



## Annex 13

### Guidance Note on capacity requirements re. financial mobilization as incubator

*Capacity requirements at strategic partner level in the area of financial mobilization, including innovative and blended finance:*

*1. Financial Structuring and Minimum Concessionality Analysis:* Strategic partners must possess or sub contract the technical capacity to structure financial transactions. This also includes ability to minimize subsidies for private actors and avoid market distortions. Instrument fluency will also be required for non-traditional instruments such as debt, guarantees, and equity, and understand how they alter risk-return profiles. Structuring these deals requires specialized legal and financial knowledge that is often absent in traditional civil society organisations and must be built or sub-contracted. In instances where critical intervention elements are subcontracted, the SPA partner is required to evidence the capacity to structure the subcontracting arrangement and maintain robust supervision of the agent entity. This includes a demonstrated justification of the cost-effectiveness of outsourcing versus in-house implementation. Although capacity building is permissible during the SPA3 cycle, the partner must possess a proven foundational competence in the sector, supported by a definitive timeline and pathway for resolving outstanding technical shortfalls.

*2. Commercial Risk and Due Diligence:* Strategic partners must have or acquire the ability to assess commercial viability when working with blended finance. Unlike grant evaluations, this requires performing rigorous ex-ante due diligence on business models, corporate structures, and financial health. For credit provision, this means having the capacity to assess the portfolio health, efficiency, and governance of retail financial institutions. In contexts with weak regulatory capacity, the need to undertake integrity and in anti-money laundering (AML) checks is paramount. Strategic partners must be able to verify beneficial ownership to ensure funds are not used for tax evasion or illicit flows. This also includes assessments of the creditworthiness of potential investment counterparties, which is often difficult in emerging markets due to a lack of data.

*3. Specialized Equity Management:* Conducting equity investments requires a distinct skillset from lending, necessitating active ownership and often a long-term engagement horizon. Strategic partners acting as equity investors must possess the capacity for in-depth governance and board oversight to influence investees from within. Furthermore, strategic partners must be adept at valuation to manage financial exposure and capable of designing clear exit strategies that secure financial sustainability without compromising the original social mission when ownership eventually transfers.



4. *Microfinance and Client-Centric Expertise.* For micro-credit specifically, Strategic partners must possess client-centric expertise to tailor products to the complex financial realities of the poor. This involves rigorous market analysis to distinguish between the poor, who can productively utilize loans, and the those that can't, who instead require safety nets rather than debt, thereby avoiding debt traps. Strategic partners are also encouraged to move beyond supply-driven credit models to offer diverse services like savings and insurance, while strictly enforcing consumer protection measures—such as transparent pricing—to prevent predatory lending and aggressive recovery practices.

5. *Impact Measurement and Monitoring.* Rigorous impact measurement and monitoring requires strategic partners to establish robust data systems grounded in clear theories of change. This entails not only tracking standard key performance indicators for financial and social outcomes, such as job creation and gender inclusion, but also conducting advanced attribution analysis. Specifically, strategic partners must be skilled in proving *additionality* to demonstrate that development outcomes are a direct result of their intervention and would not have occurred through market forces alone.

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