

ABSTRACT

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Tailored financing and the role of hybrid finance

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Abstract:

The idea of the research is to look at how different financing instruments (with different risk profiles, returns and time horizons for repayment) can be used by different investors (public/private, with different motivations and financial/social return expectations) to best finance Social Purpose Organisations (at different stages of development, with different support needs, etc.).

Authors believe more guidance is needed on the topic of tailored financing and hybrid/blended finance for several reasons. Firstly, data collected through the latest EVPA Industry Survey shows the majority of the Venture Philanthropy Organisations (VPOs) tailoring the financing instruments (FIs) to the needs of their investees. Additionally, 39% of the VPOs surveyed indicated to use more than just one category of FIs but, when they specified the amounts invested through each FI, only 1% indicated doing hybrid finance, i.e. investing through a mix of FIs. This result might be driven by several factors: on one hand, not all VPOs might be aware of the possibility to use different FIs, and how to use them. On the other hand, authors believe there is still some confusion about what hybrid is: does it entail mixing different FIs to have societal impact? Is it about mixing public and private funds? What is the difference between hybrid instruments, hybrid finance and blended finance? Current definitions are blurry and tend to mix different significances.

Hence, the final aim of the research is: to clarify the definitions; to unpack the practice of tailored/hybrid/blended finance; to provide clear recommendations and guidelines; to improve the effectiveness of VP/SI practitioners.

The research focuses on five areas. Definitions and Mapping : to get to shared definitions and develop a mapping of existing definitions. Assess the pre-conditions of the VPO : to analyse the VPO's characteristics that will have implications on the FIs chosen. Assess the financial needs of the Social Purpose Organisation (SPO) : to analyse the investee's characteristics linked to the FI to be used. Co-investment and blended finance : to analyse (i) how to combine different risk/return/impact profiles of co-investors; and to explore (ii) how public and private investors can collaborate. Structure the financial instruments : to analyse the characteristics of the VPO/SPO that should be taken into consideration while deciding how to structure the FI.

Most important references:

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