 Sampling method and size

The research took the form of non-probability purposive sampling. Purposive sampling, according to Lewis and Saunders (2018) is one of the most commonly used types of non-probability sampling. Purposive sampling considers the researcher using their judgement to actively chose who will be best to address the objectives of the research (Saunders & Lewis, 2018).

Through the interviewer's profession within civil society, the interviewer had access to a significant number of organisations that partake in blended finance projects including development finance institutions, supranational organisations and philanthropy organisations. The researcher, based on her professional network, was able to contact these organisations both telephonically, and over email, and was referred to the correct specialist who is involved in blended finance.

These referrals assisted in identifying the correct person in which to interview and provided credibility to the researcher. There was an element of snowball sampling in which three earlier respondents recommended further respondents, based on their relevance to the topic. Snowball sampling considers that through the early sample members, subsequent sample members are identified and volunteered by sample members (Saunders & Lewis, 2018). This helped the research ensure a thorough and concise exploration which was beneficial to the research topic.

Based on the interpretivist paradigm that underpins the research, a key consideration was that the sample size should be small, which would allow for a more thorough and in-depth investigation (O'Gorman & MacIntosh, 2015). The sample size included 13 semi-structured interviews, of which 11 were used within the research.

The sampling reached sampling adequacy, which is evidenced by replication of responses, which means that all data related to the topic has been obtained (Morse, Barrett, Mayan, Olson, & Spiers, 2002). For this research, the sample needed to be appropriate to the study, whereby participants best represent the research topic, which will also ensure that saturation was approached. This becomes a measure of verification and validity, as replication in categories means that verification has been achieved and thus ensures comprehension and completeness (Morse, Barrett, Mayan, Olson, & Spiers, 2002).

4.6 Measurement instrument

The measurement instrument employed was the interview schedule which was informed by both the problem statement and the literature review. The interview schedule was undertaken through semi-structured interviews. Qualitative research considers the learning that takes place based on the what is valuable to those being studied; and interviewing becomes the dynamic and iterative process for seeking that information (Rubin & Rubin, 2005).

The interview undertaken was the process whereby the researcher solicited information from respondents, through verbal interactions; however, whilst in-depth information was sought, there was the challenge of interviewer bias (Yaya, 2014). Whilst there is an inherent bias in qualitative research due to its subjective nature, rigour becomes vital to ensure that research is not worthless and does not lose its utility (Morse, Barrett, Mayan, Olson, & Spiers, 2002). Morse et al. (2002) refer to Guba and Lincoln's seminal work highlighting that in order to create rigour, there needs to be the trustworthiness. Trustworthiness considers four aspects: dependability, credibility, transferability and confirmability (Morse, Barrett, Mayan, Olson, & Spiers, 2002).

It was essential to incorporate these strategies in which to evaluate the rigour of the research conducted; however, at the same time, it was vital to integrate verification strategies into this research. Verification strategies, which were built into the qualitative process include investigator responsiveness, methodological coherence, sampling adequacy and saturation; to amend the direction of the research as necessary (Morse, Barrett, Mayan, Olson, & Spiers, 2002).

4.6.1 Validity and reliability

To improve validity, through credibility and transferability, the research considered respondent triangulation; with a variety of respondents being interviewed who shared different perspectives to meet the objectives of the research question. Time was dedicated to the respondent when they wanted to share more information which ensured prolonged engagement with the subject. Thick descriptions were sought in order to consider behaviour and context, as part of the interview.

Reliability, through dependability and confirmability, was created by the creation of an audit trail, which documented all engagements and processes, as well as observations of behaviour and context. Collecting and analysing data concurrently becomes an iterative process between known and not known (Morse, Barrett, Mayan, Olson, & Spiers, 2002). The research attempted to have researcher reflexivity; whereby the researcher systematically attended to the construction of content and knowledge in order to check biases that may exist, which could have potentially hampered the pursuit of the research question (Morse, Barrett, Mayan, Olson, & Spiers, 2002).

4.7 Data gathering process

Through the data gathering process, thirteen interviews were conducted, however only eleven were used within this research. One respondent did not complete a consent form, while there were technical difficulties in the recording of another respondent.

Seven of the semi-structured interviews were conducted through video conferencing platforms or telephonically, thus due to the respondent's locations. The rest were face-to-face interviews. All of the respondents gave permission for the interviews to be recorded. All interviews were recorded and transcribed. All respondents received both the interview schedule and the consent form prior to the interview.

The process undertaken for the data collected, within this research, is described below:

- All respondents were contacted either telephonically or by email. For those that were contacted telephonically, an email was sent which reiterated the nature and objectives of the research.

- As respondents confirmed their participation, the researcher and respondents engaged on discussions relating availability and location/platform for the discussion. Following this, an electronic calendar invitation was sent
- All respondents received an email which contained an overview of the research, the objectives of the research, a consent form and an interview schedule.
- A few of the respondents had to reschedule interviews due to their work commitments. With regards to respondents based in Europe, some interviews were delayed due to the Summer Holiday period and the United Nations General Assembly.
- Before the interview, research was conducted to find out as much as possible about the respondent; such as their designation, their role and their organisation to ensure that the correct series of questions are asked without wasting the respondents' time
- Before the commencement of the interview, an introduction was given and consent for the interview and the recording was given.
- Consent forms were signed at all face-to-face interviews, however for video conferences, consent forms were sent either before or after the meeting, via email. The majority of respondents signed consent forms, except for one whereby a telephonic interview was conducted. The respondent travels extensively into West Africa, and after many attempts, the researcher was unable to re-establish contact with the respondent and gain consent.
- All questions were answered; however the researcher asked further questions based on the responses given by respondents to gain additional insights and clarification on specific answers provided by the respondents.
- The intention was to create a natural conversation dialogue during whereby the respondent was at ease to reflect on the topic and provide substantial information to the research question. Respondents spoke freely in a conversational manner, and shared extensive knowledge with the researcher, from their views and experiences to challenges faced in particular projects that they were involved in.
- Specific themes and factors that emerged in interviews were later cross-referenced in more recent interviews.

The interview schedule was designed around insights gleamed in the literature review and in relation to the research objectives. The interview schedule was designed for semi-structured interviews. There was a degree of flexibility based on the answers given, and some questions were asked out of sequence. Some answers spurred new questions which enhanced the exploratory nature of research, which allowed for a more in-depth understanding. Probing questions were asked to deeper analyse a particular response given.

The questions developed were a mix of probing, specifying, direct and interpreting questions (Saunders & Lewis, 2018). This mix of questions was led by the respondent's answers. According to Rubin and Rubin (2005), depth within research is achieved through understanding context and unravelling the complexity and multiplicity of overlapping themes; whereby specific attention is paid to history, meaning, experiences and situations. Probing allows for depth to be achieved and covers verbal and non-verbal responses, aimed at facilitating the flow of conversation; whilst probing relies on the intuition of the interviewer (Rubin & Rubin, 2005).

Before the data collection period, two pilot test interviews were conducted in order to examine the interview schedule. This allowed for the testing of whether questions can be understood, challenges to be identified and improvements made (Saunders & Lewis, 2018). It was important to gauge if the type of questions allowed for the topic to be effectively explored based on the research objectives. The pilot interviews enabled the research to consider validity and construct validity, both of which intend to ensure that the research questions are met (Saunders & Lewis, 2018). After the pilot interviews and in discussion with the researcher's supervisor, the questions were slightly amended to consider the distinction in the design and implementation of blended finance projects.

Interviews were recorded using the researcher's mobile device. All interviews were saved in the researcher's private cloud-based drive, and the link to this folder was shared with the transcriber. The transcriber signed a Non-Disclosure Agreement with the researcher and access to the cloud folder was only given to the transcriber's email address. Following the transcriptions of the interviews, the researcher received transcriptions in word format. These transcriptions were coded.

4.8 Data analysis approach

Through semi-structured interviews, information was recorded and transcribed. Data, text data, were coded using qualitative data analysis software (ATLAS.ti). A code is a short phrase or word that assigns a salient, essence which captures an attribute and assigns it to a portion of language-based data (Saldana, 2009). As such, in order to ensure rigour, qualitative research requires meticulous consideration to language and a deep reflection of the emerging meanings and patterns of human experience and insight (Saldana, 2009).

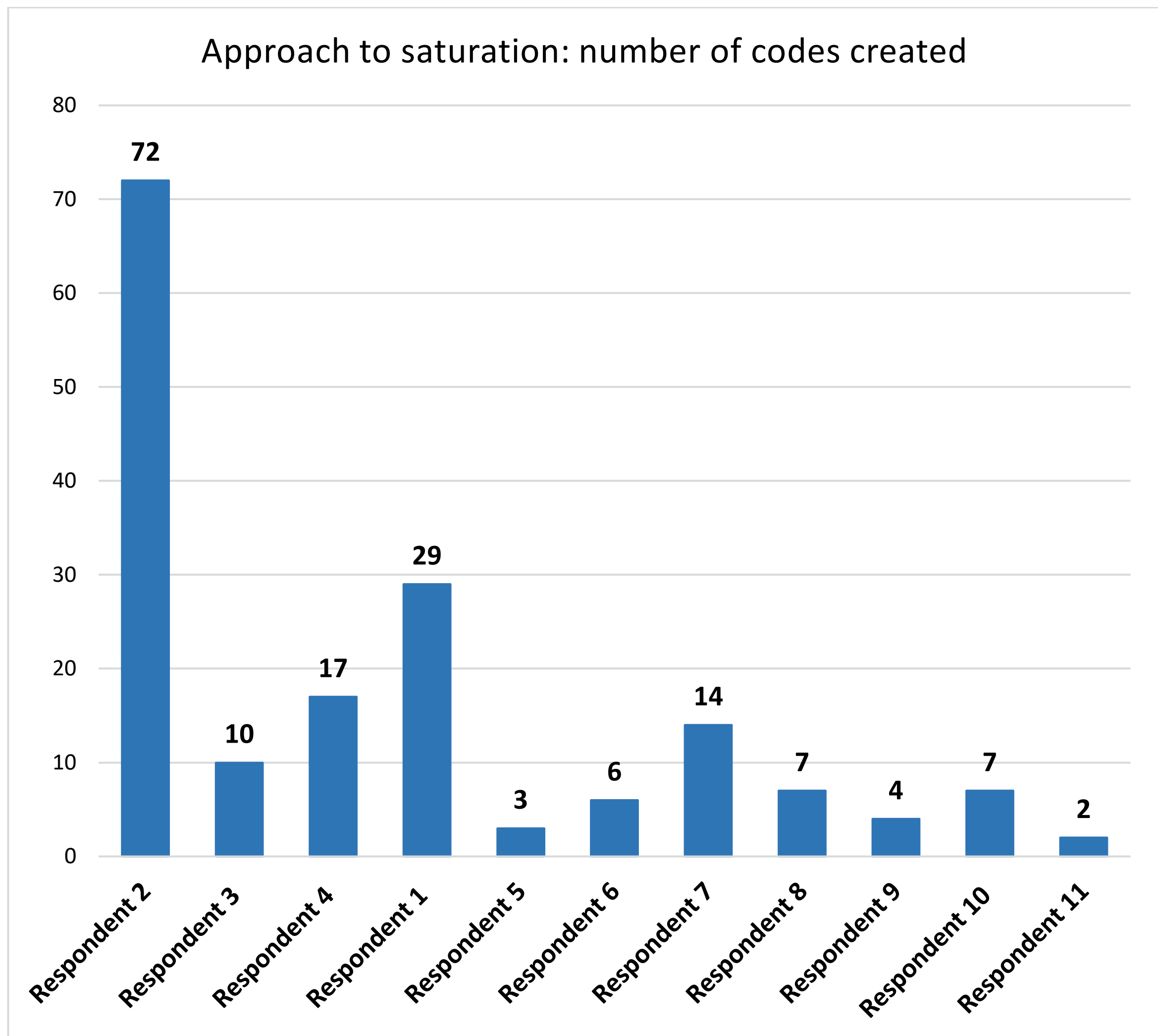
As the data was coded; the analysis aimed to create meaningful categories to describe data, and following this, a unit of data will be attached to these relevant categories (Saunders & Lewis, 2018). There were 171 codes created and 29 categories created. The categorisation process was essential as it enables the researcher to sort the data and make necessary connections to the research question, as well as to investigate the frequency of codes. Through the categorisation, themes were created to explore patterns and their connection (or lack thereof) with each other. Reviewing these themes allowed for a thematic map that sought to answer the research questions proposed; through the identification of constructs linked to the theoretical lens of which the research will be viewed.

4.8.1 Data Saturation

Data gathering was halted as the researcher approached saturation. Data saturation is a methodological principle which has gained widespread acceptance, it considers that data has been collected, analysed and at a certain point, no further data collection or analysis is necessary (Saunders, Sim, Kingstone, Baker, Waterfield, Bartlam, Burroughs and Jinks, 2018). Within the inductive study, thematic saturation is based on the emergence of new codes and themes (Saunders, et al., 2018). Saunders, et al. (2018) argue that saturation should be a matter of degree, rather than whether it has been attained or unattained. Therefore, within this research, saturation was approached.

The number of codes highlights the approach to saturation.

Figure 2: Approach to saturation of data



The first respondent's (Respondent 1) accent proved quite difficult for the transcriber and therefore the interview was only transcribed and coded at a latter date. Therefore, the codes attained reflect the order of transcription and the coding process.

4.9 Limitations in research design

Limitations that arose within the research design include;

- Qualitative research is mostly subjective, and thus objectivity is difficult to obtain. The challenge was that researcher biases may impact the research.
- The measurement instrument was chosen to be that of interviews, and the nature of qualitative data is that it facilitates depth of meaning –the research is unlikely to be replicable as the same set of respondents are unlikely to give precisely the same information after time passes.

- Another limitation from this research will be that the sample size is small and thus does not reflect the population of those participating in blended finance projects and their attitudes to blended finance; thus the researcher aims not to generalise statements relating to the sample to the entire population.

4.10 Conclusion

The research design and methodology chosen reflected was the most suitable way for the researcher to answer the research questions. The respondents provided valuable insights into the research, some of which challenged the researcher's preconceived ideas. The insights provided by the respondents were rich in depth. The research findings provided a wealth of information and experience that validated the research questions. The chosen methodology was critical for this research as allowed for an in-depth exploration of stakeholder engagement within blended finance.

Chapter 5: Results

5.1 Introduction

The research sought to explore the factors of successful stakeholder engagement in blended finance projects. The study deemed this to be significant due to certain challenges noted within current blended finance projects. Understanding the factors of stakeholder engagement is essential, given the growing salience of blended finance as a finance mechanism in which to meet the Sustainable Development Goals. The lack of accountability and ownership, misalignment and vague and inconsistent monitoring and evaluation standards were highlighted as critical challenges within the literature.

Therefore, the research sought to examine what factors would mitigate these challenges and thus enhance successful stakeholder engagement. The research methodology was inductive, exploratory research that focused on practitioners of blended finance across the world.

Thirteen semi-structured interviews were conducted. However, only eleven interviews were used, as one interviewee who is based in West Africa did not return his consent form. The second respondent from the United States was not included due to technical challenges during in video conference recording.

The sample respondents represented significant actors within the development finance space. These respondents were representative of international financial institutions, intergovernmental economic organisations, development finance institutions, financial services, implementing agents and specific funds. Six of the respondents were from South Africa, while five were based internationally, within Africa and Europe. Of the sample, all have been involved in the design or implementation of blended finance as a senior management stakeholder.

Due to the nature of the research and the respondent locations, seven of the interviews were conducted through video conferencing platforms or telephonically. The rest were face-to-face interviews. Discussions took place over two and a half months. The discussions began with two pilot interviews and following this; the interview schedule was amended to reflect slight variations in the questions asked. Each meeting took between 30 minutes to one and a half hours.

As it was semi-structured, latter questions reflected answers that were given by the respondents to seek more depth or clarity on a potential factor mentioned. Specific questions emerged during the interviews, and not all interviews followed the same interviews schedule. Following the pilot interview, questions seeking clarity in terms of project design and implementation were sought.

5.2 Description of the sample

The sample consisted of thirteen respondents. This research promised anonymity within the study, and thus, significant identifiers have been removed from the description of the sample. All respondents have been given a code name, i.e. Respondent 1. Respondent's positions have been highlighted to indicate their seniority and expertise in line with the sample of senior and executive managers who are engaged in blended finance projects. The type of organisation has been described in its generic term. The location of the respondent has been given broadly as nation state's name, rather than the exact location.

Table 3: Description of respondents

Respondent	Position	Type of Organisation	Location
Respondent 1	Consultant	European Network of Civil Society International Financial Institution	Belgium
Respondent 2	Head of Syndication Finance	Development Finance Institute	South Africa
Respondent 3	Head of Special Projects	Social Investment Professional Services Firm	South Africa
Respondent 4	Chief Executive Officer	Foundation of Major Financial Institute	South Africa
Respondent 5	Managing Director	Blended Finance Fund OBO Financial Consultancy and Investment Holding Company	South Africa

Respondent 6	Innovative Finance Project Manager	Research Centre – Implementer on Environmental Outcome Fund	South Africa
Respondent 7	Programme Manager: Climate and Water	South Africa Business Coalition	South Africa
Respondent 8	Head of Unit for Private Finance for Sustainable Development	Intergovernmental Economic Organisation	France
Respondent 9	Programme Director	International Advisory and Investment Company	United Kingdom
Respondent 10	Director Delivery and Impact	Multilateral Development Finance Institution	Germany
Respondent 11	Director of Green Finance	International Blended Finance Fund	United Kingdom
Removed due to lack of consent form/technical error during interview			
Respondent 12	Director, Policy and Finance	International, independent non-profit foundation	United States
Respondent 13	Head of Investment	Multilateral Development Finance Institution	Nigeria

5.3 Presentation of Results

Data collected during the interviews was analysed through Atlas TI. The respondent interviews were allocated a code. There were 171 codes generated through the analysis of the data. The following table highlights the top twenty codes and the frequency of these codes within the collective of data.

Table 4: Most recurrent codes mentioned during the interviews

	Code	Number of times mentioned by respondents
1	Alignment	68
2	Consultation	56
3	Need for Development Impact	54
4	Role of Public Sector	54

5	Local context understanding	47
6	Need for Financial Rate of Return of Investment	46
7	Blended Finance Actor	45
8	Reporting	44
9	Need for Transparency	43
10	Knowledge-sharing	40
11	Measurement of impact	40
12	Consultation with local beneficiaries	39
13	Monitoring and evaluation	39
14	Type of Blended Finance Instrument	37
15	Transparency	34
16	Community Buy-in	32
17	Role of Private Sector	31
18	Communication	30
19	Relationship between private sector vs public sector	29
20	Need for agreement on the impact	24

Through the thematic analysis, as highlighted in Chapter 4, 171 codes were categorised into code categories and then into themes which were established in light of the research questions asked.

Table 5: Thematic analysis of codes

Codes	Code Categories	Themes	Research Question
171 Codes	Alignment of impact	Alignment	Research Question 1
	On alignment and national strategy		
	On alignment with clear actions		
	Consultation	Communication	
	Buy-in		
	Identification of stakeholders	Stakeholder mapping	
	Stakeholder mapping		
	Political environment	Local context understanding	
	Enabling environment		
	Measurement of impact		

	Reporting	Monitoring and evaluation	
	Verification		
	Scalability		
	Theory of Change		
	Knowledge-sharing	Education	
	Education		
	Mutual Value Creation	Value Creation	
	Shared Value		
	Local context understanding	Regulation	
	Regulatory environment		
	Standard Setting		
	Characteristics and complexity of blended finance	Challenges of blended finance	Research Question 2
	Lack of alignment, consultation and ownership		
	Ineffective or lack of monitoring and evaluation		
	Lack of an enabling environment		
	Lack of accountability and transparency		

The results are presented per research question. The results are presented with the data sequenced in line with the order of the most relevant codes (across all codes).

5.4 Results for Research Question 1

Research Question 1: Establish the major factors that drive successful stakeholder engagement in blended finance projects

This research question intends to explore the necessary factors that would enhance stakeholder engagement in blended finance projects. Based on the complexity of blended finance projects, the research has made a distinction between project design and project implementation. Thus, two questions were asked to highlight factors, based on this distinction, concerning project design and project implementation. The question probes the factors that would enhance participation of stakeholder in designing effective projects that would lay the groundwork for active

engagement during implementation, as well the factors for successful engagement in the implementation of blended finance projects. While the researcher made a distinction, the factors mentioned applicable to both project design and implementation.

5.4.1 What are the essential factors of stakeholder engagement at project design and implementation

5.4.1.1 Alignment

Alignment proved, overwhelmingly, to be the most significant factor concerning the design and implementation of blended finance projects. Based on the responses, codes that referred to directly 'alignment' or indirectly to alignment within blended finance projects were included in the code group of alignment. The below table reflects the most common codes mentioned in this group.

Table 6: Alignment as a theme with code categories highlighted.

Theme: Alignment	
Alignment	68
Lack of alignment	10
Code category: Alignment of impact	
Need for alignment on a common vision/purpose	26
Need for agreement on the impact	24
Managing expectations	13
Differing expectations	7
Code category: On alignment and national strategy	
Alignment to national strategic agenda	15
Need for alignment on risk	19
Centralised and decentralised control	1
Code category: On alignment with clear actions	
Clear roles and responsibilities	23

Clear project plan with timelines	12
Language	9
Intentionality	1
Centralised and decentralised control	1

All eleven respondents referred directly to alignment or the ability to reach a consensus within the project, as being critical to stakeholder engagement in blended finance. Alignment meant aligning to the outcomes the project was intending to achieve, the outputs, the outcomes and the impact. Furthermore, respondents cited that it is essential that all projects have a common purpose and vision of which all stakeholders are in agreements with. In addition, alignment needs to be sought through clear actions and deliverables that are the responsibility of stakeholders within the project, to increase accountability and transparency.

The following responses showcase the need for alignment as a critical factor of stakeholder engagement in blended finance projects.

- *"I think the most important thing in terms of funders, there must be alignment on what it is that they're trying to achieve out of this. …but it's the impact, that's what you're looking for. It's not only about financial return and all of that… But so, align all of those things together to say yes, we have different objectives in all of this… So, I think that that's the most important thing, to align what it is that each partner is looking for. And particularly for the people who are putting it together to make sure that those kind views are aligned"* - Respondent 3.
- "*…the first important thing, is that people have got to have the same… common purpose, in terms of the desired outcomes and impact in whatever project that they are entering into as stakeholders. So, whether they are coming from business, government or the NGO sector, there has to be a common purpose and there's got to be a shared desire of the outcomes that need… to be achieved…"* - Respondent 4.
- "*So, I think the why, is absolutely… what, if, you know, the parties are …not aligned on the why this is important, and why we need to do it now. Then you never going to start… So, everyone had a strong sense of purpose, sitting around the table. Because the rest is very murky. And the only way people are willing to go through the murky and the heavy lifting is if they are, you*

know, they feel very strongly about why they doing this. And they feel like they're doing it for the right reason." – Respondent 5

- "*So, I think one of the major factors, in terms of it being successful is building in enough time to get everybody on the same page. I think a lot of the time with blended finance…the biggest underestimated element of putting together a blended finance structure is the time it takes to get everybody on the same page... And, you know, small, small things we've seen in other blended finance structures, we've been lucky in that the majority of our partners are in South Africa, but working across countries and time zones and legal jurisdictions, and you've got one lawyer in Chile drawing up a contract that's got to align with UK law, that's also to align with ours."* – Respondent 6

In addition, respondents went on to highlight specific areas of alignment as factors for consideration within the delivery of blended finance projects. These included the need for alignment and agreement in terms of impact, the need for alignment on national strategic agendas and the need for alignment on clear actions and roles and responsibilities of the various actors.

The following statements reflect statements of alignment particular to certain areas of blended finance, and thus became subfactors. The researcher determined, based on the responses, three critical areas of alignment. These areas were mentioned by the majority of respondents and frequently within the discussions.

5.4.1.1.1 On the alignment of impact

Alignment in relation to impact was highlighted as critical in which to manage expectations amongst stakeholders, particularly those who enter into partnerships with different objectives including development impact and financial returns. Respondents highlighted the necessity to create alignment on impact aims to ensure accountability and ownership amongst stakeholders within blended finance.

- "*I think that all stakeholders have got to agree that they are entering this because they want to, to agree on those predetermined outcomes and once they agree on those predetermined outcomes, all of them enter into this, so issues of quality, issues of achieving the predetermined outcomes, which all of them have a common purpose and understanding in terms of wanting that*" – Respondent 4

- *“Secondly, I think that, because of the desired common impact that you all want to achieve, every one of the stakeholders has got to understand they are accountable to everyone because we have entered into this space, so it’s almost like a partnership, a multi-stakeholder partnership. And, in order for partnerships to thrive…you’re required to be transparent and accountable to, to each other.”* – Respondent 4
- *“So, the alignment is normally around what is the objective of the project. And that's what we're all trying to achieve at the end of it all”* – Respondent 5

5.4.1.1.2 On alignment and national strategy

Many respondents referred to alignment to the goal that projects should align to the national strategic agenda of the recipient nation-state. This was particularly mentioned in order to ensure that buy-in is created and ensure that public sector stakeholders are engaged with the project.

- “*In terms of a pipeline development at the design level, that must then engage with government so that it fits in with Strategic National Planning, or with the NPC …or the Education Strategy for the next five years, whatever it is… if you don't have that engagement across all different levels, you’ll struggle then together design that works.”* – Respondent 9
- *“Now, it is true that obviously…each large organisation also works with local offices, and within the framework of a strategy. So I suppose common visions are also visions within the strategies. And there is no strategy in a country that has not been agreed by relevant ministry.”* – Respondent 1

5.4.1.1.3 On alignment with clear actions

Many respondents referred to the complexity of blended finance projects as a challenge and characteristic. Within this context, when respondents referred to alignment, they also spoke particularly of ensuring that stakeholders that engage in these multi-stakeholder partnerships are aligned in terms of clear actions and deliverables. This was highlighted as important to ensure that stakeholders are kept accountable to deliverables, where roles and responsibilities are distributed fairly and explicitly. The ability to engage in a comprehensive, iterative, design process with stakeholders, which highlights collective action points will ensure effective stakeholder buy-in and participation.

- *"So, there was a lengthy process where [range of public and private stakeholders in South Africa] within the task team, with [Government Ministry - South Africa]…And also worked well to get it as an internal governance document, and then [Government Ministry - South Africa]. So, they effectively knew who the key government stakeholders were, and worked well to build relationships, explain the model, share the model, there…was initially 20/30-page document, probably now more like 50. But there was a well-worked document that basically spelled out, this is the problem and why [national issue] is not working… This is how we can address it… And then it was just getting lots of comments. So, it will do many, many iterations… draft document that effectively was this is what would need to be implemented and why and why it would be beneficial. And that went through, through the task team members all got to review it and comment on it."* – Respondent 7
- *"Having a very clear direction and having taken into consideration in principles for good practice to global partnerships and effective development cooperation with the Kampala principles. So, making sure you're really rooted in good development focus so you don't lose track of what you want and you are using, ultimately instil development finance to help drive the project further. I think that's important."* – Respondent 8

The prevalence of alignment as a crucial factor of stakeholder engagement has been highlighted by certain respondents as a response to given challenges mentioned in relation to the lack of alignment and the implications of this on project implementation within blended finance projects. Respondents referred to significant challenges in alignment that forestalled the design and implementation of projects. This was an interesting factor for the researcher, as there was an assumption made that stakeholders entered into projects and partnerships with a common vision. However, this does not seem to be the case in the experience of existing blended finance projects. Thus, there appears to be the significant motivation that would see alignment as a crucial factor for successful stakeholder engagement.

The complexity of blended finance means that alignment sits at the forefront of factors for successful stakeholder engagement.

5.4.1.2 Communication

Communication to, from and between stakeholders has been identified as a significant factor of stakeholder engagement. Communication, directly and indirectly through various sub-factors of engagement, including consultation and buy-in, were consistently identified as critical during both project design and project implementation of blended finance.

Table 7: Communication as a theme with code categories highlighted.

Theme: Communication	
Category: Communication	
Communication	30
Clear roles and responsibilities	23
Managing expectations	13
Language	9
Making information accessible	7
Partnership miscommunication	4
Continuous stakeholder engagement	4
Trust	4
Information – digestible	3
Lack of formal complaint mechanism	2
Negotiations	1
Category: Consultation	
Consultation	56
Consultation with local beneficiaries and communities	39
Community buy-in	32
Community Engagement	27
Public sector buy-in	26
Private sector buy-in	20

Consultation in project design – amongst PD stakeholders	12
Lack of consultation: private sector view	8
Lack of consultation	6
Financial understanding	2
Negotiation	1
Category: Buy-in	
Community buy-In	32
Public sector buy-In	26
Private sector buy-in	20
Commitment of the beneficiary	12

In this regard, the research has considered communication as an important factor and highlighted two sub-factors which are equally important and are importantly linked to communication processes, including that of consultation and buy-in

The need for continuous communication processes was highlighted by respondents, as critical to ensuring buy-in and transparency between stakeholders; whether it be during the project design or project implementation phase. The importance of communication and consistent communication was vital to ensuring that stakeholders within the process are continuously engaged.

- *"I think that continual stakeholder engagement is going to be critical for long-term success. And keeping all those stakeholders involved and on board and regularly updated. One of the things we learned early on was the value of a regular update email to people who have been involved in the process. It just, it seems like such a small thing, but just keeping everybody involved keeping everybody on the same page, reminding people of why we're doing what we're doing."* – Respondent 6

Open and continuous communication ensures that stakeholders are able to engage meaningfully in the project design and implementation. The ability to have an independent partner who is able to ensure meaningful communications and engagements was mentioned by one of the respondents as being critical, in order to

overcome barriers within the design process, some of which include language. Language considers the language particular to a country, community or industry,

- *"I think it's similar thing could happen with blended finance, if you don't have like a mutual intermediary and independent partners helping to orchestrate things, it can become quite difficult from a language perspective. So just from an understanding of everybody needing to know what is blended finance, how does it operate, where, how we how we going to operationalise it?... So certainly, in some examples, where, anecdotally, one of the things that happens is you often have people who understand the technical work, but don't understand the financial work. And so, if you're not going to have consensus of stakeholder engagement, if you don't have a way to bridge kind of language divides, right. So, you've got people who talk the language of engineering, people talk the language of finance, and you've got people who talk like technical language in relation to the field. And so, somebody has to play the role of linking the different projects together"* - Respondent 7
- *"One, is we continue to do research policy and kind of stakeholder engagement, trying to bridge the massive divide between the public and private sector and the philanthropic space because everyone's speaking at different languages, but they're all often trying to do the same thing.*"- Respondent 9

Equally, as vital as communication is to design, it is critical for stakeholders within the implementation, in order to engage on whether project deliverables are, or are not being met. The creation of feedback loops throughout the project allows for iterations on the project, in which to ensure that they are meaningful and deliver both impact and returns.

- *"I think as well, it's interesting to talk to some people who's been more involved in implementation with [International Financial Institution] projects… And how these institutions have evolved, because it basically shows that they have acknowledged and they are providing more voice and mechanisms for people to participate. So that, and that is motivated, because there were lots of problems when you didn't take into account…when you didn't listen to the people"*. – Respondent 1
- *"From my perspective, what is important is the continual feedback between stakeholders, and for example, the project implementation unit, you need all*

the managers of our contract making sure that what it's on the paper, that you have a lot of good outcomes down, and it is reflected in the implementation as well. At the same time, this has to be done flexibly enough, in the sense that if change changes need to be made, then you can you can make them."
-Respondent 11

By creating feedback loops and ensuring consistent communication, the respondent feedback suggests that this would be vital for managing expectations of the various stakeholders involved within blended finance projects. As previously mentioned, respondents suggested that managing expectations surrounding impact and returns allow for greater engagement with stakeholders, there is a level of accountability and transparency in relation to expectations.

- *"You need to understand even the transportation costs because some land might be great for farming… if you're doing beef for instance, and the nearest abattoir sitting in Pretoria, and you're farming in KZN, from a transportation cost, you know, so you need to manage expectations as well. That's one of the most important things when working with communities and managing expectations.* – Respondent 3
- *"I think one of the challenges is that often with a blended finance structure, the great thing about it is that it brings you to different parties from different backgrounds with different return expectations. But the challenges there is that often those different parties speak different languages. And so, when you put, for instance, when you put a grant provider in the same room as, as a marketer, and investor provider, they're often looking for different things in terms of their reporting. There are different due diligence processes".* – Respondent 6.

5.4.1.2.1 Consultation

The importance of consultation and the need for continuous consultation were mentioned by all respondents as being a necessary factor of stakeholder engagement. Consultation was indicated as being critical for enhancing alignment within blended finance projects. Consultation encompassed consideration of a range of stakeholders engaging at multiple levels within project design and project implementation, from the private sector, the public sector and civil society, including that of communities that are directly affected by blended finance projects.

Consultation, in terms of designing blended finance projects, was highlighted as extremely beneficial in order to design projects that would be successful – particularly in light of delivering both financial return and development impact. This was furthered by explicit need to gain a local context understanding, whether it be through public sector actors, civil society or local communities, on the structure of blended finance models that would serve their objectives. Consultation would enhance the goal of alignment and ensure buy-in from relevant stakeholders. Consultation was highlighted as necessary to ensure that both investors, implementors and beneficiaries would be committed and this was highlighted as extremely important given the complexity of blended finance structures.

The following responses highlight consultation as a driver for successful stakeholder engagement:

- *"So…everybody needs to be aligned, especially the farmer because in some cases, for the farmers…you're told that your product is being sold for R100,000. And as an emerging farmer especially, and you're only getting about R30 or R40,000 back, and you need to understand how this process works. So, there's deeper engagement that needs to be there. You're dealing with people that might know how to farm, but have not gone to school. So, they are not finance people. So, they need to understand, you know, how it is. So, who's providing the grant capital? And what is it for? Who's providing the working capital, how much is the interest rate for that?"* – Respondent 3
- *"I mean, you look at Lake Turkana in Kenya, which is one of the biggest private sector investments in the country, I think there was some pushback from farmers in the hills where the wind farms are built. And they had some concerns about ultimately, I mean, I think Kenya now is burning so much less diesel fuel which they were highly dependent on the grid, and now the electricity grid is significantly greener. But, so there needs to be full partnership with the government about sort of explaining the benefits, communicating those to not only beneficiaries of the project, but also to the farmers in terms of the wider benefits to Kenya and the long-term sustainability, anchoring those sometimes around the SDGs helps."* – Respondent 8
- *"And I mean that in the, in the nature-based space anyway, we're looking a lot at the Amazon at the moment and sort of engaging with the indigenous*

communities or the smallholders or whatever it is, making sure that this isn't something that's being done without them… that it's an integrated and holistic sort of solution, because otherwise you get an active issue …there's no project that fixes that, there's nothing that we can invest in" – Respondent 9

- *"In this case, it will be like the projects has contributed something to the stakeholders within the communities. But I guess is the same thing in the consultation processes, for people to contribute, they have to feel that their voices are being heard and that its meaningful for him."* – Respondent 1
- *"And we also need to consult with other actors on the ground and learn from them like the [Development Finance Institute – South Africa], that is it done and coordinated. Everything is sector specific, the course of different sectors requires totally different approaches to water, you need much more alignment with the regulators and much more difficult, more difficult in terms of getting water, ensure sustainability can take a number of years and take a lot of a lot more local, political on-the-ground engagement."* – Respondent 8

Respondents highlighted that engagement and participation through consultation, both indirect and direct, is driven by the need to understand the expectations of the actors involved, and the impact of the project, whether it be a financial or developmental impact. Whilst there was recognition of the need for consultation, many respondents highlighted the difficulty of consultation. This was particularly in light of the fact that the complexity of blended finance structures whereby actors are designing across multiple geographies and time zones.

- *"So, there is within the blended finance component of stakeholder engagement, and making sure that proper consultations are made, but it wasn't always like that. And actually, you know, like within the past, let's say 12/13 years, there's been like a big, big change, positive change.*" - Respondent 11
- *"Well, I think it should be sort of be multi-stakeholder, depending on the project, again, the context, there should be multiple representation involving all the actors and thorough consultation process and complete transparency on that, so there is no opportunity…for corruption. I think that's a big danger for blended finance. And that the communities are involved in the process like any project, whether the grant focus or others, there's thorough consultation process* "– Respondent 8

- *"I mean it's also about the responsibilities, it's difficult. But, I do see two potential approaches… could ask whoever putting in the first blending money, so, the development finance institution, or the government actor in Europe for sure, you can ask them to undertake consultations. Or the other option is more to have set of standards. So, investment standards of which you're required as an applicant to carry out certain consultations according to certain criteria. And, and then it simplifies the role of DFIs in the sense of well, you may want to verify that that has happened, but it's much simpler than having to go and do the consultations yourself…I mean, for example in Europe, the Europeans use the second approach, the problem is that perhaps consultation is not a strict requirement in those timelines. So, doesn't necessarily happen, or it doesn't happen to the extent that would be ideal".* – Respondent 1.

Thus, it was suggested that consultation or a verification process ensuring that consultation has indeed taken place, of which needs to be owned by all within the project design and implementation respectively. Ownership of the responsibility of consultation needs to be shared by all stakeholders, whether from the level of project-design or from the beneficiary or community levels through feedback loops on project progress and impact. Interestingly, certain actors referenced the importance of beneficiaries and communities owning the ability to consult, by providing meaningful feedback through the ability to action or address complaints.

In addition, as highlighted in relation to communication – and the importance of feedback loops - consultation needs to take place iteratively and continuously. This is critical to ensure that stakeholders are still meaningfully aligned to the objectives and implementation of the project, and that impact is being achieved in line with the interests of all stakeholders. Interestingly, the fluidity of the political contexts within certain nation-states has emphasised the need for continuous consultation in order to ensure that buy-in and processes are undertaken.

- *So, what does consultation look like every step of the way, what are the time lines? What are you trying to achieve? The kind of common purpose for the whole thing. The stages where implementation, a stage when are we going to get our money back, if we are being asked to either an investor or implementing organisation, training etc. So, consultation throughout from the inception right through implementation phase to the end.* – Respondent 4.

5.4.1.2.2 Buy-in

Through consultation, and through continuous communication and reaching of an agreement by consensus, with the aim is to achieve buy-in from stakeholders towards the mandate and intention of the project is intrinsic as a critical stakeholder engagement factor. Buy-in as a separate factor needs significant intentionality in order to ensure that it is achieved with the ultimate aim of implementing a successful project. Respondents suggested that existing projects have sought to ensure that private-sector buy-in has been achieved, as the expense of public or community buy-in.

Furthermore, the inability to secure buy-in leads to a lack of commitment towards the project mandate, whether it be through the ability to leverage further finance or gain the commitment for project deliverables from the public sector or communities in which blended finance projects operate. Therefore, it is important to consider the holistic buy-in of stakeholders through both the design and implementation of projects. Thus, within this research, buy-in has been considered through three different lenses, of which its code frequency has been noted below.

Community buy-in

Many blended finance projects are either situated within local and beneficiary communities or require the participation of communities. As such, ensuring meaningful commitment means that the projects are able to be carried as per their vision and mission. Buy-in ensures alignment, enhanced communication and participatory feedback loops, as well as ensures that project challenges and risks that involve communities are mitigated. Buy-in not only ensures participation, but respondents referred to a level of ownership that is created through successful engagement. Of the respondents, eight referred to community buy-in or the commitment of beneficiary communities as intrinsic for the design and implementation of projects.

- *"Well, in order for the fund to work, you would need to actually have that community buy-in, especially if you're talking about structured finance, people need to understand that all structured finance in agricultural sector, people actually need to understand that this is not a grant, and this is money that needs to be paid back. So, they need to understand the structure".* – Respondent 3

- *"I think at the project design level you've got that a lot of understanding about what development impact you have….thinking about so what do you want to come out in the development turns from the project, you've also got to think about how you are going to get local ownership and local participation, both in terms of use, but also in terms of building up market capabilities to help run that project to the local level is not reliant on foreign inputs in the long term, it's also linked with local currency, which if it's being funded through local currency that will help you with any currency mismatch. And then there's financial participation at the local level so that they feel that the also have some ownership and some rights in terms of decision making".* – Respondent 8
- "*I think community engagement and buy-in is always critical. But then I suspect when we come to it, you know, having that bottom up, but is also the top down kind of government buy-in does help, because profiling, what's working is really, really important so that we can replicate and scale in other places*." – Respondent 9

Public sector buy-In

In addition to securing the participation and engagement of local communities, critical to the success of blended finance projects is the commitment of the public sector or nation-state governments to which blended finance projects take place. In some funding structures, the financial commitment of local government is essential; however, in this regard, general participation through public sector buy-in is noted. Commitment through various structures, in terms of project design and implementation, is essential whether the project is taking place at a municipal, provincial or national level. Six of the eleven respondents referred to the necessity to public sector buy-in as a critical driver for stakeholder engagement.

- *"So, I mean, it's been through many, many iterations, and also needed to get National Treasury to buy-in and essentially, of course, the ultimate, in this case, the ultimate buy-in was needed from a local government, a municipality to pilot…So, in this case, if the recipient is a Municipality, you would need to get their buy-in…So whoever's got the existing relationship will channel communication and would be the one to engage… So, the idea would be that when the time came to pilot the model, those they have the best relationships*

with potential pilot municipalities, we would then get them to pilot. - Respondent 7

- *"So, developing water engagement from the private sector, you've got to have to the relevant ministries and the government, municipalities need to be on board."* – Respondent 8
- *"So private sector in early, government stakeholder,s and strategy in in the room as well. And then also, obviously, institutional capacity, you know, particularly in developing countries…They were able to engage at the government level to shift regulations for pension funds, so that pension funds could invest in the infrastructure vehicle and the infrastructure funds for these toll roads... The public sector needs to be involved, so it fits within their strategic kind of priorities, but also the communities and you know, sort of the people who are understanding the impact need to be involved as well.*" - Respondent 9
- *"We already talked about buy-in stage, you know, in project finance, which would be the preparation phase, the concept-phase, co-operating phase, and blended finance, has different phases, brings in different stakeholders which have different understanding…within the public sector and the private sector, at the same time and go to private sector, like investors and bank. Tell them something about blending and development finance, this is not a how they think. Yeah. They think, in in the instruments they know, they think in risk fund characteristics, they think in returns. And, and but this is not always how public sector thinks, and there is need for a dialogue."* – Respondent 10

Private sector buy-in

Within the findings, private sector buy-in has been highlighted as crucial for engagement. The discourse has focused on the need to ensure buy-in in order to ensure that there is the ability to leverage and attract finance, with some respondents highlighting the role that the private sector can play in development financing, towards meeting and aligning to the Sustainable Development Goals. In addition, it was highlighted by respondents that private sector buy-in will enable scale within blended finance projects. Seven of the eleven respondents highlighted the importance of private sector buy-in within projects.

- *"Probably, I would think it's only, I mean, whatever you do, you're going to need to find out who's got, whoever's providing, putting money on the table*

would need to be bought in and whoever's going to actually implement the projects is going to have to have buy in as well. That's my experience." - Respondent 7

- "*We found out that development banks are mobilizing less than $1 private capital for every public dollar. So, it's kind of no matter what geography you're in or what sector you're in, and it will be a spectrum because some geographies in some sectors are much harder than others. But regardless of that, the fact that, you know, $1 of public money can't bring in even an equal amount of private, it's just not going to get us to where we need to be in terms of financing the Sustainable Development Goals."* – Respondent 9
- "*So, on the one hand, you need you need that blend in to reduce the cost on the other, you still need to have some private sector participations because you need to know sources. And you need you know, typical things that people will say you need to reach scale, and then create a programme or something which is big enough to be able to bring transformational change, and, and other concepts to achieve a long standing, a true truthful, paradigm shift*. – Respondent 11
- *"Our role is to with some of them, keep abreast of what's going on in any developments that we think will be useful in achieving the goal that we had set when we founded [Not-for-profit social enterprise], which is the systemic change…But the only way to scale [Not-for-profit social enterprise] impact rather than [Not-for-profit social enterprise] the organisation is to influence the money in the sector, and to influence others in the sector to behave the way [Not-for-profit social enterprise] is behaving, because [Not-for-profit social enterprise] can't solve all the problems, right. So, the, you know, route to blended finance was saying, the way to scale, the impact of the social enterprise is to influence the money that is directed to the sector at large, and not just its own money".* – Respondent 5

5.4.1.3 Stakeholder mapping

Eight respondents referred to the importance of identifying and understanding stakeholders within particular projects, as an important factor of stakeholder

engagement. Therefore, stakeholder mapping was identified as a factor for successful stakeholder engagement.

Table 8: Stakeholder mapping **as a theme.**

Theme: Stakeholder mapping	
Communication	30
Clear roles and responsibilities	23
Managing expectations	13
Language	9
Making information accessible	7

Stakeholder mapping, based on the respondent feedback, highlighted the importance of identifying the network of stakeholders involved in a particular project and understanding their level of influence and engagement within a project. Further respondents referred to the necessity to design with stakeholders in mind, so that projects have stakeholder requirements in mind, particularly around impact, communication and reporting. Respondents highlighted the importance of stakeholder mapping in which to identify the expectations of those that may be impacted by a particular project.

- *"It's actually the first thing just before you do it is to understand, so after listing all the stakeholders involved, but I understand the level of influence of those stakeholders on your project, and also to have a plan around that, like, what is it that you're going to say? Who do you keep informed in the process? Who is it that needs to just know about the project, but they don't know as the influence of actually stopping the project as well… The most important thing for me is mapping the stakeholders and knowing what their level of influences on the project that they lead. And then mitigating those problems or risks, you know, directly."* – Respondent 3
- *"And I think we also, one of the key parts of that is identifying the different stakeholder groups and then targeting, the knowledge output for those stakeholder groups, because there's going to be multiple different audiences. But I think that lessons will be relevant for many of them. And so, it's*

packaging those, but I would absolutely say that knowledge sharing throughout the process is going to be one of our key things" – Respondent 6

- *"I would like to see more responsibility in planning. Yes, making sure and confirming the consultation has happened and it is meaningful. And obviously, it's not just about when you design but also during the implementation, how you engage differently constituencies, what is necessary has to be sensible, more frequent and the institution needs to be held more accountable to what is happening beyond the returns*." – Respondent 1
- *"I mean, obviously, the whole framework around impact reporting and measurement and the integrity around that is really key when you're thinking about stakeholder engagement is obviously depends who your, who the stakeholders are, because every identifying that everyone has different needs, I think it is really obvious thing to say, but also worth acknowledging, …what matters most to the philanthropic partners, in this case, what matters most to the government in terms of how they're delivering, what matters most to the private guys*."– Respondent 9
- "*Now, you have an issue of displacement of people. So, this is where you start having local engagement and consultations with the key stakeholders representing a variety of groups within the design of the product, and along each stage of the project. So typically, you would have like, the local government as a stakeholder, you may have citizens group as stakeholders, you may have specific women associations, as stakeholders, but you might also have the state government or the central government ministries, and so on. So, you know, look at the stakeholders can be quite widely split."* – Respondent 11

5.4.1.4 Local Context Understanding

A significant factor mentioned by nine of the eleven respondents, at a high frequency, is the need for consideration of a better understanding of the local contexts to which blended finance projects are implemented. The ability of partners and stakeholders, in both the design and implementation of projects, considers the importance of a local context understanding.

Within project design, the ability to design projects in consideration of the local context will enable a more succinct understanding of the potential challenges and opportunities within that context. Local context understanding considers the circumstances for which the project takes place, through the lens of the political and regulatory environment, but also at a community-level. Broadly, local context understanding implores stakeholders within the design and implementation of blended finance projects to understand the system through a social, cultural, economic and political lens.

Within understanding the local context, actors within blended finance are better able to gain insights on the complexity and requirements in which to undertake projects within a certain ecosystem. Further, the local context understanding as highlighted by respondents allows for an understanding of related and interrelated stakeholders and thus has the potential to increase accountability.

Table 9: Local Context Understanding as a theme with code categories highlighted.

Theme: Local Context Understanding	
Category: Local Context Understanding	
Local Context Understanding	47
Role of public sector	54
Political environment	15
Enabling environment	11
Complaint Mechanism	4
Development of capital markets	4
Regulatory Environment	4
Political interference	3
Nation-state control	1
Category: Enabling Environment	
Political environment	15
Enabling environment	11

Regulatory Environment	4
Lack of bankability	8

In addition, this systemic thinking of the ecosystem for which blended finance projects and transactions takes place will allow for a greater understanding of the risks posed to a particular project and allow for more comprehensive mitigation of these risks.

- "*So that's one place where it starts, also understanding the culture of the area as well is very important. You get in there, you've got a whole city that is Tswana you know, there's a particular way that you speak to him, there's a particular way in which you engage with him, and also speaking to them about what the project is going to bring back… Because you might walk in there, you've got a greedy Chief in the area, who's looking to make money out of this whole thing when actually the land is not his, he is the custodian of the land, you know?* "– Respondent 3
- *I mean, being honest, it's a very complex issue, because you have very different local and regional contexts. And there are countries where I mean, you can buy and sell or put pressure on people or groups to sign to say is happening. So, it all has, it all involves certain trade-offs.* – Respondent 1
- "*So classic example is business and government, often have this level of distrust there, the [South Africa Business Coalition] can be like a neutral broker, often where you can get we understand that public policy and government perspective, but also the business perspective".* – Respondent 7
- *"If your lead party is a government entity, then they can also be subject to political interference…. [reference to specific water project in South Africa] And then financially, they have serious problems of not spending the government grants that they're given not being able to, not being well run financially, you know, for their various institutional failures at a local government level".* - Respondent 7
- "*And then thirdly is really around thinking about aligning to the local context. So, you want to think a bit about building local capital markets and making sure that you're going into the sector that's relevant to the country. So, developing water engagement from the private sector, you've got to have to*

the relevant ministries and the government, municipalities need to be on board". - Respondent 8

- *"And we also need to consult with other actors in the ground and learn from them like [South African Development Finance Institution] on how it's been done and coordinated. Everything is sector specific, the course of different sectors requires totally different approaches the water, you need much more alignment with the regulators and much more difficult, more difficult in terms of getting water, ensure sustainability can take a number of years and take a lot of a lot more local, political as on the ground engagement."* – Respondent 8
- "*But also then in Colombia, when we're having these conversations, suddenly you've got a change of government and the environment is off the agenda or similarly, you have battles internally between ministers who say peace is more important than environment therefore go hard on deforestation for cattle because at least that allows us to retrain guerrillas to be in the agricultural space. So, I guess lots and lots of tensions and conflicts. But yeah, three things, I guess reporting and impact, capacity on ground and then being aware of the broader context and political kind of cycles would be my briefing…I think the disconnect between people who sit behind laptops or on panels or at the UN Secretary-General summit, and I count myself as one of those people. So if I realize it's such maybe an arrogant thing to say what we really need to do this public-private mobilization, blah, blah, blah, the opportunity is there, if you're on ground and trying to get some of this stuff to happen, understanding that the reality is different and figuring out regionally what the ability is to unlock those things and making sure that you know, we have proof points which work and that institutions which are set up to do development"*– Respondent 9

5.4.1.4.1 Enabling environment

An enabling environment was highlighted as an important subfactor of local context understanding. It was determined as a subfactor, as it considered the general local environment, including the political, social, economic and regulatory factors that attract private sector investors. The researcher highlighted this consideration due to the impact that knowledge-sharing and education could have amongst stakeholders within blended finance and the public sector, in terms of attracting further blended

finance projects. The impact was based on feedback mentioned by respondents in terms of the need for further engagement with both public and private stakeholders in engaging on the potential of blended finance, particularly in relation to risk, feasibility and bankability.

- *"I think what's most important is what I call the enabling environment. So, the ability to create an environment where projects can be developed. You know, it's from a feasibility to bankability. And I'm talking about the enabling environment, across all aspects. I'm talking about the regulatory environment, about the political environment. And I think until that such time as that enabling environment is developed, projects are not going to be able to be developed or implemented. And having said that, then even if blended finance wasn't available, the providers of blended finance or concessional funders or private sector, are not going to fund into an environment that they don't believe is conducive.*" – Respondent 2
- *In the developing country, governments, I mean, they're the capacity constraints are even, even larger, right. I mean, often, those governments don't even know how engage with the private sector and have some ideological preconceptions, that sort of making money is fundamentally bad. Which is of course not the case. But just the understanding that feasibility lies in the ability to create markets, other to create markets, and some temporary public finance incentives, bringing in the private sector. And you also need to create the enabling environment, regulatory frameworks and sectors, investment climate in general, that allows the private sector come into these markets, all of that is not always well understood*. – Respondent 10

5.4.1.5 Monitoring and Evaluation

With many stakeholders involved in blended finance projects, through both design and implementation, monitoring and evaluation (M&E) has been mentioned as a critical factor for further stakeholder engagement on blended finance projects. Of the eleven respondents, ten respondents referred to the importance of M&E as a critical stakeholder engagement tool.

Table 10: Monitoring and evaluation as a theme with code categories highlighted

Theme: Monitoring and evaluation	
Need for Development Impact	54
Need for Financial Rate of Return on Investment	46
Reporting	44
Measurement of impact	40
Monitoring and evaluation	39
Need for agreement on impact	24
Need for a theory of change	16
Sustainability outcome	14
Verification	13
External Measurement	12
Ownership of measurement	8
Scalability outcome	8
Lack of measurement (M&E)	8
Feedback loops	6
Lack of interest in the theory of change	6
Project-by-project framework for M&E	5

The ability to monitor, evaluate and report on the progress of projects remains a critical driver for continued and successful engagement with stakeholders, whether it be financial stakeholders, community stakeholders or national stakeholders. Respondents referred to the need to ensure and deliver either impact or financial returns, or both and therefore inextricably linked to stakeholder engagement is the capacity to monitor and evaluate; and essential measure impact and outcomes. As blended finance projects are aimed at the Sustainable Development Goals, it is critical to understand the mandate of projects that simultaneously deliver impact and returns and to understand the correlation between monitoring and evaluation and stakeholder engagement. Respondents referred to the explicit need to develop an M&E framework that provides transparency and accountability to all stakeholders, whereby reporting metrics (which are both qualitative and quantitative) are outlined

based on the stakeholder requirements and the frequency and intensity of reporting need to be outlined.

- "*While you're continually monitoring and evaluating the projects is an ongoing process and you're sort of checking not only how the projects running with yourself checking on the financing from a blended finance perspective to see if you can reduce, say from expensive equity into something slightly more substantive such as debt and you continue checking calibrating the financing, to see if you can exit at some point so you might go from risky equity to debt, that way you might be able to mobilize more of the local private sector because debts easier and then ultimately, is to get institutional investors, you know, your mapping to, your linking the financial returns with their long term means, as well.* – Respondent 8
- "*So, I think, to be successful in blended finance, you need to recognise that the impacts the ability to measure impact is vitally important, because the concessional funders, you know, irrespective of the private sector, concessional funders today, will not provide concessional funding, unless you can demonstrate impact and particularly around climate. … Those impact results will have to be measured, they'll have to be reported on and should they meet the targets set by the outcomes fund, then they will get funding. So, what I'm what I'm trying to say is that a lot of projects will tell you what the impacts should be, what they're going to be, but the funders will want to see that those are actually achieved. So, I think a very important part about the project is not only the development of the project, but the ability to monitor, measure, verify on, on the impacts, post, the completion of the project.*" - Respondent 2

Additionally, respondents referred to the vital need to outline responsibility and ownership of measurement, and that independent verification needs to take place, before, during and after blended finance projects. Alignment and agreement on impact and returns was critical in order to ensure that projects are able to deliver and be measured in order to determine their success. Further, this was highlighted as being intrinsic to the future of blended finance projects, as it would lead to the potential for scalability and the ability to attract investors in order to leverage and secure further financial investments into the projects. As previously mentioned in communication as a factor for stakeholder engagement, feedback loops are critical

for stakeholder engagement, in order to ensure the iterative and continuous review of progress. Reporting, the measurement of impact and agreement on impact were highlighted as important.

- "*The second other one is that it ensures quality because before that rate of return for that investment is offered, there has to be a verification, that the performance has been achieved for what was intended from the beginning, so there are legal agreements that are signed between all stakeholders to ensure that everyone is contracted to do what they need to do at the design level as well…But there are structures at implementation phase, there are activities, there are outputs that need to be achieved, there are outcomes that need, and each and every stakeholder has got to understand what kind of role that they play in terms of the whole implementation phase, whether at governance level, structural level, implementation level in terms of activities that are being implemented and also what kind of outcomes or outputs are expected at what phase and then more importantly when do, when do we get paid of terms of the return, rate of return in terms of investment, the financial investment, but in terms of the impacts, what can we expect, at what particular stage in terms of the achievements that have been defined*."– Respondent 4
- "*As we go through that process, we need to be drawing, actively drawing lessons and I think so monitoring and evaluation and before, ahead of the time is important to understand the baseline, obviously, and then, and then just as important after the after implementation is over to assess, you know, what the long-term effects of the intervention were*." – Respondent 6
- *"So, what typically will happen there is that a project or program will be developed, that program will identify certain impact results. Those impact results will have to be measured, they'll have to be reported on and should they meet the targets set by the outcomes fund, then they will get funding*." – Respondent 2
- "*Or you could have a verification process in which you contact all the stakeholders and then basically have a report which is also signed by these stakeholders, having a feature report which is public and in which both them as a project promoter whoever it is private sector or the public sector or the government or the local government has consulted and then you will have the results or whatever the signature some stakeholders*." – Respondent 1

- *"And you need you know, typical things that people will say you need to reach scale, and then create a programme or something which is big enough to be able to bring transformational change, and, and other concepts to achieve a long-standing, a true truthful, paradigm shift.* – Respondent 11

Less than half of the respondents highlighted the importance of a theory of change, as an important tool for each project in order to understand the outputs, outcomes and impacts that need to be created in order to achieve development impact.

- *"When we entered into spaces that we were not involved but we understood how projects work in terms of implementation, you know, there are outcomes which you define, and there's a change that you want to see in terms of the theory of change. There are activities that have got to be implemented that leads to outputs, that leads to specific outcomes that you want that ultimately lead to the kind of impacts that you want to achieve. And at implementation phase you've got to be quite clear about who the partners are or who is delivering on those and the kind of roles that are played by different stakeholders at implementation phase* – Respondent 4
- "*So, to have a theory of change, before starting, to actually collect the data. And also, to be aligned to impact being able to report on that, particularly with this development finance and impact investing, those institutions typically need to actually report on also assist [or Social Investment Professional Services Firm] on what to report our clients on? Okay, what was the impact of this project, and what is the theory of change.*"– Respondent 3

However, certain respondents highlighted that the difficulty in establishing a theory of change was that private sector stakeholders did not perceive a theory of change to be a suitable framework of measurement

- "*I think one of the success factors that we've seen in the ones that in the blended finance structures that have worked well, is that everybody is on the same page in terms of what is what is that what is intended to be achieved? And what are the, not just the financial goals, but the impact goals of you know, why, the why of, essentially, of why the structure exists? I think that, that's absolutely crucial* – Respondent 6

5.4.2 Responses in relation to factors mentioned by Hörsich, Freeman

and Schaltegger (2014)

The research, as part of Research Question 2, sought to understand how prevalent factors highlighted by Hörsich, Freeman and Schaltegger (2014) were in the context of stakeholder engagement within blended finance projects. Respondents were asked questions that related to the importance of three factors as mentioned as critical for stakeholder participation and engagement in sustainability management.

These factors were bought to the attention of respondents after the initial question of factors of stakeholder engagement had been asked. These questions were asked if these factors had not already been explicitly mentioned in the first question. Responses based on these factors were allocated into themes.

The three factors mentioned Hörsich, Freeman and Schaltegger (2014) encompassed the following factors, which became themes within the research:

- Education
- Value Creation
- Regulation

5.4.2.1 Education

Education as an important factor of stakeholder engagement considers the ability to educate and share knowledge amongst stakeholders as critical to the sustainability of a project. Therefore, as a question posed to respondents, the responses highlighted that education and knowledge-sharing are indeed is a critical factor throughout the design and implementation of blended finance projects. All eleven respondents highlighted the importance of education and knowledge-sharing in projects.

- "*So, definitely through learning exchange platforms. Then, if other programmes choose to create those exchanges at governance level where there are administrative governance issues that have got to be dealt with to ensure the success of the implementation but also understanding, or learning whether we are making progress, it is, it is important to, to create those learning exchange platforms or those structures where all the role players or stakeholders are constantly updating each other, exchanging information and knowledge being shared for, for effectiveness or improvement. But also, when things are not going right to talk about the challenges, then brainstorm*

collectively in terms of how to find solutions or resolve the programmes, problems so that the project is on track and you don't wait till the end to say OK we didn't get our money or there's been problems, so a sense of ownership from the financiers, of the projects" – Respondent 4

- *"So, you know, and that's why I'm learning exchange is an exchange, because it's two ways. Well, six ways or however many stakeholders we have, there isn't any one stakeholder who knows all the answers, we jointly co-creating the solution for the country. which influences I guess, this concept of knowledge sharing, you know, it's co-creation, and problem-solving together as we go along*." -Respondent 5
- "*I think that education part is really important, like how do you communicate and how you help people understand the project, and so they can have meaningful consultation, then you would have perhaps after education you have the consultation itself in light of project design, then you might move into the monitoring and evaluation where you gather feedback from the people. And also including indicators about how the project is being translated or interpreted what results you're achieving to communities to community of relevance, I guess, and then you will like to have some feedback loops, which I guess it's equivalent to a little bit like knowledge sharing. Where there is a flow of information where you would like to have feedback loop. So basically, what you do is pass back to the, to the stakeholders, so they can continue to engage and they have meaningful engagement and the monitoring can be meaningful*." – Respondent 1
- *"I mean, critical, I mean, we're all moving into this blending space and private sector sometimes playing off games, one against the other in order to get the most concession finance or the better deal, it is important we share learning. Also, particularly mistakes Nobody wants to showcase the projects that hadn't really been designed that and that's critical. And you only get that through to the learnings and monitoring and evaluation, where you've gone wrong and how you can improve. So, there needs to be this feedback loop. And, yeah, I think that that's, that's a critical piece that is still doing nothing*." – Respondent 8
- "*Yes, absolutely knowledge sharing and knowledge learning, particularly as tailored to the in-country context. And also, being aware that people are pretty*

silos, within organizations within governments, across institutions, whether it's kind of public, private, NGO or whatever it is". – Respondent 9.

- *"A very important factor from my perspective, and something that needs to be in the blended finance industry, let's call it because right now, there's too much fragmentation, which in my view, is coming back to, you know, in a way, development and personal waves and blended finance is the most recent fashion wave, it's a good one… And so everyone's doing their own thing in parallel which is not helping because the private sector actually is looking for standardized structures where they can invest larger amounts of money and do that at the moment. If someone needs smaller funds, or differing approach to blended finance and projects, and it's actually, in my view has the potential to destroy blended finance. As a result of this high degree of fragmentation, there is not enough knowledge sharing, so people are trying to reinvent the wheel constantly. Whereas it would be much wiser if, you know, people just replicating structures that work"* - Respondent 10.

Respondents referred to the importance of education on project objectives, continuously sharing feedback and engaging meaningfully with project progress, as well as best practices and learnings, with stakeholders. It was highlighted as necessary in which to take said learnings forward in order to allow for the future development of blended finance projects. The ability to learning and share both project successes and failures would see future projects more suitably designed in which to increase their ability to deliver and driver impact and financial return.

5.4.2.2 Value Creation

All respondents agreed that the ability to create value creation was vital in blended finance; it was however felt that value creation was inherent in blended finance. The majority of respondents agreed, however did not elaborate and when asked to, stated that value creation was a characteristic of what blended finance was trying to achieve through the delivery of development impact and financial returns in structures that provided stakeholders with mutual value creation. Respondents highlighted that in terms of stakeholder engagement, the value needed to be mutually created, in order to enhance ownership and accountability through the project.

- "*Very important. So, for instance, in the structured finance, and especially in these kinds of structures, we see it as shared value, because if you think*

about it, in the case of [African Agriculture Project], So, if its cotton, that they doing with farmers in [African Agriculture Project Pilot Location], they're able to secure cotton production for the international market. The farmer themselves is now getting a livelihood. So, farmer who might have done subsistence farming on 10 hectares of land or whatever it is, is now coming home with R350,000.00 a year, you know money that he has never seen in his life and living in a shack. So this is shared value…". – Respondent 3

- "*Mutual value creation, I think that's more, that's more general thing is like, basically, some, I mean, for a project to work you like you want people to continue engaging, even to consult to be something they need for them, not just in the project returns. So, it depends whether you're talking about the process itself, or the project. I feel more it should be about projects. In this case, he will be like the projects has contributed something to the stakeholders within the communities*." – Respondent 1
- "*I mean, it's in a way that's, that's inherently what blended finance is trying to achieve….Yeah, because the donors provide you the concessional capital, they do it because they want to see an impact, so it's an expectation, right. I mean, the question is whether there's always been done, the extended could be done, not as expected. Because in on the impact side, obviously, an already declared triggering private finance as an impact, in which case, then, you know, there would not be an additional end user impact, for example, again, it's a question of how you define this, but I would, I would argue that in general mutual value creation, that is, it inherent in blended finance*." – Respondent 10

5.4.2.3 Regulation

Of all the factors, regulations received the least commentary and view. Regulation was highlighted mostly in the context of Local Context Understand and the need for understanding of the regulatory environment. Respondents referred to the importance of complying with regulations that are guided by the recipient nation-state. However, there were responses in relation to the importance of standard-setting and alignment to general principles like the Kampala Principles and principles of development effectiveness. While these have been highlighted as important, it was not highlighted by the majority of respondents with only two relating it to

specifically what was meant by regulation as highlighted by Hörsich, Freeman and Schaltegger (2014)

- "*Having a very clear direction and having taken into consideration in principles for good practice to global partnerships and effective development cooperation with the Kampala principles. So, making sure you're really rooted in good development focus so you don't lose track of what you want and you are using, ultimately instil development finance to help drive the project further."* – Respondent 8

5.4.3 Conclusion for Research Question 1

Findings have indicated seven factors based on the prominence and mention by respondents. These factors have been identified as critical to engaging meaningfully and inclusively with stakeholders. Throughout these factors, the drive for increased transparency and accountability have been highlighted as critical for the delivery of blended finance. These factors have been guided by respondents as vital to the delivery of blended finance, not just projects, but as blended finance as a development financing solution.

5.5 Results for Research Question 2

Research Question 2: Does successful stakeholder engagement enhance blended finance outcomes?

This question sought to understand whether stakeholder engagement would enhance blended finance outcomes. The challenges, during the literature review, highlighted significant concerns in relation to stakeholder engagement within blended finance. Therefore, the research question considered whether implementing strategies aimed at enhancing stakeholder engagement would enhance the delivery of blended finance projects.

Determining an answer to this question, all the responses were coded with various challenges associated with the lack of stakeholder engagement within blended finance projects. As such, these codes were themed into 'Challenges of Blended Finance'. Some of the responses were identified as particular to blended finance as a finance mechanism, whilst the majority were explicitly related to stakeholder engagement.

The ultimate aim was to determine whether stakeholder engagement would ultimately lead to more successful blended finance projects. Many respondents highlighted failures in stakeholder engagement that they had experienced in the development or implementation of blended finance projects.

Various challenges in relation to blended finance were highlighted by respondents. Codes associated with these challenges were highlighted within the theme of Challenges of Blended Finance.

Table 11: Theme: Challenges of Blended Finance

Theme: Challenges of Blended Finance	
Lack of adoption due to perceived risk	14
Institutional capacity	11
Lack of alignment	10
Motivation for blended finance	9
Lack of bankability	8
Lack of measurement (M&E Risk)	8
Confusion of blended finance complexity	8
Lack of stakeholder engagement	8
Lack of theory of change or interest by investors	6
Lack of consultation	6
Caution of commitment	6
Lack of interest in theory of change	6
Institutional failures	5
Lack of transparency	5
Selection based on positive relationship with the government	4
Capacity limitations	4
Lack of accountability	4
Barriers to entry	4

Partnership miscommunication	4
Inconsistent development targets	3
Inability to consult	3
Perceived view on no need for stakeholder engagement	3
Political interferences	3
Lack of commitment	3
Lack of formal complaint mechanism	2
Confusion of definition	2
Lack of adoption due to credit	2
Potential for public sector exploitation	2
Lack of investment	2
Lack of decision-making ownership	1
Scepticism of blended finance	1

Based on the above, it was noted that the frequency of the code mentions was not as high as codes highlighted in *Table 4* of the most recurrent codes mentioned during the interviews. Whist respondents provided in-depth responses to challenges associated with blended finance, mention of challenges become an explanation as to why certain factors were vital.

However, within the theme of Challenges of Blended Finance, themes were created that highlighted a relationship identified between the codes.

The following categories were identified as such

- Characteristics and complexity of blended finance
- Lack of alignment, consultation and ownership
- Ineffective or lack of monitoring and evaluation
- The lack of an enabling environment.
- Lack of accountability and transparency

5.5.1 Characteristics and complexity of blended finance

Certain codes, such as 'lack of adoption due to risk' and 'lack of bankability' highlight the nature of blended finance and whilst there could be an associated relationship between these, particularly in light of enhanced knowledge sharing and education, these relationships to stakeholder engagement are not overt. However, it is important to understand these challenges, as practitioners entering into the design and implementation of blended, better engagement and consultation could play a role in mitigating against these challenges and overcoming some of the barriers to partnerships that are inherent in the complexity of blended finance structures.

Table 12: Category: Characteristics and Complexity of Blended Finance

Category: Characteristics and Complexity of Blended Finance
Lack of adoption due to perceived risk
Lack of bankability
Confusion of blended finance complexity
Barriers to entry
Confusion of definition
Lack of adoption due to credit
Lack of investment
Scepticism of blended finance
Negative attitudes towards blending

From the above theme, a range of respondents highlighted the lack of clarity and confusion that arises through partnerships and structures within blended finance projects. Responses surrounding risk were pointedly mentioned, whereby stakeholders highlighted their experiences in relation to certain structures, or certain partnerships which are deemed riskier than others. Given the relatively new development of blended finance within both the developmental and business arena, there is a perceived risk associated with traditionally high-risk projects or partners. Interestingly, the aim of blended finance is to mitigate against these risks and therefore, it was highlighted that significantly more work is needed to amongst blended finance professionals in which to challenge these assumptions. The lack of understanding on certain how projects can be deemed both bankable or feasible, and therefore deemed risky, was noted as relevant within this theme:

- *"So irrespective of whether the blended finance is available or not, the projects cannot be funded, because the funders say that they're not acceptable from a credit or performance risk point of view. So, I think I think that, I mean, I'm going a little bit ahead of it. And I think one of the big impediments to blended finance on both a sustainable basis, and also scalable basis is that they there need to be a lot more work around project development taking projects from feasibility to bankability*." – Respondent 2
- *"Well, they also said we do have to mobilise kind of private capital to start investing in and there are huge number of areas which prevent that happening even though there's a big prize, it's still not happening or not happening fast enough. You're based in South Africa so you will notice better than anyone but there's this perception of risk you know, not just South Africa but many countries around the UN, even more countries around you. There's a huge perception of risk, particularly in sectors like agriculture, but, and far more even in social, social initiatives with like education and health. So, let alone you're a mainstream infrastructure like energy which has kind of clearer revenue stream. So, because there's some type perception of risk because there are barriers around, you know, currency risk or even just lack of capacity and familiarity within different teams, and the perception around political risk and this concept of blending, so using development money more catalytically, to mitigate investor risk, and bring in private capital has been growing in popularity".* – Respondent 9
- *"And especially the social projects that are supposed to also have capital and a return of some sort, the reason why they are not getting funding is because banks would be there, if there was money to be made. That's the thing. So, there's somebody who's supposed to put it in the risk capital, in order for the banks to see that actually, this works. And that's the whole point of developing finance, you know, you take the risk in the beginning. And once people see that, actually, this works, there's money to be made… that the money that we manage is actually risk-free money*." – Respondent 3

Based on the fact that blended finance, through multistakeholder partnerships and blending structures, aims to mitigate against risk by sharing the risk, has led to developmental or public-sector partners entering into projects to act as first-loss funders in order to attract further private sector funding.

- *“So, [Financial Consultancy and Investment Holding Company] looked at it and thought that this thing is too risky and wouldn't touch it. So that forced them to go out and find other investors to come into the bond. And then nothing. The went to [Foundation of Major Financial Institute], and [Foundation of Major Financial Institute] being a foundation are not looking for money back. So, they were like, we'll put in money as an investor and act as first loss funder. So, in that way that reduces the risk for Financial Consultancy and Investment Holding Company], because they act as a buffer. So, if there any losses they are first absorbed by [Foundation of Major Financial Institute]”.* – Respondent 3
- *“And then as I said, when you when you think through a blended finance a project, you know, somebody wants to finance renewable energy on scale. In the development phase, there's often there's very high risk, and there are not many private sector developers that will take the risk and therefore there's a very strong case for public capital, and some of the blended finance structures and all the opportunities… it’s all actually public capital that's being provided, because there's such a strong drive towards Blended Finance and managing the risk.*” -Respondent 10
- *“The, you know, high impact stuff is investable. It requires some risk mitigation for various factors. There are barriers to overcome to get private money into this stuff. There's not always a sort of investable solution though, and that's okay as well. So sort of understanding where philanthropic or a donor aid money needs to play and then realizing that a lot of the stuff that it currently goes towards, could be invested by the private sector”*. - Respondent 9

The perceived risks and assumptions made by particular stakeholders on the inability of social good projects, or sustainable projects to fall within the middle of the return’s continuum highlights the confusion and misunderstanding associated with the complexity of blended finance projects. Respondents referred to the fact that varying definitions of blended finance pose challenges as blended finance has the potential to mean different things to different partners and as such, can impede the successful implementation of blended finance projects. By its nature, the complexity of structures and what is entailed in which to meaningfully engage in partnerships need to be carefully managed in order to manage expectations of stakeholders and partners.

- *"But if we just stay with the donor governments for foreign grant capital, you know, blended finance structures are typically investment vehicles, and they are complex, complex financial arrangement. But, you know, some examples are these layered funds where you cost structure, with mezzanine and tranche structures, and therefor people really need to understand this financial structuring. And that is typically not the background and the training of the public sector."* – Respondent 10
- *"So, depending on the definition, you can go to, yeah, you can discuss these from different grounds, but also in traditional investment projects, and the World Bank and International Finance, Corporation, etc….So even if your take the approach is not necessarily concessional and there are certain things that are sensitive etc"*. – Respondent 1
- *"I think we're just recognising that there is this opportunity base, but it is…hard and that it requires a lot, I think a lot more than like words like mobilise private capital, you know, these taglines and theories of change, very likely skim the surface of what really needs to happen to get a project through."* – Respondent 9

With respondents highlighting the need for further knowledge sharing and education, as a way of informing stakeholders of the nature of blended finance is vital. There is a need, in order to attract further investment, mitigate against risks and alleviate the challenges associated with the complexity of blended finance, to develop standards or frameworks that could potential solve for these challenges:

- *"So, we do a report with UNCDFs on blending in less-developed countries where there's not that much going on. And we want to understand why this instrument are working well in LDC, but also shed light on this, why still relatively low amounts, relatively little blending activity taking place…Why? Because we're seeing a proliferation of these funds, sort of created with a mandate, for example, to go and do solar East Africa. And I think they're just a sort of response to an idea, DFIs giving lots of money to and may not have been able to do that all they want to do something specific mandate or they want to partner with the private sector. So, we want to understand the rationale and those funds are doing and just increase transparency. So, we've done a big survey around that. We've also got this whole initiative called the [Blended Finance Initiative] where we're pulling in a variety of actors, NGOs,*

CSOs private sector, NDB and DFIs into trying to coordinate more effectively blended finance market." – Respondent 8

5.5.2 Lack of alignment, consultation and ownership

These themes have been built from the code category based on the inability to align and communicate effectively within blended finance projects. Respondents highlighted that this leads to a lack of ownership and engagement within blended finance projects. The inability to communicate, consult and engage with stakeholders, whether in design or implementation was a significant challenge for the successful delivery of blended finance.

Table 13: Category: Lack of alignment, consultation and ownership

Category: Lack of alignment, consultation and ownership
Lack of alignment
Lack of consultation
Caution of commitment
Lack of stakeholder engagement
Capacity limitations
Partnership miscommunication
Inability to consult
High degree of fragmentation
Lack of decision-making ownership
Projects that have negatively impacted communities

One of the most prominent factors of stakeholder engagement as referred to in Research Question 1, was the need for alignment amongst stakeholders. Respondents referred to significant challenges as a result of the lack of alignment amongst stakeholders and its ramifications for the delivery of blended finance projects. The lack of alignment affected the design and implementation of projects, leading to fragmentation amongst stakeholders. The lack of alignment amongst stakeholders which results in high fragmentation impacts the ability to share learnings and best practices

- *"There is no strong commitment to do so. It's basically because of development finance institutions were developed with different expectations*

when it comes to how they deal with the private sector. So, there are different dynamics and different expectations. And how they deal with concessional funds with aid money, how they would like to develop an effective means at the end and all that, development finance institutions are about development. But traditionally the way they deal with private sector, all the private sector actors who wouldn't expect that much transparency and scrutiny plus you have sensitive information about the projects or the investments are going to help them, and they don't want to communicate openly about it, it threatens them". – Respondent 1.

- *"But the challenges there is that often those different parties speak different languages. And so, when you put, for instance, when you put a grant provider in the same room as…and investor or finance provider, they're often looking for different things in terms of their reporting".* – Respondent 6.
- *"And so, you know, there might be the common broad alignments…you want a fuel switch because it's greener. But when you start thinking about details, you know, the size of the switching costs, how much you replace, how you may deal with the issue of batteries? Is there an element of, for example, displacement of moving of people, do you create enough employment, if you create employment, for three years, for example, during construction, what happens after, so it is those details within a project that may give rise to divergencies, and this is where you know that the local stakeholders to be involved, because if we work on our projects form London, or from Frankfurt, and you decide certain things, I mean, you don't know exactly the situation on the ground".* – Respondent 11
- *"And so everyone's doing their own thing in parallel which is not helping. I think because the private sector is looking for standardised structures where they can invest larger amounts of money and do that at the moment. If someone needs smaller funds or a different approach to blended finance and projects, and it's actually, in my view, has the potential to destroy blended finance. As a result of this high degree of fragmentation, there is not enough knowledge sharing, so people are trying to reinvent the wheel constantly. Whereas it would be much wiser if, you know, people just replicating structures that work".* – Respondent 10

One of the main challenges highlighted as a response to the lack of alignment is the lack of consultation, engagement and miscommunication. Consultation and

communication were mentioned as significant factors for stakeholder engagement, and therefore respondents emphasised the inability to fulfil these factors as significant challenges in the delivery of successful blended finance projects.

- *"They don't have lots of people to undertake this complex consultation processes, etc. And when I am looking to that there is you probably I mean, if you look at that what I have written there is no, there isn't a strong commitment do so. It's basically because of development finance institutions were developed with different expectations when it comes to how they deal with the private sector.* "– Respondent 1
- *"I'm not sure. So, something one of the things [South Africa Business Coalition] does in other spaces is almost act as a translator or as an honest broker. So, we in other partnerships that, not necessarily blended finance models, but other partnerships we run, where you've got people who have different areas of knowledge, but they don't necessarily know how to talk to each other."* – Respondent 7
- *"And people need to understand that, so extensive stakeholder engagement that needs to be done. If you look at the N4 project, one of the problems that they had in certain areas that they had not engaged with communities, there's a very big lack of consultations with created risks with them at the end, or not, at the end, the during project, sorry. And during the projects, where people are now, striking over the project, saying, you know, it's going to be expensive now commute to work."* – Respondent 3
- *"You have some reports that try to highlight redress mechanisms, and even if there are still complaints, and you talk to civil society, and they are things that can be improved, perhaps will be improved. There are many cases where they have been able to, to, even after implementation, basically to denounce situations for what I call, you know, projects were harming the local environment or the community, and they have put a stop to the projects. So that the open way of communication I think, is essential for a project."* – Respondent 1

5.5.3 Ineffective or lack of monitoring and evaluation

A challenge highlighted was the inability to monitor and measure impact effectively. Monitoring and evaluation become central to reporting on whether impact has been

made and outcomes achieved. Measuring impact allows for the management of expectations amongst stakeholders. As mentioned, the complexity of blended finance and the multi-layered partnerships means that there are diverse expectations from development impact to financial returns. The ability to report, to measure and monitor both project successes and project challenges becomes critical in determining the development of successful future projects, future investment and the scalability of projects. Further, by monitoring impact, blended finance project practitioners can mitigate against far-reaching and long-term community challenges.

Table 14: Category: Ineffective or lack of monitoring and evaluation

Category: Ineffective or lack of monitoring and evaluation
Lack of measurement (M&E)
Lack of interest in theory of change
Lack of theory of change
Developmental targets

- *"So, I think a very important part about the project is not only the development of the project, but the ability to monitor, measure, verify on, on the impacts, post, the completion of the project. And I think if there's an inability to do that, I think that it's going to be very difficult to raise funding."* – Respondent 2
- *"And that's everything from the financial performance to the development impact you're looking to achieve, from ex-poste to ex-ante. So that's very, that's a critical piece, and that we're still getting a lot of pushback, still lots of scepticism about blended finance, partly because there's not been a lot that's been done on the monitoring and evaluation."* – Respondent 8
- *"And then there's also question if you're saying, transparency on impact, it's also a question of methodology. On that I recently noticed a lot of people work based on estimated impact. So, there's a you know, there's kind of a model, estimate what the outcome should be on this blended finance fund let's say, but then there's no reporting on actual achieved impact, kind of theorise Impact Assessment after maybe five years or so far. No rigorous reporting on impact from the actually investees. And that, to me is actually unacceptable, because everybody can go out there and say, Listen, you know, I'm, I'm estimating that we will create 1000 jobs from this investment but then, you know, what are you really achieving?"* – Respondent 10

Further, the importance of consultation and engagement around stakeholder understanding of impact and the constant need for monitoring and iteration is vital for ensuring that stakeholder, particularly community beneficiaries are able to engage meaningfully with the process and the impact of the blended finance projects on their environments and systems.

- *The public sector needs to be involved, so it fits within their strategic kind of priorities, but also the communities and you know, sort of the people who are understanding the impact need to be involved as well because in the example of the toll road, I'm not sure particularly how sustainable or how environmentally friendly shoving those roads all throughout Columbia and through the Amazon really have been* – Respondent 9

5.5.4 The lack of an enabling environment

The lack of an enabling environment considered the challenges associated with political instability and institutional challenges, within the context of blended finance. The lack of capacity, or capacity not aligning to investment rules, was mentioned by respondents as being a critical challenge of blended finance. Further, respondents spoke of the implications of what happened in projects when there were changes in political leadership. Respondents highlighted the importance of consistent communication and knowledge-sharing in order to mitigate these challenges.

Table 15: Category: The lack of an enabling environment

Category: The lack of an enabling environment
Institutional failures
Institutional capacity
Selection based on a relationship with Government
Barriers to entry
Political interference
Potential for public sector exploitation

- *“So effectively, we were something was being driven by the Minister, and therefore things were happening all the time. There's not a new minister. And so, the whole process can become derailed. If this is being led by some other party probably like the DBSA or ourselves, you know? Well, we will now obviously have new issues around political will and interest. But so, I think*

that, so how you said, one of the things is how you're going to maintain political will throughout the whole process? And that's tricky. That may not be applicable in all cases. But anywhere you want to obtain government grants, right? So, it gets depends on your definition. But yeah, if you are going to be relying on government grants, Government is a key stakeholder there is the risk that you know, they may not always go the distance in terms of their seeing them being leaders taking leadership role in the process "– Respondent 7

- *"And because they have much more knowledge than everybody else, they also in my view, actually, you know, there's a risk of being exclusive, because the donor government will provide the concessional funds for blended finance. Again, they don't have much knowledge in financial terms, so there is a risk of over subsidising these structures, which is real in my view. And then on the recipient side of things, again, the country governments, they are challenged to understand this and also be the final beneficiary I don't think gets blended finance structure. So, they, they need education around, you know, what it is that will benefit for them, and breaking it down into something they understand, which is probably financial structuring, you know, naming the service that they can get as a result of blended finance and why it's not extortion for them. Because of course, if you bring private sector on the interest rates are some somewhat higher than a few if you finance alone, and so known as having them understand why it is beneficial, and still best option for them. Because maybe the public mind the public pools don't reach the rural areas as a myriad of reasons*."– Respondent 9
- *So, on the developing country, governments, I mean, they're the capacity constraints are even, even larger, right. I mean, often, those governments don't even know how engage with the private sector and have some ideological preconceptions, that sort of making money is fundamentally bad.* – Respondent 10

5.5.5 Accountability and transparency

Underpinning all the factors of stakeholder engagement, in Research Question is that the stakeholder engagement increases accountability and transparency within blended finance projects. The demand for continuous engagement, consultation,

buy-in and monitoring and evaluation has continuously sought to increase the transparency of engagement and the accountability of stakeholders. The impact of the lack of transparency and accountability on projects was important as it impeded the delivery and development of blended finance. Further, it was highlighted to have enormous implications on other activities highlighted in challenges including communication, reporting, monitoring and evaluation and consultation.

Table 16: Category: Lack of accountability and transparency

Category: Lack of accountability and transparency
Lack of transparency
Lack of accountability
Lack of formal complaint mechanism

- *"Yeah, also, I think in any project, when you've got multiple stakeholders, if you're not transparent, it just gets really confusing of who have we told what to. I honestly think the easiest thing is just to be totally transparent with everybody, so that everything's on the table for anyone to see. And then and so I mean, except for cases where there's what is the correct term, proprietorial? You know, information that can't be shared from a business perspective. But otherwise, I, my personal perspective is that transparency is, especially when you've got lots of stakeholders, then transparency is a very key element."* – Respondent 6
- *"But traditionally the way they deal with private sector, all the private sector actors who wouldn't expect that much transparency and scrutiny plus you have sensitive information about the projects or the investments are going to help them and they don't want to communicate openly about it, it threatens them."* – Respondent 1
- *"The public sector, they are generally a lot more transparent than a private sector and the private sector may still want to keep some of the negotiations because there might be issues of undercutting or competition, competitors then trying to get the business. So, one of the things that may happen. Even if there is some information, you will find it that it is summarized or redacted many things which may be more interesting or substance, you might not be able to find in the public sector, and in public sector operations, or of the large*

funds of the multilateral development bank, by the by most definition you will have a lot of the processes which need to be public, public procurement, for example, strong public disclosure policies that will make profits more transparent. Now, the difficulties are towards the beginning, in particular, for the private sector. And that is because you might not want to let other people know that you're negotiating certain things, because you might not want someone else to approach the same client, or the same ministry or the same group or municipality, and try to replicate what you're doing and then trying to recaption. So, in all transparency, yes, ideally, it's very important, it's difficult at the very beginning. And it becomes even more difficult with the public sector." – Respondent 1

5.5.6 The conclusion to Research Question 2

Based on the respondents' feedback, significant challenges in relation to blended finance were shared, which ranged from the complexity of blended finance to systemic social and political issues. As such, many of these challenges highlighted the concerns in relation to stakeholder engagement and therefore, based on these findings, stakeholder management would indeed enhance blended finance outcomes. Certain challenges were highlighted that were not in relation to stakeholder engagement, however, interestingly, respondents referred to factors in Research Question 1, as a way of mitigating against these factors; for example, in relation to perceived risk, it was highlighted that knowledge sharing could provide valuable insights about blended finance structure to investors that were perhaps more sceptical.

5.6 Conclusion

The research findings are illustrative of the depth that was achieved during the semi-structured interviews. All the respondents provided valuable insight into the research questions. Based on the most frequent and prevalent themes, these findings have been highlighted.

Important factors were mentioned within the research and amongst the collective responses of the respondents, proved to be immensely valuable. The findings have begun to build a picture that will enable the researcher to discuss the findings with greater meaning and depth.

Chapter 6: Discussion of Results

6.1 Introduction

The research has sought to understand the factors of stakeholder engagement that will enhance blended finance projects. Also, the study aimed to test an existing model of stakeholder engagement within sustainability management to find whether it would be applicable or sufficient in the context of blended finance. Further, the research had the final aim of exploring stakeholder engagement would enhance the design and implementation of blended finance projects. These fundamental questions were examined in three separate research questions. This chapter will discuss the results of the research in line with literature on blended finance and stakeholder theory.

The literature review concluded with essential findings. These findings highlighted that nature and complexity of blended finance, whereby challenges were noted in terms of stakeholder engagement with regards to the design and implementation of projects. The literature review also sought to examine stakeholder theory and its evolution in academic discourse, most notably its links to sustainability management.

Through the qualitative research conducted amongst respondents, of whom are significant actors within the blended finance arena, rich information was gathered that highlighted the importance of stakeholder engagement in blended finance projects.

6.2 Discussion on Research Question 1

Research Question 1: Establish the major factors that drive successful stakeholder engagement in blended finance projects

Through both project design and project implementation, this question sought to understand the critical factors that drive successful stakeholder engagement in blended finance projects. Through the findings for this research question, four key factors were identified. These factors are crucial drivers for successful stakeholder engagement. The factors identified correlate to challenges noted in the literature. For example, the lack of alignment was indicated as a significant challenge within blended finance. The research findings suggest that the ability to create alignment amongst stakeholders is intrinsic for the future development of blended finance.

6.2.1 Alignment

All respondents identified alignment as a critical factor for stakeholder engagement. The general lack of alignment within blended finance was explicit within the literature, as it impeded the design and delivery of blended finance. As highlighted by Brest, Gilson and Wolfson (2018), the inability to align and reach consensus, as stakeholders, affects the delivery of project outcomes including that of impact and financial returns, as well as reporting, monitoring and evaluation. This proposition is supported by Choritz, Lorenzato and Santoro (2018), who suggest that misalignment, mainly when there is a lack of thought or consensus on risks and returns, can impede the future development of blended finance projects.

Brest, Gilson and Wolfson (2018) argue that the value alignment amongst investors is not enough; alignment needs to be sought through responsible, social value creation. Through careful understanding of the delivery of returns and impact, through concise and consistent reporting and appropriate benchmarking, alignment should be sough that produces both socially valuable outputs and returns (Brest, Gilson, & Wolfson, 2018).

Rode et al. (2019) suggest that far greater alignment and compromise is needed by stakeholders, whereby basic value alignment and idea for a blended finance project are not sufficient to deal with the complexity of partnerships. A joint vision and a broad understanding of the landscape, community and financial system are vital whereby in-depth analysis and agreement on both institutional and administrative requirements will ensure more significant impact and return (Rode, et al., 2019; Attridge & Engen, 2019).

Given the complexity of multistakeholder partnerships, alignment is increasingly difficult (Attridge & Engen, 2019; Adams, 2017; Küblböck & Grohs, 2019). However, for blended finance projects to be successful, collaboration towards alignment and reporting will ensure greater transparency (Attridge & Engen, 2019; Küblböck & Grohs, 2019).

While all respondents highlighted the importance of alignment, many made distinctions particular to certain elements. Three most-frequently mentioned categories identified include alignment of impact, alignment to national agenda, and the alignment of clear actions.

6.2.1.1.1 Alignment on impact

Within the findings, respondents reported that the ability to reach alignment and agreement on impact and outcomes was crucial for the design of projects. It was reported that alignment on impact would enhance stakeholder accountability and responsibility in reaching said outcomes. Accountability encourages participation and ownership within projects, where currently, through many existing projects, there is a disconnect between the alignment of ownership and monitoring and evaluation (Choritz, Lorenzato, & Santoro, 2018). Respondents noted that alignment needs to be explicit and the objective of the project, moving away from vague measurements or unrealistic targets (Rode, et al., 2019). The misalignment of diverse definitions and outcomes leads to difficulty in measuring and reporting, with different organisations replicating and analysing data to suit own reporting criteria (Choritz, Lorenzato, & Santoro, 2018).

While acknowledging the difficulty of alignment in terms of impact, descriptive stakeholder theory suggests that the ability of organisations to manage these tensions has a stronger influence on the sustainability of performance and an organisation (Hahn, Frigge, Pinkse, & Preuss, 2018). As such, identifying these tensions, as well as the power, legitimacy and influence held by various stakeholders, allows for a more succinct and meaningful response to stakeholders (Hahn, Frigge, Pinkse, & Preuss, 2018). However, while descriptive stakeholder theory becomes beneficial in the identification and understanding of stakeholders, through a stakeholder mapping strategy, questions remain as to ethical motives to which organisations engage, and thus a normative approach to stakeholders is far more beneficial (Mainardes, Alves, & Raposo, 2011).

6.2.1.1.2 Alignment and national strategy

Respondents referred to greater alignment of blended finance projects to national agendas and strategies, as this will enhance engagement with government, as a critical mechanism for stakeholder participation. Strategic alignment is essential to the design of projects, which need to be both necessary and specific to the local context.

A significant critique of blended finance is that existing projects tend to ignore the mandates of national governments, favouring the intentions of the donor government or donor DFI rather than project-recipient national agendas (Pereira, 2017a). As such, blended finance actors have been criticised for operating outside the principles for effective development cooperation (Choritz, Lorenzato, & Santoro, 2018).

Further, it has been suggested that caution needs to be taken in the design of blended finance projects to ensure additionality in their alignment with both the SDGs and national strategies of recipient governments (Choritz, Lorenzato, & Santoro, 2018; Clark, Reed, & Sunderland, 2018). It has been further suggested that alignment, as highlighted by respondents within the research, will increase ownership, accountability and participation of public sector actors within blended finance projects.

Instrumental stakeholder theory suggests that it is increasingly beneficial for organisations to identify and manage their stakeholders based on those who would increase performance, with greater attention paid to the most valuable stakeholders (Donaldson & Preston, 1995; Jones & Wicks, 1999). While descriptive stakeholder theory points to an understanding of stakeholders based on their power, legitimacy and influence (Mitchell, Agle, & Wood, 1997). An argument could be made that blended finance has been critiqued for the emphasis placed on stakeholders who hold greater power and influence, particularly concerning the performance of projects concerning their ability to deliver returns (Adams, 2017).

Pereria (2017a) and Clark, Reed and Sunderland (2018) suggest that existing blended finance projects highlight an imbalance with corporate interests and financial investors favouring project design and development, over public agendas. DFIs tend to favour private sector participation, as the source of investment funding (Pereira, 2017a; Bayliss & Van Waeyenberge, 2016). Therefore, the notion of reciprocal, normative stakeholder engagement provides more validity in the development of institutional and strategic settings that are based on the formation and alignment of stakeholder expectations (Hahn, 2015).

6.2.1.1.3 Alignment on clear actions

Respondents highlighted the necessity as a condition for stakeholder engagement that there is an alignment in terms of the activities and roles and responsibilities of stakeholders within blended finance. Respondents referred to the need to outline and provide clear project actions and deliverables collaboratively to ensure transparency and accountability. The sense of clarity ensures that stakeholders within the design and implementation are able to monitor project development and progress, and hold stakeholders to account.

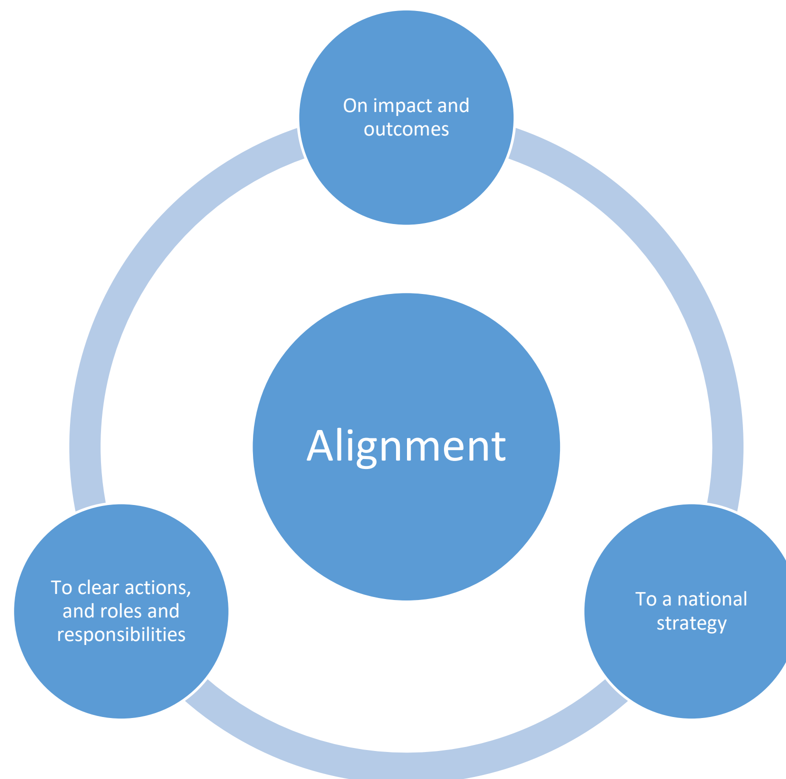
The lack of participation in project design and implementation, particularly by recipient nation-states and communities has created difficulty in holding project partners to account (Pereira, 2017a). The complexity and confusion of blended finance structures and definitions has led to ambiguity into the roles, responsibilities and accountability of stakeholders, which impedes effective reporting and monitoring (Clark, Reed, & Sunderland, 2018; Egler & Frazao, 2016). Therefore, as highlighted by respondents, to mitigate these challenges, clear alignment must be sought between project partners in the development and design of projects.

6.2.1.2 Concluding insights on alignment

As the most frequently mentioned factor for stakeholder engagement, alignment is vital in both project design and implementation. Normative stakeholder theory considers all stakeholders who have a legitimate interest in the mandate of an organisation or a partnership, whereby stakeholders are identified by their interests and those interests are aligned accordingly (Donaldson & Preston, 1995). Thus, while descriptive stakeholder theory has relevance in this context and considering the convergence of descriptive, instrumental and normative stakeholder theory, it is vital to centre normative stakeholder theory at the core of stakeholder engagement. Normative stakeholder theory at the heart, is perhaps the most valuable, given the challenges faced in terms of alignment within blended finance. The consideration that stakeholders need to be viewed equally (Evan & Freeman, 1988) and in the broader context of global society and the inequality between the developed and developing world (Lepineux, 2005).

The research proposes that alignment at the centre of a model that would aim to advance stakeholder engagement in blended finance. In the development of a proposed model, alignment sits at the centre, with the three identified elements as essential considerations for the future.

Figure 3: Alignment at the centre of a model for stakeholder engagement in blended finance



6.2.2 Communication

In addition to the importance of alignment, all stakeholders mentioned communication or an action of communication, such as consultation, as a factor of stakeholder engagement within blended finance. Communication as a factor includes two elements; including consultation and buy-in. Buy-in falls within this factor as it considers the communication activity towards an agreement between stakeholders.

The majority of respondents were in agreement that to increase engagement and country ownership amongst stakeholders within blended finance, clear and continuous communication is essential (Choritz, Lorenzato, & Santoro, 2018). The lack of engagement and communication between stakeholders within blended finance, particularly around varying mandates, objectives and business practices is obvious within blended finance (Halland, Dixon, Monk, & Young, 2018). Much of the gap between stakeholders a result of differing assumptions made by stakeholders, as well as institutional differences in governance and culture (Halland, Dixon, Monk, & Young, 2018). Information gaps and inconsistencies in reporting, based on qualitative or quantitative metrics amongst stakeholders prove to be detrimental in knowledge sharing amongst stakeholders (Saarinen & Godfrey, 2019). These views on challenges have been highlighted from respondents.

Therefore, respondents highlighted communication as a factor of stakeholder engagement as a response to failures experienced. Respondents highlighted the importance of continuous communication and reporting, whereby effort is made to continuously engage and receive feedback from stakeholders to determine not only progress but challenges in terms of design and implementation thus enabling iterative review through consistent feedback loops. Respondents reported that it is essential that communication is open, in which to increase transparency amongst stakeholders. Pereira (2017a) suggests that the ability of stakeholders to enhance transparency through communication, either through a reporting, a complaint mechanism or consultation is lacking within existing blended finance projects. Discrepancies in the reporting of the private sector, concerning confidentiality and disclosure frameworks, means that little and inconsistent information is available for stakeholders to interrogate (Pereira, 2017a).

Stakeholder theory advances that participation whereby the sharing of information, among stakeholders, is consistent and open can lead to efficiency, innovation and superior performance (Jones, Harrison, & Felps, 2018). Cooperation is positioned then intrinsic to reciprocal, normative definitions of stakeholder theory and stakeholder engagement. Jones and Wicks (1999) argue that organisations must consider that no set of interests of particular stakeholder dominate over others. As mentioned, the importance of open and continuous communication is critical for respondents and highlights the need to rectify challenges experienced within the blended finance arena, particularly around interests of particular stakeholders dominating over others.

As with alignment, communication considers some aspects within this factor that is vital for consideration. These communication sub-factors include consultation, buy-in and engagement.

6.2.2.1 Consultation

All respondents highlighted the importance of consultation amongst stakeholders, at project design and implementation, as being essential for the future of blended finance. Consultation and open communication were highlighted as being critical for ensuring active and responsible participation of all stakeholders, as well as accountability and transparency. Respondents highlighted consultation as being

essential, not just in the initial phases of a project but during a project to ensure that stakeholders can give and receive feedback that will be beneficial to the project.

Consultation was deemed as being critical predominantly when dealing with local communities, those that are affected directly by blended finance projects, with this response frequent. Consultation with communities is essential in order to ensure that blended finance projects are relevant to the communities of whom will be impacted, which will advance rather than impede the goal for development impact. Further, to ensure successful implementation of a project, consultation assists in enhancing buy-in and ensuring commitment to project deliverables and reporting. Through consultation, stakeholders are able to hold others to account based on project outcomes and deliverables.

Liverman (2018), Pereria (2017a), Saarinen and Godfrey (2019) and Mawdsley (2018) all highlight explicit concerns concerning the current state of consultation and engagement in blended finance. Liverman's (2018) view is that collaboratively, amongst development actors, far more work needs to be undertaken to consult with and understand the local needs of communities, developing projects that are serious responses to these local needs; rather than dictating projects that may be unnecessary. One of the respondents referred to the project that involved the construction of toll roads through the Amazon and Colombia, which have not suited the needs of the community and have caused environmental degradation. The respondent referred to the fact that if during project design, the actors had consulted with communities to understand the impact; the project would have been far more sustainable.

Pereria (2018) and Saarinen and Godfrey (2019) highlight particular incidences whereby the lack of consultation and communication has impeded the developmental effectiveness of a project and negatively impacted communities. Consultation has not been a requirement for many blended finance projects, particularly projects that involve European DFI funding; and therefore it is suggested that consultation needs to be designed into projects with external verification processes that ensure continuous consultation is taking place (Pereira, 2018; Saarinen & Godfrey, 2019). The establishment of consultation as a guiding principle to the design of blended finance establishes that stakeholders are crucial to the decision-making process, as outlined by normative stakeholder theory (Berman, Wicks, Kotham, & Jones, 1999). Through the reciprocal nature of stakeholder engagement, the ability to incorporate

stakeholders into broader active participation allows for the management of expectations (Hahn, 2015). Thus, in terms of Based on the reported incidences of the lack of consultation and the impact of this, as well as the vital need as highlighted by respondents, consultation becomes crucial to stakeholder engagement.

Therefore, consultation among stakeholders is crucial to ensuring the effective and accountable delivery of projects that are able to deliver returns and impact.

6.2.2.2 Buy-in

With the aim of creating an agreement between stakeholders, whether in design or implementation. Buy-in was indicated by respondents as essential to the development and successful implementation of blended finance. All respondents referred to the importance of buy-in or creating agreement through consultation and continuous engagement. Concerning responses, buy-in was highlighted through specific mention of community buy-in, public sector buy-in or private sector buy-in. Generally, buy-in was highlighted as intrinsic to ensuring a level of participation from stakeholders, as well as accountability and transparency throughout project design and implementation. Buy-in and the process of reaching an agreement were essential to creating commitment towards the project.

Importantly, the findings indicated that holistic buy-in needed to be achieved, rather than standalone buy-in from a certain sector. This was noted within the literature, whereby challenges has been noted in existing blended finance project, where favour and attention have been shown to the private sector, in order to enhance the ability leverage further finance (Pereira, 2018). Pereira (2018) outlines that DFI project-strategies tend to focus on private sector participation precluding community and public sector buy-in. Romero (2017) further concludes that the inability to create buy-in creates serious challenges in holding project funders to account, as there are insufficient channels in which to share grievances or question projects. Therefore, in the context of community and public sector buy-in, the lack of buy-in decreases ownership and participation in projects and thus influences the success of projects (Romero, 2017; Mawdsley, 2018).

In the context of private sector buy-in, projects must be able to attract private sector investment, as the mandate of blended finance. Projects that are perceived high-risk or whereby there is a lack of awareness on investable projects can deter private investment (Choritz, Lorenzato, & Santoro, 2018; Battacharya & Khan, 2019).

Through risk management instruments or technical assistance structuring, blended finance actors need to enhance awareness of project viability and feasibility in which to advance private sector buy-in (Attridge & Engen, 2019).

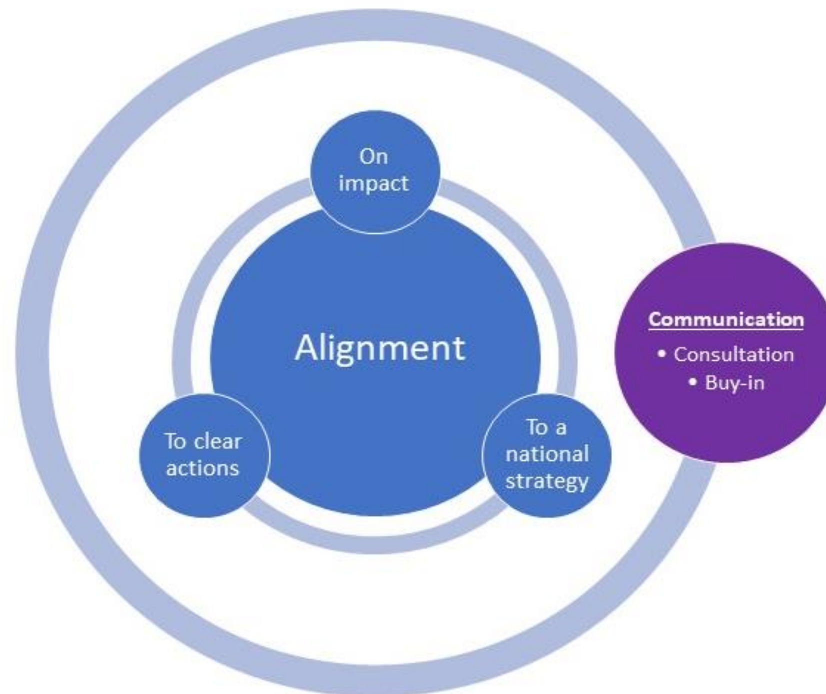
Through the lens of stakeholder theory, the dominance of certain actors and lack of participation can lead to the increasing lack of accountability and negligence to communities and the environment (Laplume, Sonpar, & Litz, 2008). Further, in understanding the convergence of stakeholder theory, engagement needs to be guided by the criteria of memberships within the stakeholder system, whereby mutually reciprocal agreements of participation are in place for the benefit of all (Mainardes, Alves, & Raposo, 2011).

6.2.2.3 Concluding insights on communication

All respondents highlighted conversations centring on communication, consultation and buy-in and as such, have been concluded as an essential factor for consideration in the development of blended finance projects. Given the complexity of blended finance and participatory nature of stakeholder engagement, through the lens of stakeholder theory; communication becomes vital to ensuring the transparency and accountability of all stakeholders within blended finance. The varying nature and characteristics of actors involved needs to be taken into account and designs need to be tailored to active, open and transparent participation that involves continuous feedback and accountability.

Therefore, the research proposes that communication as a factor of engagement is included within a blended finance stakeholder engagement model.

Figure 4: Communication as a factor within the blended finance stakeholder engagement model



6.2.3 Stakeholder Mapping

Stakeholder mapping, whist not identified by all respondents, was identified as a crucial factor for stakeholder engagement. The majority of respondents referred to the identification of stakeholders or tailoring projects based on various stakeholder groups. Thus, stakeholder mapping was allocated as a theme for these responses. The importance of identifying stakeholders was crucial in that it enabled an understanding of who are stakeholders within a project are, their requirements, needs and level of influence they may have. Further, stakeholder mapping allowed for better alignment and participation in terms of impact, thus delivering more realistic developmental targets. The identification of stakeholders, particularly within the design process ensured that projects are able to be designed with a holistic grasp on stakeholders who can affect and be affected by blended finance projects.

As previously mentioned, existing blended finance projects have tended to overlook certain stakeholders in the design and implementation of projects, which has led to misalignment of project deliverables, communication and impact (Pereira, 2017a; Mawdsley, 2018; Romero, 2017). Further, the lack of engagement with recipient nation-states in the design of blended finance projects has led to further misalignment in terms of national agendas and strategies (Pereira, 2018).

Respondent generally highlighted that far greater emphasis needs to placed on the identification and engagement with all stakeholders within a project, which supports the challenges identified within the literature.

Predominately descriptive stakeholder theory highlights the importance of the identification of stakeholders. The descriptive identification of stakeholders as an undertaking by organisations, based on cooperative and competitive interests, sets the foundation for the definition of descriptive stakeholder theory (Donaldson & Preston, 1995). Donalson and Preston (1995) argue that identifying connections will enable organisations to understand those who possess value and influence. Jawahar and Mclaughlin (2001) surmise that this undertaking will enable organisations to develop strategies on how to deal with individual stakeholders accounting for resources and the life-cycle of an organisation. However, descriptive stakeholder theory has been criticised for its emphasis on descriptive constructs, which are not sufficient to deal with the ethical considerations and sustainability of stakeholder engagement (Steurer, 2006).

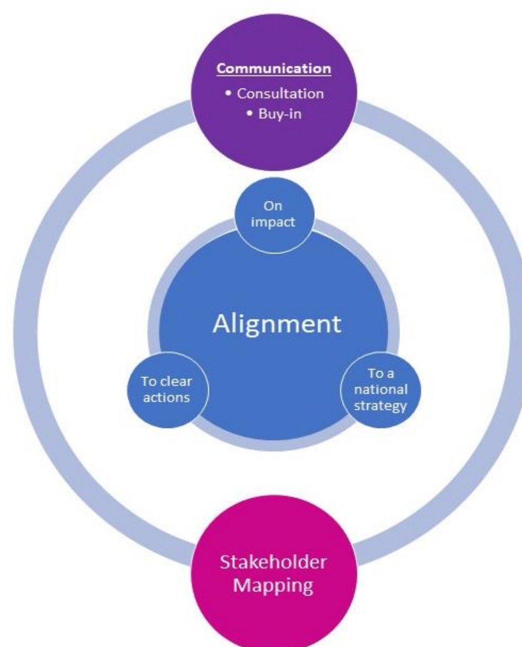
There is an acknowledgement that the identification of stakeholders is vital to the engagement process; however, the complexity of stakeholder theory moves organisations to move away from simple descriptive analyses to a more systemic analysis of the interactions and relationships that exist between stakeholders (Rowley, 1997). Therefore, there is a demand that the identification of stakeholders involves network considerations of multiple relationships and interactions under a broader societal view (Rowley, 1997). Thus, the consideration moves beyond a simple dyadic process to a systemic, network view whereby organisations hold responsibility based on their position within society. These ethical considerations consider that organisations can identify the tensions that exist between stakeholders which are likely to influence future sustainability (Hahn, Frigge, Pinkse, & Preuss, 2018). Lepineux (2005) provides further insights in relation to the ethical, sustainable view of stakeholders in which stakeholder mapping considers the organisation at the centre, with its societal (mapped through global society, national society and social groups and institutions) and business stakeholders (mapped through shareholders, internal business and external business stakeholders) mapped on the basis of social cohesion whereby the foundation for engagement is based on normative stakeholder theory.

6.2.3.1 Concluding insights on stakeholder mapping

Based on the research's findings and the implications of stakeholder theory, stakeholder mapping involves intensive engagement with the complexity of stakeholders involved within the ecosystem to which a project exists. The process of stakeholder mapping mustn't simply be a descriptive, dyadic process, but integrative of the impact of projects and organisations on society as a whole. Further, the depth of analysis needs to include an understanding of the interactions and relationships between stakeholders within the system, which enables an understanding of the tensions that can affect a project.

Based on these insights and the findings of the research, stakeholder mapping as an important factor has been included in the blended finance stakeholder engagement model.

Figure 5: Stakeholder Mapping as a factor within the blended finance stakeholder engagement model



6.2.4 Local Context Understanding

The majority of respondents referred to the importance of a local context understanding in the design and implementation of blended finance projects. This factor has a very high code frequency, with a range of rich responses that highlighted the importance of projects actors taking the time to understand the environment of

which blended finance projects take place. The contextual understanding of the situation or system would enable projects to be designed in ways that mitigate risks, take into account the network of stakeholders, and understand the political, social, cultural and regulatory environment which may provide a further opportunity or pose challenges to a particular project.

As such, an understanding of the internal and external drivers which illuminate interactions and relationships will, as Frynas and Yamahaki (2016) suggest, enhance stakeholder engagement, responsiveness and responsibility. Pedrinii and Ferri (2019) establish that stakeholder theory and engagement, as it has evolved into deeper considerations for a contextual understanding of society and the environment of business.

Research responses position local context understanding as a response to challenges noted within the literature whereby blended finance actors tend to regard certain stakeholder groups higher than others, with a lack of understanding of the complexity of the environment in which these projects are situated. Respondents referred to particular situations whereby the lack of local context understanding had been detrimental to the success of a particular project.

While respondents highlighted the importance of a local context understanding, Lepineux (2005) states that an understanding of the greater global context needs to be considered, alongside local and institutional understandings. However, perhaps as many blended finance projects are attempting to respond to global issues and target the SDGs, there is an inherent view that a global contextual understanding is already integrated into the identity of blended finance.

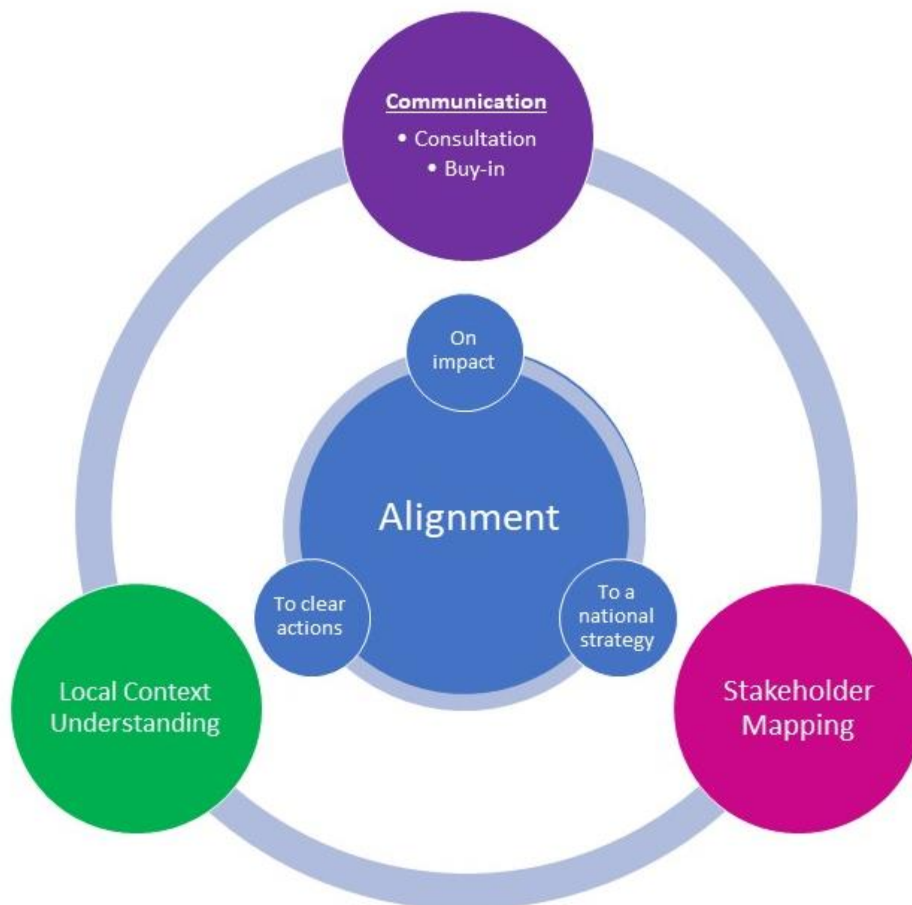
6.2.4.1 Concluding insights on Local Context Understanding

An understanding of the local context will enhance the ability to achieve alignment within the project, as projects can be designed in consideration of local communities and nation-states. As such, they can be designed 'with' rather than 'for' particular communities. An understanding of the local context will enhance the ability to create alignment on impact and alignment on roles and responsibilities. Understanding will also, critically, enable projects to be designed in cognisance of national agendas and strategies. Further, this understanding enables better consultation and buy-in as practitioners can recognise the barriers and challenges faced in particular contexts.

Understanding the local context further provides the ability to better report and share knowledge amongst stakeholders.

Therefore, this research has identified local context understanding as a critical factor for stakeholder engagement.

Figure 6: Local Context Understanding as a factor within the blended finance stakeholder engagement model



6.2.5 Monitoring and Evaluation

The importance of monitoring and evaluation, as a factor of stakeholder engagement, proved to be a significant finding of this research. Many respondents shared the challenges faced in the process of monitoring and evaluation, as well as how difficult it is to create alignment on outputs, outcomes and impact within projects and amongst stakeholders.

While as a process, it was mentioned concerning stakeholder engagement in terms of the challenges of measuring and aligning impact. The ability to create development impact is a crucial proponent of blended finance, and given the multitude of stakeholders, the ability to align, deliver and report on proposed impact has been noted as complex. It was highlighted that all stakeholder needs to align and reach an agreement on the outcomes and impact, as there needs to be accountability amongst stakeholders on the actions that deliver impact. Whist, some stakeholders have different expectations upon entering a blended finance project, whereby either development impact, financial returns or both; alignment needs to be created in order to create a commitment towards delivery and returns.

The necessity of aligning on impact means that stakeholders can determine, through regular and consistent reporting and feedback loops, whether a project is being implemented per its objectives. As such, the necessity of developing a monitoring and evaluation framework for blended finance, as respondents suggested would assist in the future development of blended finance, whereby models and structures of blended finance could be developed that are scalable and shift the paradigm toward more collaborative development financing.

Ten of the eleven respondents referred to factors within the process of monitoring and evaluation, with responses about the measuring of impact, reporting or the benefit of a theory of change. This correlated with significant blended finance literature, which highlighted the critiques of blended finance about monitoring and evaluation. The research respondents agreed with Choritz, Lorenzatio and Santoro (2018) view that monitoring and evaluation is essential in which to mitigate against challenges and potential negative impacts within blended finance. The lack of monitoring frameworks within blended finance, based on the ambiguity and complexity of structures and stakeholders within those projects has led to difficulty in alignment on impact, and subsequently reporting standards (Clark, Reed, & Sunderland, 2018; Egler & Frazao, 2016; Brest, Gilson, & Wolfson, 2018). The inability to reach consensus or vague reporting measurements have affected transparency and ownership within projects (Pereira, 2017a; Pereira, 2018).

Further, the lack of information through inconsistent reporting hinders knowledge sharing and the development of replicable models between blended finance practitioners and hampers further leveraged investment (Choritz, Lorenzato, & Santoro, 2018). While there are concerns concerning future investment from private

investors, Mawdsley (2018) points to the impact on the public sector, whereby inconsistent and vague reporting has implications on the transparency of public funds and expenditure.

Additionally, the lack of ownership on the process of monitoring and evaluation has seen a lack of accountability and confusion within projects, particularly in relation to consultations and reporting on outcomes and impact (Pereira, 2017a; Pereira, 2018). The lack of ownership amongst stakeholders within projects has implications in projects that involve communities, whereby communities are affected or can affect project deliverables (Pereira, 2018). Pereira (2018) further highlights that this lack of ownership impedes community participation, affecting their ability to action complaint mechanisms.

Interestingly, certain respondents referred to the importance of developing a theory of change, particular to a project. However, some respondents highlighted that a theory of change did not encompass comprehensive monitoring and evaluation based on the complexity of actors and structures. This was particularly noted in that a theory of change was not perceived as relevant by the private sector, and it was essential to create a common alignment for measuring and reporting on impact.

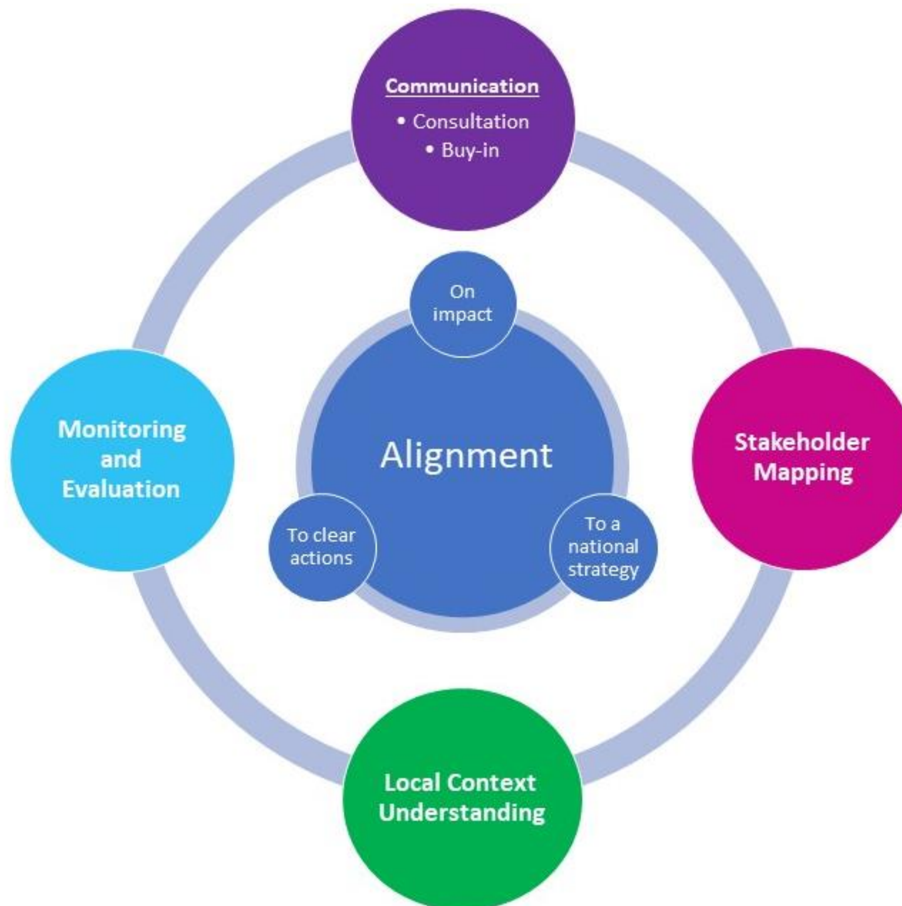
While developing a theory of change is an important process for monitoring and evaluation; there was very little literature on advancing a theory of change as a stakeholder engagement process within blended finance. Accordingly, noting that there the challenges in reporting and evidence, towards the end of 2018, the OECD held a workshop to address the evidence gap in monitoring and evaluation. From the workshop report, it was highlighted that specific work is needed to build a blended finance monitoring and evaluation framework on a theory of change (Organisation for Economic Co-operation and Development, 2018).

6.2.5.1 Concluding insights on monitoring and evaluation

Monitoring and evaluation, based on the respondents and literature, remains a valuable factor for stakeholder engagement. As such, the necessity of outlining comprehensive measurement processes and aligning impact seeks to enhance transparency ownership and accountability by stakeholders. While stakeholder theory alludes to the ability to accountable to all, as a separate process, there was very little literature on monitoring and evaluation as a stakeholder engagement tool.

However, given the challenges experienced within existing blended finance projects, monitoring and evaluation remain an important tool for stakeholder engagement in blended finance.

Figure 7: Monitoring and Evaluation as a factor within the blended finance stakeholder engagement model



6.2.6 Hörsich, Freeman and Schaltegger's Stakeholder Factors in Sustainability Management

This part of Research Question 1 aimed to interrogate or investigate factors of stakeholder engagement within sustainability management, and whether they apply to blended finance stakeholders. Hörsich, Freeman and Schaltegger's (2014) work on Stakeholder Theory within Sustainability Management provides the base for this discussion. Hörsich, Freeman and Schaltegger (2014) developed a conceptual model, highlighting three main factors, with the intention of an application of stakeholder theory, and engagement within sustainability management.

Sustainability management as a practice calls on organisations to provide an essential contribution to the economy and society in general (Schaltegger & Burrit, 2005), whereby there is greater obligation and embeddedness of organisations within the system (Hörsich, Freeman, & Schaltegger, 2014). As such, it was identified that based on the mandate of blended finance, the ability to create value as a contribution to society through the realisation of the SDGs. Sustainability management considers that mutually-reciprocal value creation is possible, whereby social and environmental concerns should not conflict with financial matters (Hörsich, Freeman, & Schaltegger, 2014). As an approach, it considers seeking long-term and holistic approaches that create synergies and mutual benefits for both stakeholders and the environment (Hörsich, Freeman, & Schaltegger, 2014). Thus, in this regard, the practice of sustainability management has ideological connections to both blended finance and stakeholder theory.

As such, the conceptual framework, as outlined by Hörsich, Freeman and Schaltegger (2014) presented three factors to deliver stakeholder value and empowerment within sustainable projects. These three factors are education, regulation and value creation (Hörsich, Freeman, & Schaltegger, 2014). The aim of the Research Question 2 is to test these factors with respondents, who are blended finance practitioners, to determine whether they are relevant within this context of blended finance.

6.2.7 Education

Education as a factor as proposed by Hörsich, Freeman and Schaltegger (2014) considers the ability of organisations to increase efforts in education, knowledge and skills transfer amongst stakeholders. Further, education involves the creation of awareness and knowledge-sharing amongst the stakeholders, but also in general, to enhance best-practice amongst practitioners as an aim to increase sustainability practices with society (Hörsich, Freeman, & Schaltegger, 2014).

Based on the research findings, respondents are in agreement with Hörsich, Freeman and Schaltegger (2014) that education and knowledge-sharing are important factors for stakeholder engagement. Respondents highlighted that education is an essential factor in both project design and implementation and; within the general arena of blended finance. Respondents highlighted that given the complexity of blended finance and structures, far more work needs to be concluded

amongst stakeholders in knowledge-sharing among practitioners, to not constantly 'reinvent the wheel'.

The majority of respondents highlighted the importance of education and knowledge-sharing within blended finance. This factor was highlighted on two fronts. Firstly, as better education to internal stakeholder within the projects, whereby project information and progress are shared amongst stakeholders to increase accountability amongst stakeholders. Thus, enhancing understanding around the project deliverables and impact amongst stakeholders.

The concept of co-creation was mentioned in relation to this factor, whereby education and reporting involve collaborative problem-solving. The ability to educate and share knowledge, holistically amongst stakeholders, was indicated as being important in which to enhance the ability to ensure developmental effectiveness and improvement within projects.

Secondly, many respondents reported the value of external education and knowledge-sharing within the blended finance community as being intrinsic to enhancing stakeholder engagement and project delivery for the future of blended finance. With existing projects acting in isolation, there is a greater need for collaborative knowledge-sharing of project success, failures and opportunities in which grow blended finance as a sustainable solution in which to achieve the SDGs.

Further knowledge-sharing and education would aid in the development of frameworks in which to better assist monitoring, evaluation and measuring impact. Existing, information gaps make the ability to knowledge-share amongst both stakeholder and within the blended finance arena, very difficult (Saarinen & Godfrey, 2019; Pereira, 2017a). The lack of collaborative discussion amongst actors, impede the ability to create scalable models that are proven in terms of development effectiveness and thus can attract and leverage private investment (Choritz, Lorenzato, & Santoro, 2018).

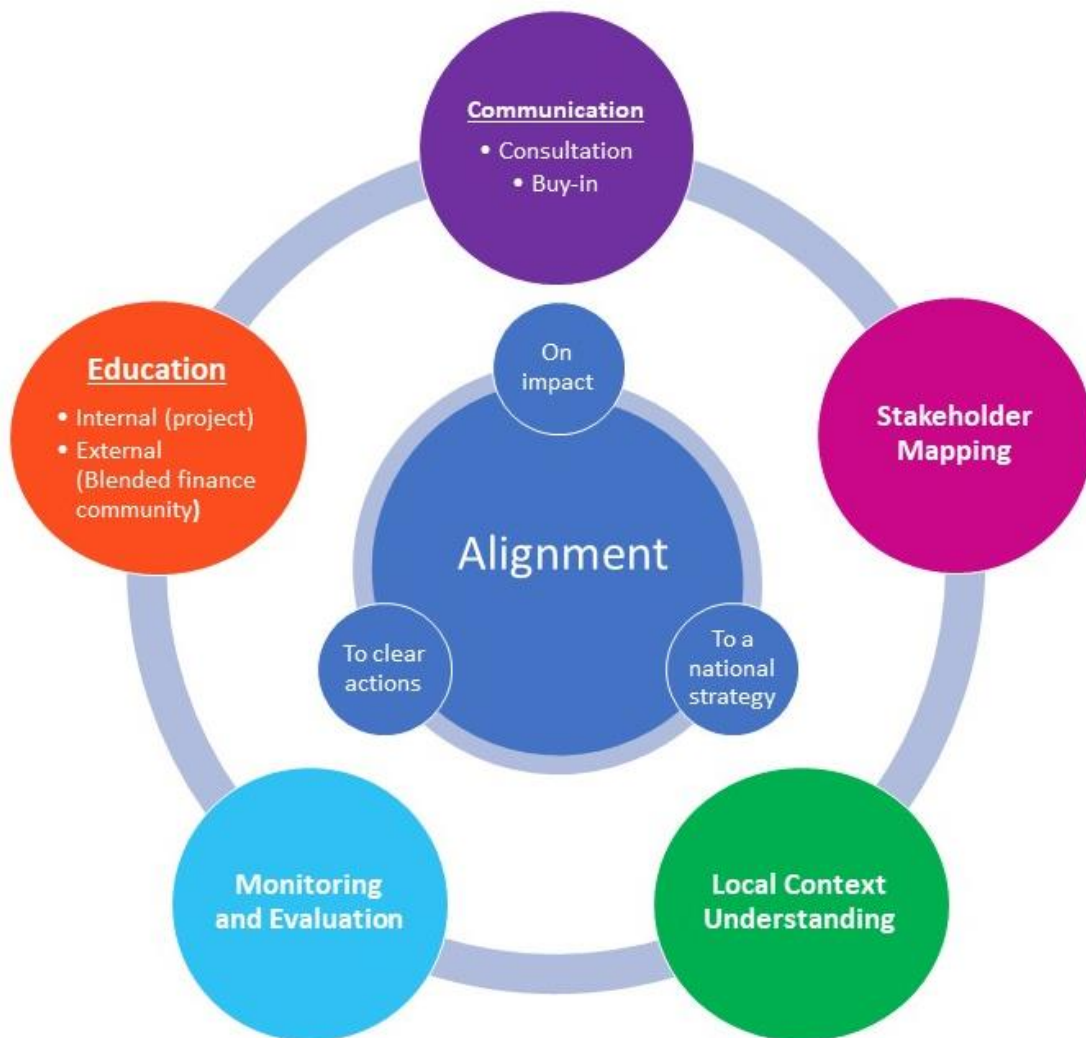
6.2.7.1 Concluding insights on education

As stakeholder theory evolved into considerations of ethical sustainability, education and knowledge-sharing have been identified as crucial tools to enable and empower stakeholders with information and strengthen sustainability mindsets amongst wide groups of stakeholders (Hörsich, Freeman, & Schaltegger, 2014). Therefore, the

research, based on both the findings and literature, has identified this as an important factor for stakeholder engagement, within blended finance projects.

In this light, based on the fact that education was considered both internal to a project, and external to the blended finance community, those distinctions have been made as such.

Figure 8: Education as a factor within the blended finance stakeholder engagement model



6.2.8 Value Creation

As stakeholder theory evolved, value creation has emerged as vital within the theoretical construct; linked as the progression of normative stakeholder theory whereby stakeholder theory considers mutual reciprocity and value creation amongst

stakeholders. Further, value creation has become essential for stakeholder engagement, whereby value is advanced and created for all stakeholders (Freeman, 2010).

Value creation and the ability to create value are core to the concept of sustainability management, as Hörsich, Freeman and Schaltegger (2014) acknowledge that the aim of creating value becomes both purposeful and challenging, where there is a constant search to overcome trade-offs. Arguing that based on the gravity of global challenges including that of climate change, there is vital need to consider value-based mechanisms to advance the goal of sustainability (Hörsich, Freeman, & Schaltegger, 2014).

Thus, Hörsich, Freeman and Schaltegger (2014) advance value-creation as critical, in which to strengthen the sustainability-mindsets of stakeholders, whereby stakeholders collectively and collaboratively act as intermediaries on behalf of sustainability issues. Value creation, for Hörsich, Freeman and Schaltegger (2014) is only monetary value but delivers sustainability. Value creation considers the role of organisations in driving value amongst stakeholders, and further linked to stakeholder theory, how mutually reciprocal value creation is achieved as a benefit from stakeholders (Hörsich, Freeman, & Schaltegger, 2014). Thus, to deliver sustainability, it is an essential engagement factor of Hörsich, Freeman and Schaltegger (2014) conceptual model.

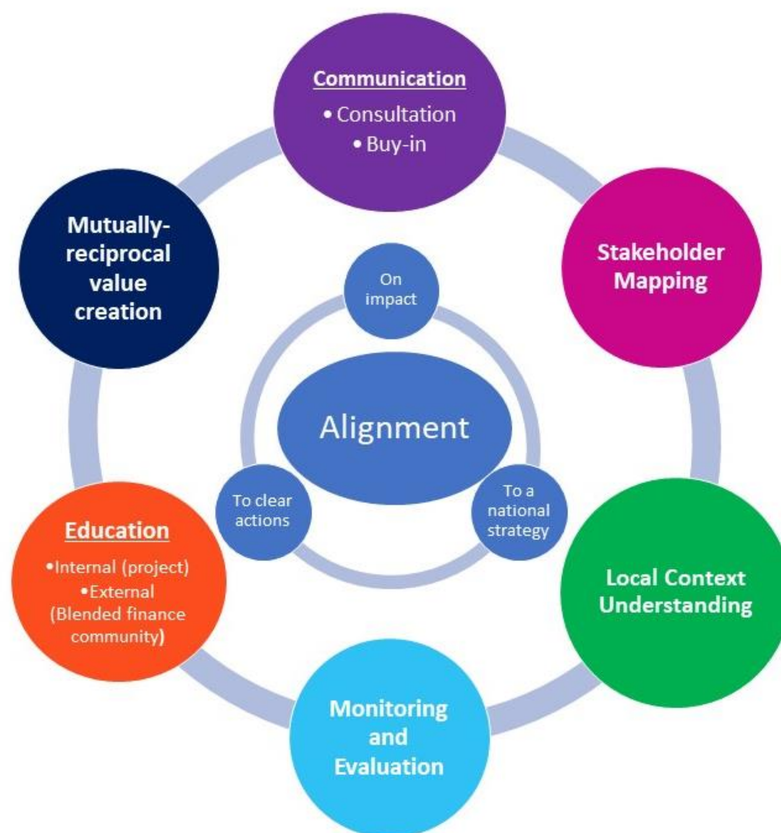
All respondents agreed with Hörsich, Freeman and Schaltegger (2014) that value creation, and mutually reciprocal value creation were essential to stakeholder engagement within blended finance. There was unanimous agreement that value creation was a critical mechanism in which to engage stakeholders. Interestingly, the respondents did not elaborate extensively on this particular factor as they had in previous factors, as respondents believed value creation was a specific characteristic of blended finance. Respondents highlighted that value creation was inherent in the design and structure of blended finance mechanisms whereby they had the aim of delivering both financial returns and development impact. Furthermore, respondents highlighted that mutually reciprocal value creation creates far greater accountability and ownership amongst stakeholders.

6.2.8.1 Concluding insights on value creation

Value creation, while many respondents highlighted that it was inherent in blended finance projects; the research has referred to significant challenges of fragmentation whereby accountability has been eroded, and specific sectors and stakeholders are favoured over others based on their ability to deliver returns over, development impact (Pereira, 2017a; Liverman, 2018; Clark, Reed, & Sunderland, 2018)

Thus, within the conceptual model, the research argues that even though value creation has been highlighted as inherent, it should be explicitly stated in which to ensure that blended finance projects are designed with mutually reciprocal value creation in mind. Therefore the research advances that within the context of blended finance, from Hörsich, Freeman and Schaltegger (2014) conceptual model, the variation needs to be highlighted.

Figure 9: Mutually-reciprocal value creation as a factor within the blended finance stakeholder engagement model



6.2.9 Regulation

Regulation, as an essential factor, was highlighted within Hörsich, Freeman and Schaltegger's (2014) conceptual model. Regulation was highlighted by Hörsich, Freeman and Schaltegger (2014) as being critical in which to ensure sustainability is integrated into the mindsets of all stakeholders. Therefore the creation of a set of standards, regulations or a framework, with strong incentives, that would encourage stakeholders to cooperate for sustainability would be vital to promote further engagement (Hörsich, Freeman, & Schaltegger, 2014). Hörsich, Freeman and Schaltegger (2014) refer explicitly to ISO regulations or awards for compliance to standards. Hörsich, Freeman and Schaltegger (2014) suggest this would be particularly beneficial in nature-based or environmental projects. Thus, the research sought to understand whether a regulatory framework could be adopted in order to enhance the delivery of blended finance, and thus, enhance stakeholder engagement.

Of all the factors, this factor was least important within this research. Less than half of the respondents suggested that the creation of a set of standards could be beneficial although there was an acknowledgement of how difficult this may be to projects, as blended finance projects are dynamic and operate within a multitude of sectors rather than solely in the environmental space. Respondents highlighted that there could be standards, or frameworks particular areas of blended finance. Respondents referred to the need to have standards or frameworks which specifically focused on monitoring and evaluation or a set of standards that verification takes place in terms of community consultations, or alternatively principles and guidelines on effective stakeholder engagement.

Respondents highlighted that compliance with the regulatory environment was far more beneficial. Thus, adherence to country-specific or local context regulations would enhance stakeholder engagement. Furthermore, respondents stated that in terms of regulations, the advancement of regulatory frameworks within an enabling environment that attracts investment opportunities would be beneficial in this regard.

6.2.9.1 Concluding remarks on regulation

Within the context of blended finance and this particular research, regulation has not been identified as a critical standalone issue. Respondents did place emphasis on the regulatory environment as it pertains to a local context understanding; whereby

compliance and understanding of the social, cultural, regulatory and political environment are considered.

As mentioned, the research does not, within the blended finance context warrant the inclusion of regulation, in relation to the meaning given by Hörsich, Freeman and Schaltegger (2014) as a factor of stakeholder engagement. However, regulation as within the local context, understanding is vitally important and as such as been included in local context understanding.

6.2.10 Conclusion for Research Question 1

Research Question 1 sought to identify factors for stakeholder engagement that would advance the participation and the success of blended finance projects. The research findings were both rich and detailed and highlighted factors that are vital for consideration. Seven of these factors have been highlighted in Research Question 1, based on their prevalence and frequency within the research.

However, there were those factors mentioned by respondents that were infrequent and brief within the interviews. These factors include the use of technology in reporting, the use of big data and artificial intelligence. The second-last respondent mentioned these factors. Out of curiosity, the researcher asked the last respondent about the importance of these factors as a final question within the interview. However, while it was mentioned as being potentially beneficial to encourage stakeholder engagement, it did not come with the brevity of the other factors mentioned.

The model, as it stands, is based on the research findings. It is an attempt for the researcher to surmise the factors mentioned as an analytical, inductive process. The aim is that these findings will assist blended finance practitioners in developing stakeholder engagement plans that consider these factors as drivers for successful stakeholder engagement.

Hörsich, Freeman and Schaltegger (2014) provide a conceptual model which highlights insights into the relationship between stakeholder theory and sustainability. The values in which these constructs stand has significant importance for blended finance, and what blended finance is trying to achieve particularly in advancing the SDGs. Therefore, there are important factors to consider that emerge out of this conceptual model, namely education and value creation. Within the context of blended finance and based on the findings of this research, the regulation would

be far suited to fall within the factor of local context understanding in terms of the regulatory environment, rather than technical regulations that govern projects.

Furthermore, it is vital to note that education and value creation has a relationship to increased accountability and transparency within projects. The design of these factors within projects engages and empowers stakeholders to participate, and through knowledge-sharing and mutual value creation.

Romero (2017) posits that blended finance projects should be designed and implemented in a way that is beneficial to all stakeholders within the system; further, blended finance projects should deliver on sustainable development outcomes. These projects need to align to democratically-driven development strategies which will ensure accountability and buy-in of the public sector as a participant in blended finance (Romero, 2017). Further, designs need to consider equity concerns and the environment, and further blended finance needs to consider that negative impact on stakeholders, particularly vulnerable stakeholders, be avoided at all cost.

6.3 Discussion for Research Question 2

Research Question 2: Does successful stakeholder engagement enhance blended finance outcomes?

This question sought to address whether stakeholder engagement would indeed enhance blended finance outcomes. All respondents referred to challenges faced in blended finance projects, and these were coded as a theme. The development of factors as prevalent in Research Question 1, were a response or mitigation to challenges encountered by respondents. The breadth of challenges faced with blended finance leads to five categories being created, which will be explored within this discussion.

6.3.1 Characteristics and complexity of blended finance

Many of the respondents referred to the complexity of blended finance, either as a characteristic of blended finance or as a challenge. Interestingly, some challenges were highlighted that did not explicitly relate to stakeholder engagement; however, it was suggested that through better engagement, these challenges could be managed more succinctly. Risk, credit and bankability challenges, as associated with the complexity of blended finance and investments into social-good or development projects, have led to confusion and scepticism of blended finance.

Blended finance aims to share the risk, as well as reward, to increase accountability amongst partnerships (United Nations, 2015a; Adams, 2017) whereby particular partners enter to provide technical assistance, risk underwriting or first-loss funding with the aim of reducing the risk for potential funders (Romero, 2017). As a characteristic, many of the blending mechanisms offer risk-adjusted returns, or are embedded with risk-mitigation strategies, in which to attract funders, such as social impact bonds (Egler & Frazao, 2016), strategic investment funds (Halland, Dixon, Monk, & Young, 2018) and technical assistance (Stadelmann & Falconer, 2015).

Respondents, in discussing these challenges, spoke about the importance of engagement and knowledge-sharing as critical in which to challenge the assumptions held concerning blended finance. Importantly, blended finance structures involve co-investment and co-creation, through both the design and implementation of projects; thus, stakeholder engagement becomes intrinsic in which to manage risks held by various partners and ensure that projects are able to deliver both impact and returns.

6.3.2 Lack of alignment, consultation and ownership

Alignment and communication, in Research Question 1, were identified as one of the most essential factors for stakeholder engagement. Many respondents referred to the challenges associated with the lack of alignment, consultation and ownership and their impact on the delivery of blended finance.

The findings suggested that the inability to align causes significant fragmentation amongst stakeholders within the design and delivery of projects. Some respondents indicated that this impedes commitment and impacts the level and engagement with reporting and feedback. Other respondents suggested that stakeholders operate in silos, and the lack of coordination leads to ineffective delivery which further discourages investors and the ability to develop scalable models. This correlates with Lee (2017), who highlighted found that the most significant challenge that affected blended finance practitioners was fragmentation or the lack of coordination amongst stakeholders.

The lack of consultations affects stakeholder ownership. Respondents referred to specific incidences, whereby community engagement and consultation had not taken place and had affected project delivery negatively. Projects have been temporarily halted due to lack of public sector engagement (European Commission, 2016). or

the inability to leverage further investors due to ineffective engagement (Choritz, Lorenzato, & Santoro, 2018).

The lack of ownership leads to a lack of accountability within blended finance projects (Mawdsley, 2018; Pereira, 2018) which impedes decision-making and oversight of projects, particularly within the public sector (Pereira, 2018). Pereira (2018) found that in many European-funded DFI-led blending mechanisms, consultations were not a requirement and of the eleven projects studied, three included stakeholder engagement processes with only one conducting assessments to verify that consultation had taken place. The lack of consultation and ownership impacts the delivery of blended finance, minimising both financial returns and development impact (Pereira, 2018). Therefore engagement with the public sector and local beneficiaries has been found to be increasingly beneficial in building ownership and enhancing the long-term sustainability of projects (Organisation for Economic Co-operation and Development, 2018).

6.3.3 Ineffective or lack of monitoring and evaluation

Respondents referred to challenges experienced in terms of weak monitoring and evaluation or the lack thereof of monitoring and evaluation. Whereby, respondents suggested that monitoring and evaluation was intrinsic to the development of a blended finance project. It was highlighted that the inability to do this affected the delivery of projects and the determination of whether projects were indeed meeting their objectives. The lack of monitoring, evaluation and reporting also had severe implications for the development of future projects, the participation of both public and private stakeholders, as well as future investment and scalability.

The lack of alignment and consultation around outcomes has implications on the transparency and accountability of projects, whereby there is a lack of clarity for reporting and the measuring of impact (Clark, Reed, & Sunderland, 2018; Egler & Frazao, 2016; Brest, Gilson, & Wolfson, 2018). Choritz, Lorenzato and Santoro (2018) argue that monitoring and evaluation is critical to broader knowledge transfer and stakeholder engagement; whereby all stakeholders are participants in defining, evaluation and verification takes place during both project design and implementation. The growth of blending mechanisms, within development finance, places blended finance at significant risk of fragmentation and the complexity of layers of stakeholders have implications for tracking finance flows but importantly

monitoring and measuring impact (Organisation for Economic Co-operation and Development, 2018). Furthermore, the inability to create alignment on measurement and monitoring has implications on the safeguarding the interests of communities (Organisation for Economic Co-operation and Development, 2018).

6.3.4 The lack of an enabling environment

Institutional challenges considered the challenges associated with systemic problems, including institutional failures and political interference. Nine of the eleven respondents referred to challenges faced in the design or implementation of projects, which were delayed, impacted or impeded by political interference or the lack of understanding of the process. One respondent highlighted specific challenges whereby a project had undergone a massive design process with local beneficiaries and the public sector, for it to be halted due to a Ministerial change. Whereby other respondents spoke to the lack of institutional capacity in which to deal with the complexity of blending mechanisms and the lack of enabling environment which impeded investments and blended finance projects.

It is argued by Pereira (2017a) that many existing blended finance mechanisms have not been designed in a way that contributes to the ownership of recipient countries, nor have these mechanisms been designed in a way that that they align to national plans and strategies.

Further, the institutional challenges within individual nation-states impede investors and projects in much-needed areas with serious sustainable development challenges, including sociopolitical and macroeconomic instability which affects the development of projects (Huwyler, Kappeli, Serafimova, Swanson, & Tobin, 2014). Choritz, Lorenzato and Santoro (2018) highlight the impact of political and macroeconomic instability, weak institutions, currency volatility, underdeveloped capital markets and poor corporate governance as high barriers of entry in LDCs, who are unable to attract as much investments as developing countries. The lack of enabling environment factors remain significant challenges faced in the development of blended finance projects.

Respondents highlighted that while these challenges exist, stakeholder engagement could play an role in terms of knowledge-sharing and education; whereby enhancing information sharing on blended finance between the private and public sector could aim to mitigate challenges faced by both.

6.3.5 Lack of accountability and transparency

Accountability and transparency have featured explicitly throughout this research as vital constructs to achieve within blended finance. Certain factors of stakeholder engagement aim to achieve transparency and accountability, with factors being mentioned as a response to the lack of transparency and accountability amongst stakeholders. Thus, of challenges within blended finance, there were numerous incidents whereby transparency and accountability had been hindered amongst stakeholders.

All respondents referred to incidences, where there had been a lack of transparency and accountability and how this had impacted the delivery of blended finance. Respondents cited the confusion created whereby particular stakeholders are unaccountable to projects and the deliverables. Further, respondents criticised private sector reporting due to their lack of transparency, with often redacted information being shared due to the competition in certain sectors.

Adams (2017) suggests that one of the biggest challenges created by the lack of alignment and the pressure on the public sector to create an enabling environment is the loss of accountability. Romero (2017) suggests that if blended finance is to become the solution that the development finance arena touts it as, there needs to be significant work in the development of accountability and transparency mechanisms that increase participation by the private and public sector, as well as all stakeholders in general. Far greater scrutiny needs to be given to private sector reporting as well as the relationships between public and private development partnerships, to ensure that they lead to greater development effectiveness and inclusive, sustainable growth in which to meet the SDGs (Mawdsley, 2018).

6.3.6 Conclusion for Research Question 2

While there are a number of challenges associated with blended finance mentioned by respondents that cannot be solved through enhancing stakeholder engagement on projects, particularly those associated with the institutional failures and the political and macroeconomic environments. Significant confirmation was presented by respondents that stakeholder engagement can play a role in enhancing the delivery and outcome of blended finance projects. Effective, open and inclusive stakeholder engagement can mitigate challenges associated with the complexity of blended finance, as well as the lack of alignment, consultation and ownership.

Stakeholder engagement presents opportunities in which to effectively address challenges associated with monitoring and evaluation, and the measuring of impact; by ensuring the active participation of stakeholders in the design of projects to ensure both development impact and financial return.

Furthermore, active engagement with stakeholders can increase transparency and accountability within projects. Certain stakeholder mechanisms have the potential to foster the participation of stakeholders within projects, increasing ownership and accountability, whilst more open and active communication and reporting can increase transparency between the public and private sector.

Chapter 7: Conclusion

7.1 Introduction

The objective of the research was to identify the critical success factors which would enhance the stakeholder engagement in blended finance projects. The literature informed the research by identifying significant themes which informed the research questions. Two main research questions were identified, and a research methodology was proposed in which to address the research questions. The research methodology involved the process of conducting semi-structured interviews with key blended finance actors across the world. The proceeding chapters highlighted the findings, and a discussion was developed that bound together the literature and findings from the qualitative study. Within this chapter, the aim will be to conclude the findings of the research and to determine with the research questions have been met. Further, this finding will highlight implications for management and business science, as well as highlight the limitations of this research.

The research problem highlights that while blended finance has been highlighted as an innovative financing solution, there have been significant concerns noted in terms of stakeholder engagement. Blended finance presents the opportunity for collaboration between the private sector, the public sector and civil sector to finance projects with the aim of meeting the Sustainable Development Goals. The literature highlights that due to the complexity of blended finance, stakeholder participation and inclusion have often been diminished, with misalignment and fragmentation between stakeholders rife in existing projects. The literature pointed to the favouring of certain stakeholders over others, and the lack of consistency and efficacy in terms of monitoring and evaluation in projects. Furthermore, there have been countless reports that highlight that within these multistakeholder partnerships, accountability and transparency among stakeholders has been eroded.

Based on the research problem identified, two research questions were identified. Research Question 1 sought to establish what were the major factors that drive successful stakeholder engagement in blended finance projects. Research Question 2 sought to analyse whether successful stakeholder engagement would enhance blended finance outcomes.

The research was explored through the lens of stakeholder theory. Stakeholder theory implores organisations to consider their impact and their relationship with

those and that around them; whereby there is greater pressure for organisations to meaningfully engage and embed stakeholder engagement into their practice (Pedrini & Ferri, 2019). The literature explores stakeholder theory and its definition evolution, coming to the point whereby normative stakeholder theory sits at the core of the convergence stakeholder theory, whereby organisations need to be cognisant of stakeholder groups, their criteria for existence and the nature of relationship; in line with the moral complexity of understanding various stakeholder groups, through the practice of stakeholder engagement (Mainardes, Alves, & Raposo, 2011).

Further, stakeholder theory considers the value of relationships and the ability of firms to create mutual and reciprocal value for stakeholders, and the network of interactions that take place between stakeholders (Freudenreich, Ludeke-Freund, & Schaltegger, 2019). The heightened need for organisations to be considerate to the systems issues sees an avenue of stakeholder theory linked to sustainability management. Hörsich, Freeman and Schaltegger (2014) highlight the role in which stakeholder theory, through the practice of stakeholder engagement, plays in terms of anchoring sustainability through broader environmental and socio-economic challenges.

Through this literature, pertaining to blended finance and stakeholder theory, an interview schedule was designed for semi-structured interviews. The interviews produced a wealth of rich data that enabled the research to reach certain findings.

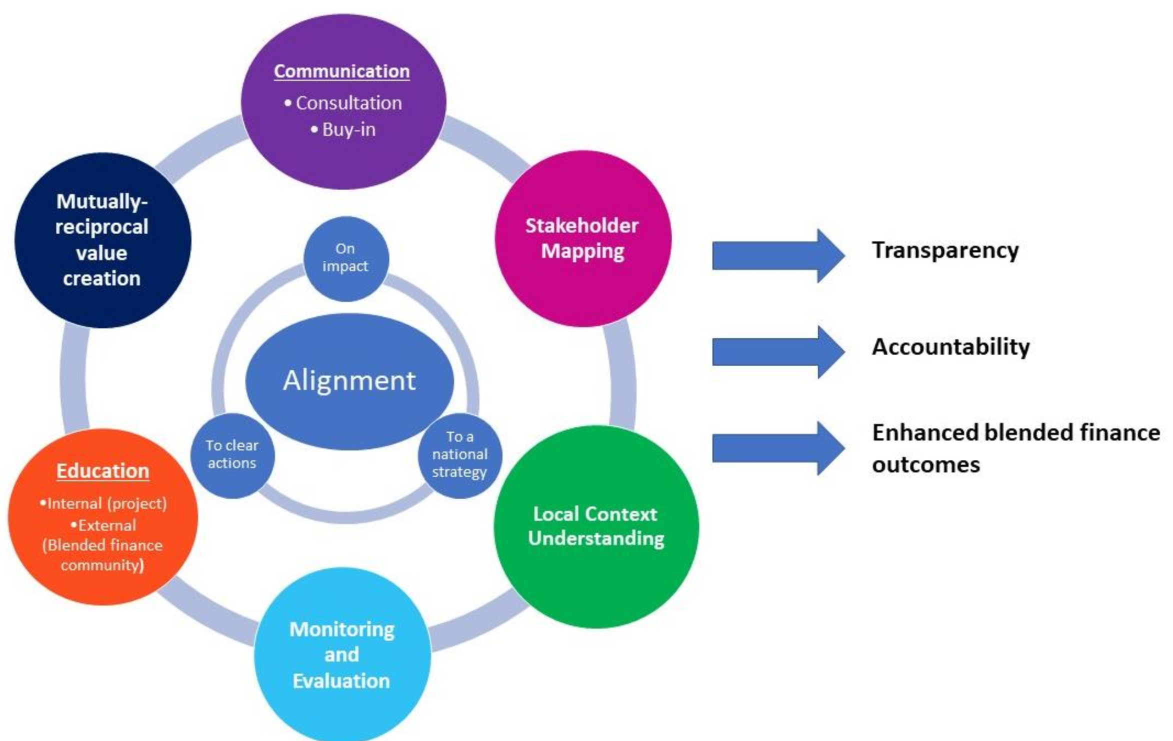
7.2 Principal findings

A conceptual model was developed that allowed the researcher to summarised the findings from the qualitative research. The principal finding of this research is that practitioners and actors within blended finance, need to play a far more coordinated role in terms of integrating stakeholder engagement into the design and implementation of blended finance projects.

The conceptual model was developed based on reviewing the findings. Based on the frequency and prevalence, seven factors were identified as being critical for stakeholder engagement in the context of blended finance projects. Underpinning the findings from the respondents was the aim at that these factors should drive transparency and accountability within blended finance. Many of these factors presented were in response to challenges faced by these actors in their experience of designing and implementing blended finance projects.

The conceptual model, or as the researcher termed it; the blended finance stakeholder engagement model, posits ***alignment*** at the core of stakeholder engagement, whereby it asks blended finance to consider alignment on impact, alignment to the recipient nation-state's national strategy for greater policy coordination and alignment in terms of agreement on clear actions and deliverables that would outline roles and responsibilities of all stakeholders, in which to enhance mutual value creation, ownership, transparency and accountability.

Figure 10: Blended finance stakeholder engagement conceptual model



Further, the model considers six additional factors that surround alignment. Through clear, and continuous ***communication***; there is serious need to enhance communication and feedback processes to ensure consensus and commitment through achieving buy-in. Identifying stakeholders and the interconnected relationships that exist become crucial, and thus ***stakeholder mapping*** has been identified as crucial factor within the design and implementation of blended finance, as it allows for more effective coordination and understanding of the system.

The importance of a ***local context understanding*** becomes critical to the delivery of blended finance projects, whereby it implores stakeholders to be cognisant of the political, economic, cultural, social and regulatory dynamic within a particular context

environment. Local context understanding implores that blended finance projects are designed to be compliant and relevant to the local context in which to ensure greater participation, buy-in and accountability. ***Monitoring and evaluation*** was highlighted as being a vital tool of effective stakeholder engagement in blended finance. There needs to be greater attention on comprehensive measuring processes, which reflect alignment and greater stakeholder understanding in terms of both the delivery of financial returns and development impact.

Furthermore, the research considered Hörsich, Freeman and Schaltegger (2014) conceptual framework on stakeholder engagement for sustainability and found that two of the three factors were vital within the context of blended finance. ***Education,*** whereby there is consistent education and knowledge-sharing through the phases of a blended finance project, was shown to be critical to enhancing transparency and buy-in within a project. ***Mutually reciprocal value creation*** was also identified, with the research suggesting that while value creation was important and inherent within blended finance, efforts needed to be made to ensure that value creation was mutually reciprocal, rather than favouring one stakeholder over another.

The second research question sought to understand whether successful stakeholder engagement would enhance blended finance. The research provided a confirmatory finding whereby the implementation of stakeholder engagement would enhance blended finance outcomes. Several challenges highlighted in terms of blended finance, in both the literature and the research, could be mitigated by employing stakeholder engagement practices. Challenges noted within the delivery of blended finance around lack of alignment, consultation, effective monitoring and evaluation were challenges that could be mitigated against by designing an effective stakeholder engagement plan.

Challenges associated with the complexity of blended finance mechanisms, including perceived risk and bankability, as well as the lack of an enabling environment and institutional challenges were highlighted as challenges that were far greater than stakeholder engagement could solve for. However, it was found in the research knowledge-sharing, and collaborative model-building between stakeholders could aim to alleviate barriers that exist with blended finance.

7.3 Implications for management

Having considered the findings and the literature, the research highlights the importance of stakeholder engagement in the development of blended finance. The study considered the insights and experiences of senior and executive blended finance and development finance professionals.

Collectively, these professionals highlighted significant concerns but also factors that would encourage stakeholder engagement. The researcher analysed these factors, and in line with extant literature, developed a conceptual model which could be used as a guideline to develop a blended finance project-specific stakeholder engagement plan.

Thus, when developing a blended finance project, consideration should be given to the factors mentioned in this research. The importance of a robust stakeholder management plan in the design and implementation of blended finance projects is essential to enhancing transparency and accountability, as well as enhancing the delivery of outcomes that include development impact and financial returns.

7.4 Limitations of the research

There were several limitations of this research, which are detailed below.

- Qualitative research is a subjective research methodology, and objectivity may have been compromised, whereby the researchers' bias towards development may have impacted the research.
- The respondents interviewed included senior and executive respondents from NGOs, private finance and public sector DFIs. However, no stakeholders from a community-level were included in the research and considering the nature of the responses and the need for community buy-in, it has been noted as a limitation within the research.
- Interviewees were interviewed in both Africa and Europe, and while this created a broad perspective on blended finance as a whole. Based on the prevalence of a local context understanding; it may have been beneficial to consider a specific context; whether it be solely one nation-state or countries within developing or emerging economies.
- While there were two respondents from the public sector and one consultant who acted on behalf of a Government, the researcher had hoped to gain more

insights from the public sector, including senior-level economists and finance policy advisors. Thus, it was felt to be a limitation.

7.5 Suggestions for future research

Blended finance, as a relatively new construct, has entered into the development finance arena and thus there is a huge demand to grow the volume of empirical evidence available. In comparison, there is a significant volume of research from supranational and multinational institutions, but considerably less in relation to finance and business academia. As the demand for innovative finance in order to meet the SDGs becomes more prevalent, of which involves the business community, it will be essential for the private sector to further collaborate with academia and the public sector to grow blended finance as a sustainable and holistic solution to achieve the SDGs. The researcher recommends the following topics for future research and consideration:

- Research on stakeholder engagement from a community-based perspective would be hugely beneficial. Thus, the researcher proposes future research into blended finance and stakeholder engagement from a community context.
- Future research could consider factors for successful monitoring and evaluation in blended finance projects.
- Future research should also include an undertaking to understand the competencies, capacity and resources required to undertake successful stakeholder engagement within blended finance.
- In addition, future research on understanding the impact and success of intermediaries in blended finance would be beneficial in understanding whether they advance or impeded accountability within blended finance.
- Further research is needed in understanding the necessary conditions for private sector investment in developing and LDC economies.
- Further research could explore blended finance from an institutional theory perspective, in which to enhance the ability to attract investments.

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Appendices

Appendix 1: Interview Consent Form

Interview Consent Form

An exploratory study into the factors of stakeholder engagement within Blended Finance projects

Researcher: Keri Francis, Current MBA Student

I am currently a student at the University of Pretoria's Gordon Institute of Business Science and completing my research in partial fulfilment of an MBA. I am conducting research on the factors for successful stakeholder engagement in Blended Finance projects. I am trying to find out about experiences of stakeholder engagement and participation in ongoing blended finance projects, in order to highlight the necessary factors that can ensure successful stakeholder engagements in Blended Finance projects.

The interview is expected to last about an hour and a half and will help us understand the role and participation of stakeholders within Blended Finance projects.

Your participation is voluntary and you can withdraw at any time without penalty. There will be an audio recording of the interview, however, you may choose not to be recorded and this will be voluntary.

All data will be reported without identifiers and will thus be anonymous.

If you have any concerns, please contact my supervisor or myself. Our details are provided below.

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076 890 9517

Participant's Name: ______________________________

Signature: ______________________________

Date: ______________________________

Researcher's Name: ______________________________

Signature: ______________________________

Date: ______________________________

Appendix 2: Interview Schedule

Interview Schedule

Semi-structured Interview Guide

Duration: 1 – 1 and 1/2 hours

Introduction:

The purpose of this interview will be to explore the critical success factors for effective stakeholder engagement in blended finance projects. Recent research in stakeholder theory, has suggested three main factors that encourage successful stakeholder management. The research will attempt to explore whether, based experience in developing and managing blended finance projects, these factors are included at factors that impact the success of stakeholder engagement in blended finance.

The interview is semi-structured. Respondents are able to elaborate based on their perspectives and experiences in relation to stakeholder management.

Question 1
From your point of view, what are the most important factors for successful stakeholder engagement?
Question 2:
Given the responses, the interviewer will ask, based on factors mentioned by Horsich, Freeman and Schaltegger (2014) what the respondent's views are on said factors. These factors include: • How important is education and knowledge-sharing within projects and for blended finance? • How important is mutual value creation within the project? What is the role of mutual value creation in blended finance projects? • How important are regulations to stakeholder engagement within blended finance projects? *Questions highlighted above will not be shared with respondents prior; these form part of the interviewer's guidelines*.