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Blended Finance Technical Briefs Primer

Agricultural Finance | Gender Lens Investing | Healthcare Services
Health Supply Chains | Sustainable Landscapes

Introduction

Chemonics International's Center for Private Sector Engagement, in collaboration with Dalberg and KOIS, has developed the following technical briefs to enrich the technical knowledge of the development community around blended finance in the areas of agricultural finance, gender lens investing, healthcare services, health supply chains, and sustainable landscapes. This primer provides a targeted, high-level overview of blended finance mechanisms to contextualize these sector-specific technical briefs.

Each technical brief provides tactical guidance and practical use cases for each sector. These briefs will serve as a reference point for development practitioners interested in leveraging blended finance approaches in project design and delivery and improving the quality of engagement with the private sector. Each brief presents the need for blended finance in the sector, articulating

the specific challenges to traditional investment in the sector, and expands on where blended finance can or has played a role in mobilizing private sector engagement and investment. This primer includes a brief overview of how recent blended finance investments have been deployed in the sector, as well as relevant, specific areas where Chemonics has engaged. Each brief also synthesizes actionable learnings across these case studies and outlines key factors for consideration when ascertaining the potential to use blended finance in that sector. Note that these technical briefs do not recommend specific structures (i.e., funds) as the selection of such is highly dependent upon project and operating contexts.

Context

In the face of increasingly complex global challenges, donors, funders, implementing partners, and other organizations and entities recognize the need to maximize available tools and approaches to mobilize financing and catalyze investment in innovative ways to fund development outcomes. As part of this response, funding trends in developing countries have fundamentally changed. The private sector now represents a significant portion of financial flows into emerging markets, driving global capital markets, and serving as a driving force for innovation and new technology. With private capital outpacing traditional donor assistance, private sector engagement has been elevated by almost every major donor, including the United States Agency for International Development (USAID), the U.K. Foreign, Commonwealth and Development Office (FCDO), and others that are increasingly shaping private investment in developing countries. USAID issued the agency's Private Sector Engagement policy in December 2018, and recently established their Private Sector Engagement (PSE) Hub within the agency's new Development, Democracy, and Innovation Bureau. Building on existing policies and practices, and incorporating new tools, the PSE policy has overhauled USAID's systems and procedures to support intentional engagement with the private sector, including requiring all missions designate a PSE point of contact; that all missions complete a PSE action plan and that all missions to designate a PSE point of contact, complete a PSE action plan, conduct due diligence for formal partnerships, and put in place memoranda of understanding and other documents to govern them.

Blended finance has steadily emerged as a way to bring in and align the private capital necessary to close funding gaps. It is consistently cited as a key trend to watch in the development finance space — particularly in response to the challenges presented by the COVID-19 pandemic and widening funding gaps in low- and middle-income countries. [1] Donors such as USAID and FCDO, bring a unique combination of advantages to support blended finance transactions. For instance, to support blended finance transactions in health, USAID's Center for Innovation and Impact brings extensive experience in deploying grant capital as the largest donor in global health, as well as experience implementing credit guarantees across sectors and countries. USAID also brings technical and programmatic expertise in health; convening power and credibility, including expertise in crafting multi-stakeholder arrangements across the private, public, and NGO sectors; country presence and relationships; and the ability to influence and accelerate policy as an official U.S. government agency.

1 For more, see article by Adva Saldinger "Development Finance Trends to Watch in 2021," Feb. 12, 2021, https://www.devex.com/news/development-finance-trends-to-watch-in-2021-99140

How is blended finance defined? It is important to note that no single definition exists for blended finance, though common themes common themes support definitions adopted by various organizations. At its core, blended finance is the strategic use of catalytic capital from public or philanthropic sources to increase private-sector investment in developing countries for sustainable development.[2] Other definitions, including those adopted by USAID, include: "where government resources (e.g., grants, technical assistance, guarantees, convening, networks) are strategically used to mobilize private commercial capital." More broadly, public or philanthropic funds are strategically used to mobilize third party capital from private sources.

Blended finance can be used across of structures, geographies, and sectors using a range of instruments.[3] As a structuring approach, blended finance allows organizations with different objectives to invest alongside each other while achieving their own objectives. This structuring approach also addresses two key investment barriers for private investors: (i) high perceived and real risk and (ii) poor returns for the risk relative to comparable investments. In this way, blended finance structures create alignment between development funding (public and philanthropic funders) and private capital. It is important to note that blended finance is not an investment approach, instrument, or end solution. It is also not synonymous with impact investing, which is an investment that emphasizes the intention of generating positive and measurable social and environmental impact alongside a financial return[4], but rather a structuring approach that attempts to achieve similar goals by "blending" different intentions of a range of investors to achieve development objectives at scale.[5] Public-private partnerships also make up a subset of blended finance, in which some services and infrastructure that are usually public sector responsibilities (e.g., water or roads) are provided by the private sector under an agreed funding model. Blended finance can also involve public sector support to private investors in sectors where it is not usually provided by the public sector (e.g., mining or manufacturing).

According to the World Economic Forum and the Organisation for Economic Co-operation and Development (OECD), blended finance has three key characteristics:

- **Leverage:** Use of development finance and philanthropic funds to attract private capital into deals.
- **Impact:** Investments that drive social, environmental, and economic progress.
- **Returns:** Financial returns for private investors in line with market expectations, based on real and perceived risks.[6]

2 USAID. (April 2019). "Private Sector Engagement Policy." Retrieved from https://www.usaid.gov/sites/default/files/documents/1865/usaid_psepolicy_final.pdf. (Accessed January 2021)
3 World Economic Forum and the OECD. (September 2015). "Blended Finance Vol. 1: A Primer for Development Finance and Philanthropic Funders." Page 8.
4 Anja-Nadine König, Chris Club and Andrew Apampa (Convergence, KfW Development Bank). (October 2020). "Innovative Development Finance Toolbox." Retrieved from https://www.convergence.finance/resource/105e35fa-a6da-478d-808a-4e03962dfa6b/view. (Accessed February 2021).
5 World Economic Forum and the OECD. (September 2015). "Blended Finance Vol. 1: A Primer for Development Finance and Philanthropic Funders." Page 8.
6 World Economic Forum and the OECD. (September 2015). "Blended Finance Vol. 1: A Primer for Development Finance and Philanthropic Funders."

Why is blended finance important? Blended finance can unlock investment opportunities in developing countries, which often have challenging sectors and underserved markets, by catalyzing, mobilizing, and scaling private investment. This is of critical importance to accelerating progress toward achieving the 17 Sustainable Development Goals (SDGs) set by the United Nations to address a range of complex and interrelated development challenges. It is estimated that the annual investment gap to achieve the SDGs by 2030 stands at approximately $2.5 trillion — but the estimated current SDG-focused funding from domestic and international sources is only $1.3 trillion annually.[8]

Blended finance contributes to development objectives by:

- **Increasing capital leverage:** Extends the reach of limited development finance and philanthropic funds as they are used strategically to facilitate larger volumes of private capital that are channeled to investments with high development impact.
- **Enhancing impact:** The skillsets, knowledge and resources of public and private investors can increase the scope, range, and effectiveness of development-related investments.
- **Delivering risk-adjusted returns:** Risks can be managed to realize returns in line with market expectations.[9]

Blended finance also exists to meet challenges related to risk, which is a significant contributing factor to the systemic undersupply of finance and investment for projects in low- and middle income countries. At its core, blended finance allows development organizations to absorb risk that may traditionally hinder private sector investment. This improves risk-return profiles, allows for better understanding of the difference between perceived and actual (materialized) risk, and reduces uncertainty in a manner that attracts and mobilizes additional private capital. For example, challenging markets lack capital flow because their risk-return profiles are not attractive to private investors seeking market terms. In these cases, blended finance is one tool to improve risk-return profiles to attract capital.[10] At the end of a blended finance transaction, it's often a win-win proposition for providers of capital, but most significantly, it is a gain for people living in low and middle-income countries.[11] As noted in the USAID's 2019 Blended Finance Roadmap for Global Health, the potential of blended finance to catalyze scalable and replicable investments even after the exit of donor capital can improve the sustainability of an intervention.[12]

9 World Economic Forum and the OECD. (September 2015). "A How-To Guide for Blended Finance." Page 4.
10 Christopher Clubb, Convergence. (February 11, 2021). "How does blended finance make a transaction less risky?" Retrieved from https://www.convergence.finance/news-and-events/news/7AeOT8SxhGCpud1piygKrg/view?utm_source=LinkedIn&utm_medium=social%20media&utm_campaign=Ask-Convergence-Series. (Accessed February 2021).
11 Safia Gulamani, Convergence. (October 9, 2019). "How does blended finance make difficult sectors investable?" Retrieved from https://www.convergence.finance/news-and-events/news/640NMqwKkZXWpcp2KyOkJ2/view. (Accessed January 2021)
12 USAID Center for Innovation and Impact. (February 2019). "Greater than the Sum of its Parts: Blended Finance Roadmap for Global Health." Retrieved from https://www.usaid.gov/sites/default/files/documents/1864/Blended-Finance-Roadmap-508.pdf. (Accessed January 2021)

What constitutes blended finance? Depending on the funding gap being addressed, blended finance offers different rationales for and approaches to the use of a variety of financial instruments.[13] According to Convergence, there are four common blended finance structures, the characteristics of which are outlined below.

Figure 1. Common Blended Finance Structures[14]

STRUCTURE	CHARACTERISTICS	ILLUSTRATIVE USE CASE
CONCESSIONAL CAPITAL **STRUCTURE** Commercial Debt / Equity Concessional Capital	Public or philanthropic investors provide funds on below-market terms within the capital structure to lower the overall cost of capital or to provide an additional layer of protection to private investors. This is also referred to as **concessional capital or funding.** Concessional capital requires a lower, sometimes even zero return. Because of this, a higher return can be paid by the borrower to the private for-profit finance provider, and that provider is thus incentivized at the same or lower overall cost to the borrower.[15]	**Medical Credit Fund** See Case Study 1, featuring the Medical Credit Fund launched in 2009 by PharmAccess, in the Healthcare Services Financing Technical Brief accompanying this primer. More information can also be found on the Medical Credit Fund in this case study prepared by Convergence in March 2019.
GUARANTEE/RISK INSURANCE **STRUCTURE** Guarantee / Insurance Debt / Equity	Public or philanthropic investors provide credit enhancement through **guarantees or risk insurance** on below-market terms. With guarantees, a guarantor agrees to pay part of or the entire value of a loan, equity, or other instrument in the event of non-payment or loss of value. By reducing risk, guarantees attract more risk-averse investment capital. They can also be an attractive development finance tool because they optimize the use of public resources, as these resources are only disbursed in the case of losses.[16]	**USAID-SIDA Health Guarantee to Centenary Rural Development Bank (CRDB) in Uganda** See Case Study 2, featuring the USAID-SIDA Health Guarantee to Centenary Rural Development Bank (CRDB) in Uganda executed between 2012 and 2018, in the Healthcare Services Financing Technical Brief accompanying this primer.

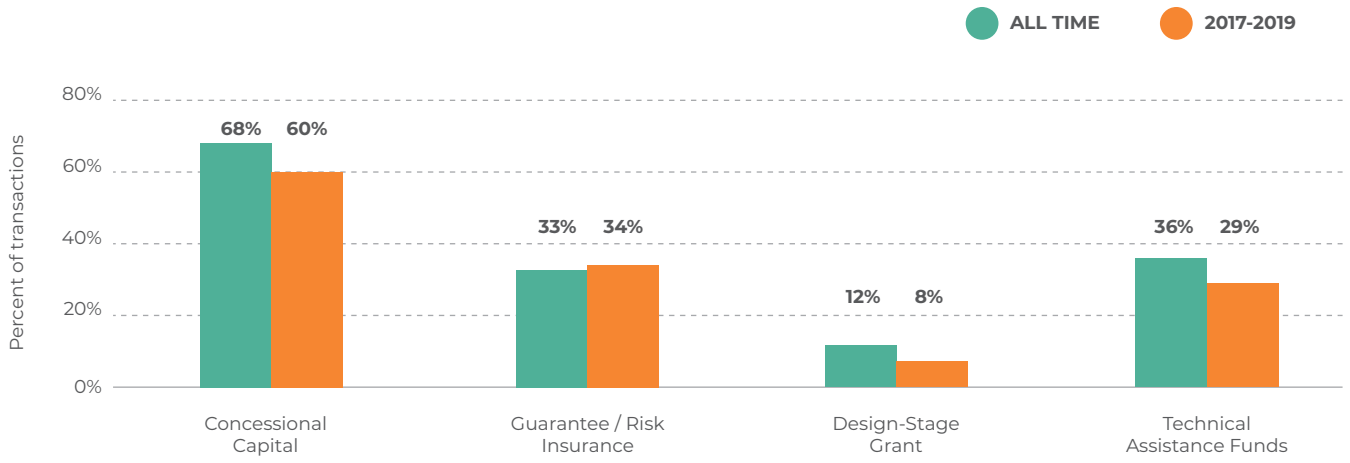
13 World Economic Forum and the OECD. (September 2015). "A How-To Guide for Blended Finance." Page 7.
14 Convergence. "Blended Finance Primer." Retrieved from https://www.convergence.finance/blended-finance. (Accessed January 2021)
15 USAID Marketlinks. "Finance Wiki, 4.2.2. Provide Concessional Capital, Including First Loss." Retrieved from https://www.marketlinks.org/finance-wiki/422-provide-concessional-capital-including-first-loss. (Accessed January 2021)
16 Justice Johnston, Convergence. (July 30, 2019). "Blending with guarantees: Hope or hype?" Retrieved from https://www.convergence.finance/news-and-events/news/5sx7ivKz7eNwZBlLNRfN87/view. (Accessed January 2021)

STRUCTURE	CHARACTERISTICS	ILLUSTRATIVE USE CASE
Design-stage grant STRUCTURE Debt / Equity Technical Assitance (TA) Facility	Transaction design or preparation is grant funding, including project preparation or **design-stage grants**, which can help fund feasibility studies and proof of concept to develop and launch catalytic blended finance vehicles that aim to attract private capital to sustainable development at scale.[17]	**Convergence's Design Funding Program** Convergence's Design Funding Program offers a unique market acceleration opportunity for practitioners to secure feasibility study and proof of concept stage design funding to develop and launch catalytic blended finance vehicles that aim to attract private capital to sustainable development at scale. A recent example includes the Indo-Pacific Design Funding Window, funded by the Australian government, which provided grant funding for the design and launch of catalytic blended finance solutions focused on sustainable & resilient infrastructure and/or gender equality in certain countries in the Indo-Pacific region. The window for applications for the current cycle closed on February 18, 2021. Through this Indo-Pacific Design Funding Window, Convergence has awarded a feasibility study grant to the Basel Agency for Sustainable Energy (BASE), in partnership with Oxfam in the Pacific, for the development of a remittance-based financing vehicle that aims to advance climate action and sustainable infrastructure development in the Pacific Islands nations.[18]
Technical Assistance Funds STRUCTURE Prep / Design Grant Debt / Equity	Transaction is associated with a grant-funded technical assistance facility that can be utilized pre- or post-investment to strengthen commercial viability and developmental impact. This is also referred to as technical assistance funds. **Technical assistance funds** have been frequently deployed alongside commercial investments in blended finance transactions to support a range of activities, including project preparation, project implementation, or the broader business environment.[19]	**AGRI3 Fund** See Annex 4, Fund Case Study, featuring the AGRI3 Fund launched in April 2020, in the Agricultural Finance Technical Brief accompanying this primer.

The following figure, from Convergence's State of Blended Finance 2020 report, compares the proportional increases or decreases across the four types, with concessional capital, debt, or equity remaining the most common forms of blending.

17 Convergence. "Design Funding." Retrieved from https://www.convergence.finance/design-funding. (Accessed January 2021)
18 Convergence. "Convergence Awards Design Grant for a Remittance-based Financing Vehicle to Improve Household Infrastructure and Resiliency for Pacific Island Communities." Retrieved from https://www.convergence.finance/news-and-events/news/4gShnBZG99KP6eFCraLHNA/view. (Accessed March 2021)
19 Ayesha Bery, Convergence. (February 26, 2019). "New Data Brief: Blending with technical assistance." Retrieved from https://www.convergence.finance/news-and-events/news/7B8zuo5GNd6tVn5jBlhFAr/view. (Accessed January 2021)

Figure 2. Proportion of Blended Finance Transactions Across Blending Types[20]



It is important to note that blended finance alone is not enough to make an opportunity, project, or initiative investable or attractive for investment, because ultimately, blended finance transactions need to generate revenue. This hinges on a strong foundational business model that captures economic value and monetizes it. For instance, if a project is risky, small, or has unpredictable cash flows, pure grant funding may be more appropriate than a blended finance structure.[21] The selection and design of a blended finance structure also highly depends on the market and operating context, including key factors such as the depth and maturity of the financial system.

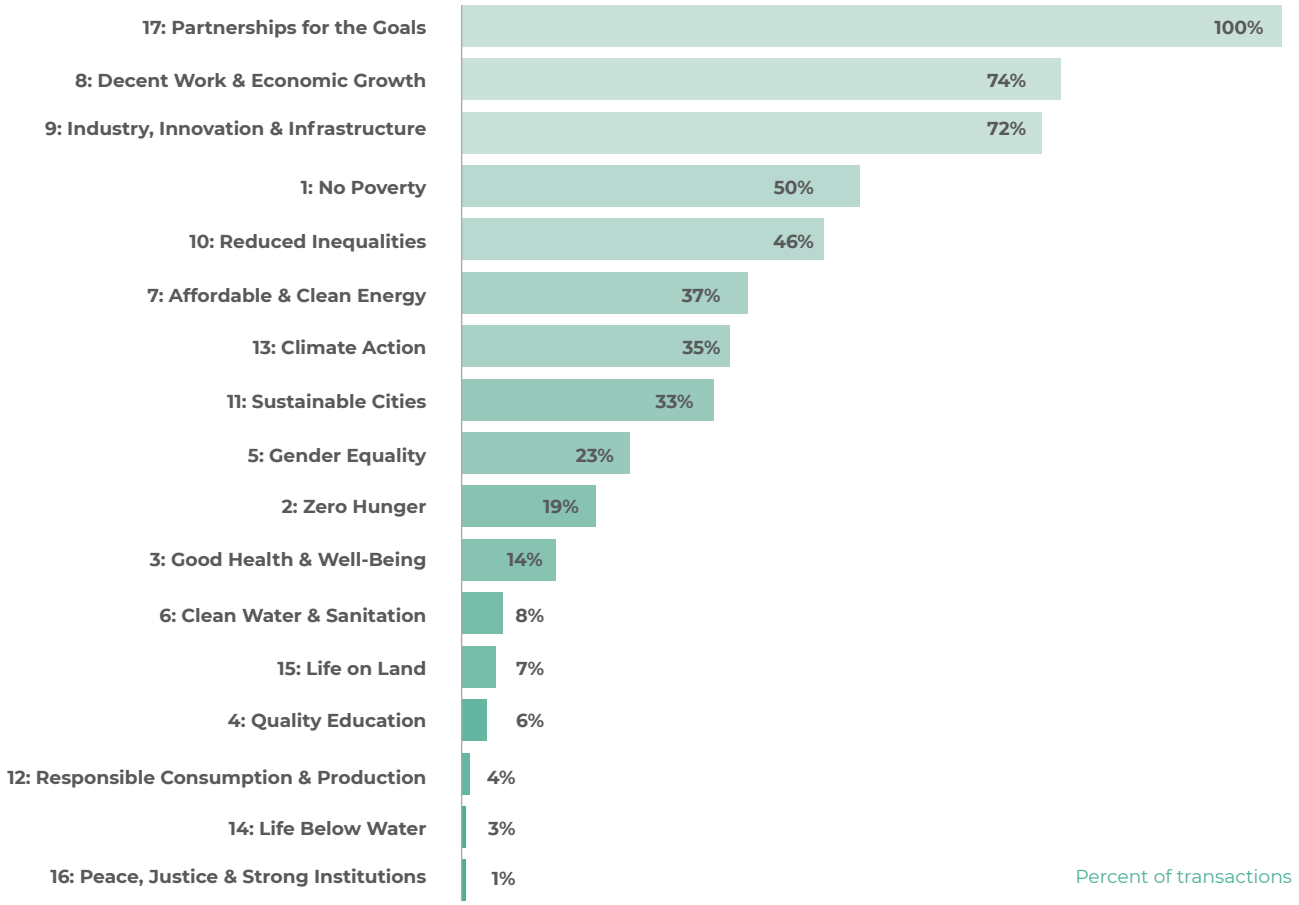
Trends in blended finance. According to Convergence's State of Blended Finance 2020 Report, overall, blended finance activity continues to be heavily focused on the energy and financial services sectors. However, Convergence's live market data supports expectations of increased momentum for blended finance activities in agriculture, health, and to some extent, education on the horizon.[22] Ecosystem trends identified by Convergence's 2020 report also include the promising potential to scale blended finance for health, bolstered by the urgency of addressing the disparities and distress created by the COVID-19 pandemic.[23] There is also greater traction and attention to gender lens investing in blended finance across a number of initiatives led by public, private, and philanthropic actors.[24]

Convergence's State of Blended Finance 2020 Report also elevates an important note that blended finance can only address the subset of SDG targets that are investable. For example, according to analysis conducted by the Sustainable Development Solutions Network, blended finance is

20 Convergence. "The State of Blended Finance 2020." Retrieved from https://www.convergence.finance/blended-finance/2020. (Accessed January 2021). Note that the data/proportions represented in Figure 2 across these blending archetypes does not sum to 100%. In other words, some deals may have more than one type of blended finance archetype present (for example, a TA facility plus concessional capital).
21 Safia Gulamani, Convergence. (October 9, 2019). "How does blended finance make difficult sectors investable?" Retrieved from https://www.convergence.finance/news-and-events/news/640NMqwKkZXWpcp2KyOkJ2/view. (Accessed January 2021)
22-23-24 Convergence. "The State of Blended Finance 2020." Retrieved from https://www.convergence.finance/blended-finance/2020. (Accessed January 2021)

aligned with goals such as Goal 8 (Decent Work and Economic Growth) and Goal 13 (Climate Action), but less aligned with SDGs such as Goal 16 (Peace, Justice, and Strong Institutions)). See further below.[25]

Figure 3. Alignment Between Blended Finance Transactions and the SDGs (2014 – 2019)[26]

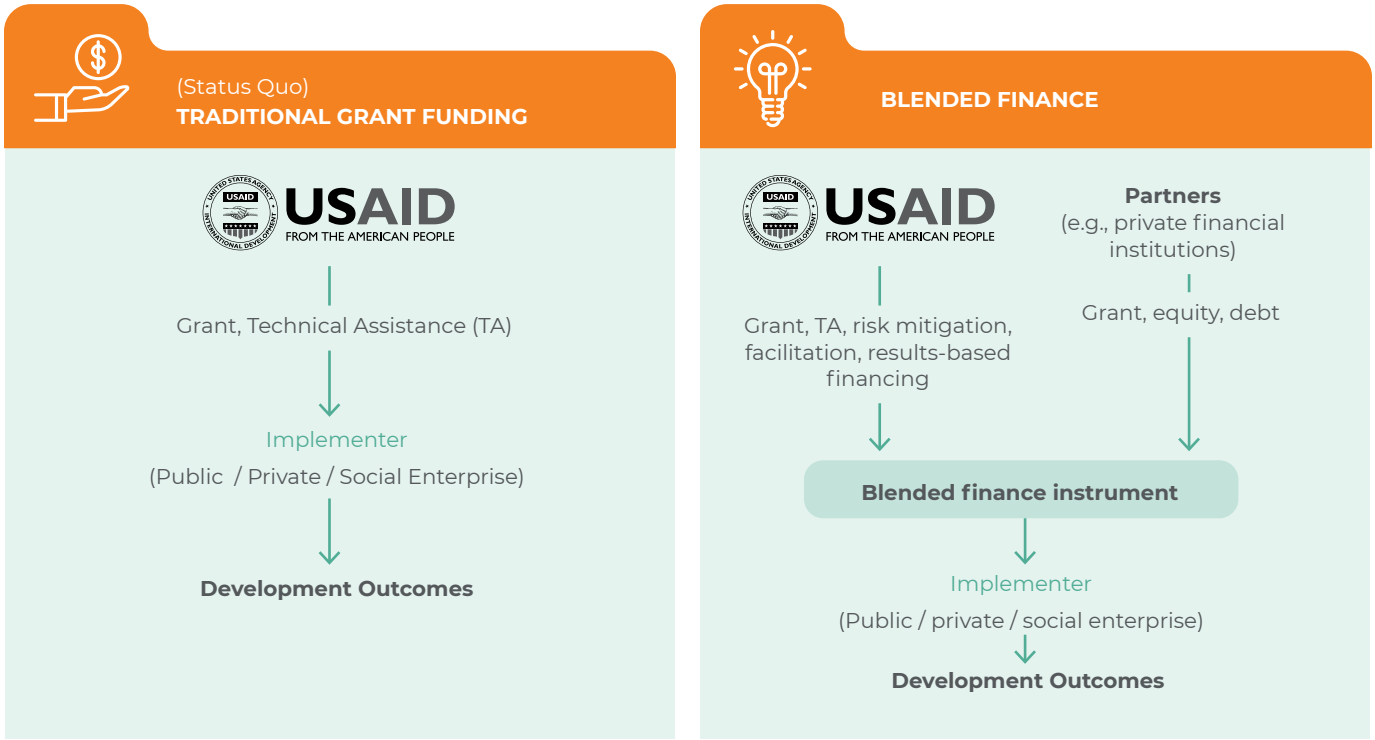


Blended Finance and USAID. In the context of USAID's engagement with blended finance, in February 2017, USAID issued a Broad Agency Announcement (BAA) for catalyzing private investment. The BAA resulted in the co-creation of USAID INVEST, a Washington, D.C.-based project and USAID's flagship blended finance initiative, led by DAI in partnership with subcontractors CrossBoundary, Tideline, and Convergence.[27] With the goal of addressing the longstanding operational and technical challenges that USAID has faced in working with the investment community, INVEST has served as a continuous learning platform for USAID to test

25 Convergence. "The State of Blended Finance 2020." Retrieved from https://www.convergence.finance/blended-finance/2020. (Accessed January 2021)
26 Convergence. "The State of Blended Finance 2020." Retrieved from https://www.convergence.finance/blended-finance/2020. (Accessed January 2021). Note that the percentages indicate the percent of transactions.
27 DAI. "Worldwide – INVEST." Retrieved from https://www.dai.com/our-work/projects/worldwide-the-invest-project. (Accessed February 2021)

procurement reforms and technical innovations to enhance their engagement with private sector investment. As of October 2020, INVEST had mobilized $172 million in capital and supported 85 transactions, including 18 closed transactions. The projected value of total capital mobilized as a result of transactions supported by INVEST is estimated at over $1.6 billion.[28]

Figure 4. Status Quo Compared to Blended Finance in the Context of USAID[29]



In January 2020, USAID also published, through a report from the USAID CAPx (Capital Impact Exchange) Activity, the results of a stocktaking exercise conducted from September through December 2019 that surveyed the landscape for blended finance at USAID. The report includes 31 key informant interviews with staff across USAID Operating Units, USAID projects, and other stakeholders; summarizes a review of 100 reports and documents from USAID and other sources; and includes an analysis of two recent surveys USAID conducted to gauge USAID staff familiarity with, and opinions of, various private sector engagement topics. USAID's work in blended finance has covered the following types of instruments and financing goals — the full report can be found here.

28 Convergence. "Resources, USAID INVEST Close-Up: The Invest Initiative and Partner Network." https://www.convergence.finance/resource/57d48319-929b-4743-815c-4ccf245e5b68/view. (Accessed February 2021); also see Convergence's "Member Spotlight with Lala Faiz and Cameron Khosrowshahi of USAID" which provides an interview-style expansive view of how INVEST came to be, what challenges it faced (as of publishing in July 2019), and an outlook on overall project goals, found here: https://www.convergence.finance/news-and-events/news/7fbPxahzIE6Zn05ZSPQkZr/view?utm_source=LinkedIn&utm_medium=social%20media&utm_campaign=USAID-MemberSpotlight-2019

29 USAID. (February 11, 2021). "Applications of Finance in Global Health." Retrieved from presentation slides provided at https://www.marketlinks.org/events/applications-finance-global-health. (Accessed February 2021)

Figure 5. Typology of Blended Finance Experience at USAID[30]

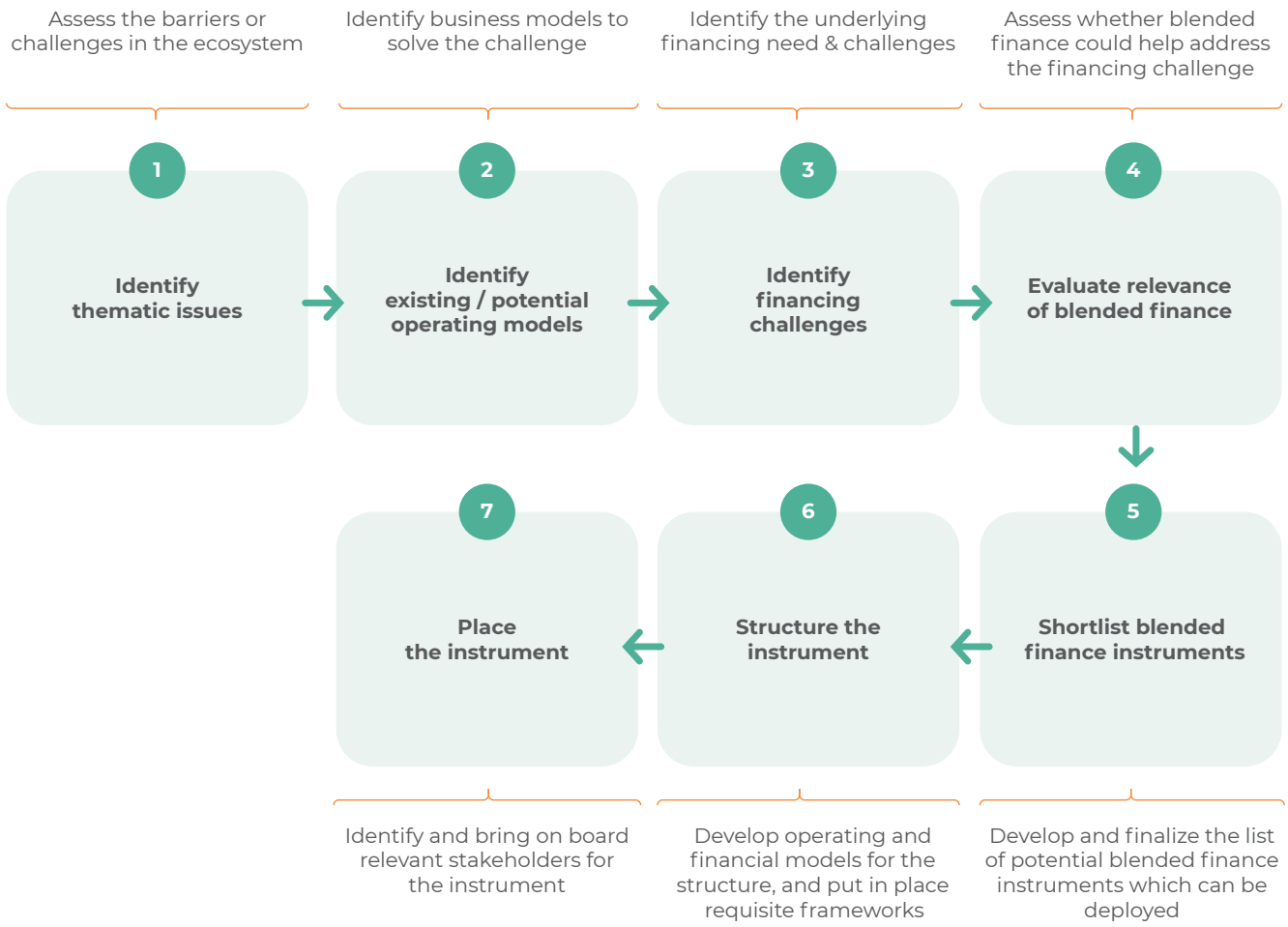
FINANCING GOAL	INSTRUMENTS / TOOLS	DEFINITION	USAID EXAMPLES
Risk mitigation: reduce the risk for investors	Guarantees	USAID pays back a portion of loans to underfunded, higher-risk sectors if the borrower defaults. Typically provided through the Development Credit Authority (DCA)	Coffee farmer resilience initiative, Armenia Bond Fund
	Insurances	USAID partners with insurance companies to develop/scale new products to mitigate risk for investors or cover premium cost of private insurance against any level of loss/non-repayment in the investment	Lulama
Catalytic Capital: Increase returns and financial attractiveness to incentivize private / commercial investment	First-loss capital	USAID grants that will take on the first loss in an investment should it lose money. This catalyzes additional private investment. USAID has deployed this tool in impact investment funds	Medical Credit Fund, CrossBoundary Energy
	Seed / flexible grant capital	USAID grants used to invest in early-stage social enterprises or high-impact innovations that are then funded by other donors / commercial investors in later stages	Saving lives at Birth, Development Innovation Ventures (DIV)
Pay for success: Increase likelihood and size of impact	Development Impact Bonds	USAID serves as an outcome funder in a model that ties payment to attainment of specific social outcomes	Utkrisht Impact Bond
	Results-based funding	USAID grant funding that is disbursed to recipients if and when predetermined outputs or outcomes are achieved	FinGAP
Investment facilitation support	Technical Assistance and other financing support mechanisms	Provide investment facilitation support for investments in blended finance structures to supplement investor / investee capacity and reduce transaction costs	Design stage, fund preparation / due dilligence, investor / investee support

When should you deploy a blended finance solution in donor programming? The following framework, developed by KOIS, provides a step-by-step-approach to blended finance. It outlines a problem-to-solution approach to identify the right blended finance instrument(s). This framework is referenced throughout the sector-specific technical briefs, illustrating the process of moving from thematic challenge to business model to financing challenge, leading to a menu of instruments.

30 USAID and CAPx. (January 2020). "Blended Finance Landscape Review." Retrieved from https://linclocal.org/wp-content/uploads/2020/03/EXTERNAL_CAPx-Landscape-Review-FINAL.pdf. (Accessed February 2021)

Figure 6. Step-by-Step Approach to Blended Finance[31]

Developed by KOIS



For a deeper dive into blended finance discourse and research, please consult the resources below:

- Chemonics International's Degreed Pathway on Blended Finance
- World Economic Forum: Blended Finance Toolkit
- IFC: Blended Finance Factsheet
- OECD: Blended Finance Principles
- OECD: Bridging the Sustainable Development Finance Gap
- USAID: Unlocking Capital for Development
- USAID: DCA One-Pager
- WEF: A How-To Guide for Blended Finance
- WEF: Insights from Blended Finance Investment Vehicles & Facilities
- CSIS: Blended Finance and Aligning Private Investment with Global Development
- Convergence: Knowledge Library (Links to Literature)
- Convergence: Blended Finance 101

31 KOIS, January 2021.

Appendix I. Financial Services Key Terms

This glossary of key financial services terms provides an introduction to concepts and definitions relevant to the technical briefs that follow this primer.

The terms are organized by the following categories, then alphabetically:

- Access to Finance
- Capital Markets
- Alternative Finance for Development
- Digital Finance

Term	Definition	Sources
Access to Finance		
Access to finance	The ability of individuals or enterprises to obtain financial services, including credit, deposit, payment, insurance, and other risk management services. Several indicators of a person's access to financial institutions are: having a bank account, using banks as their primary financial institutions, using mainly non-bank financial institutions, and ability to reach their financial institution by foot (according to the World Bank).	World Bank
Collateral	Property or other assets that a borrower offers a lender to secure a loan. If the borrower stops making the promised loan payments, the lender can seize the collateral to recoup its losses. Because collateral offers some security to the lender in case the borrower fails to pay back the loan, loans that are secured by collateral typically have lower interest rates than unsecured loans. A lender's claim to a borrower's collateral is called a lien.	Quora Investing Answers
Credit	An agreement whereby a financial institution agrees to lend a borrower a maximum amount of money over a given time period. Interest is typically charged on the outstanding balance.	Investing Answers Investopedia
Creditworthiness	A valuation performed by lenders that determines the possibility a borrower may default on their debt obligations. It considers factors such as repayment history. Lending institutions also consider the amount of available assets (collateral) and the amount of liabilities (other debts) to determine the probability of a customer's default.	Investopedia
Debt	Debt is an amount of money borrowed by one party from another.	Investopedia
Development finance institution	Specialized development banks or subsidiaries to support private sector development in developing countries. They are usually majority-owned by national governments and source their capital from national or international development funds or benefit from government guarantees. This ensures their creditworthiness, which enables them to raise large amounts of money on international capital markets and provide financing on very competitive terms.	OECD
Equity financing	Equity financing is the process of raising capital through the sale of shares in an enterprise. Equity financing essentially refers to the sale of an ownership interest to raise funds for business purposes. The people who buy shares are referred to as shareholders of the company because they have received ownership interest in the company.	The Economic Times World Bank

Financial development	The establishment and expansion of institutions, instruments and markets that support private sector investment and economic growth.	IMF
Financial inclusion	Individuals and businesses have access to useful and affordable financial products and services that meet their needs — transactions, payments, savings, credit and insurance — delivered in a responsible and sustainable way.	World Bank
Financing gap	The amount of money needed to fund the ongoing operations or future development of a business, project, or household that is not currently provided by cash, equity or debt.	Investopedia
First-loss policy	A first-loss policy is a type of property insurance policy that provides only partial insurance. In the event of a claim (loss), the policyholder agrees to accept an amount less than the full value of damaged, destroyed or stolen items or property. In return, the insurer agrees to not penalize the policyholder for under-insuring their goods or property.	Investopedia
Formal financial institution	A financial institution (FI) is a company engaged in the business of dealing with monetary transactions, such as deposits, loans, investments and currency exchange. Financial institutions encompass a broad range of business operations within the financial services sector, including banks, trust companies, insurance companies, and brokerage firms or investment dealers.	Investopedia Investopedia
Immovable collateral	An immovable object, an item of property that cannot be moved without destroying or property that is fixed to the earth, such as land or a house, that is used as collateral for a loan. Immovable property includes premises, property rights (for example, inheritable building rights), houses, land and associated goods, and chattels if they are located on, below, or at a fixed address. Immovable collateral is the most commonly accepted form of collateral for formal banking institutions.	IFC
Inclusive finance	The pursuit of making financial services accessible at affordable costs to all individuals and businesses, regardless of net worth or size, respectively. Financial inclusion strives to address constraints that exclude people from participating in the financial sector and offer solutions.	Investopedia
Insurance	A financial product that provides financial protection by providing the compensation in the case of risk or an incident such as death, disability, fire, and more. The customer of insurance services is obliged to pay a premium whose amount depends on the product.	
Interest rate	The percent of principal charged by the lender for the use of its money. The principal is the amount of money lent.	Economics Help
Microfinance	The provision of small loans (microcredit) to poor people to help them engage in productive activities or grow very small businesses. The term may also include a broader range of services, including credit, savings, and insurance.	Kiva
Missing middle	Small- and medium-sized enterprises that are underserved by financial institutions. Generally, microfinance and mezzanine finance work to address this gap.	World Bank
Mezzanine financing	A hybrid of debt and equity financing that gives the lender the right to convert to an equity interest in the company in case of default.	Investopedia

Non-bank financial institution	An institution that offers various banking services but does not have a banking license. Generally, these institutions are not allowed to take deposits from the public and have to find other means of funding their operations such as issuing debt instruments, which keeps them outside the scope of traditional oversight required under banking regulations. They can offer banking services such as loans and credit facilities, retirement planning, money markets, underwriting, and merger activities.	Investopedia NIBusinessInfo
Risk-averse lending	Preferring lower returns with known risks rather than higher returns with unknown risks.	
Capital Markets		
Auctions	An auction is a sales process in which potential buyers place competitive bids on assets or services, either in an **open format or closed.** The asset or service in question will be sold to the party that places the highest bid in an open auction, and usually to the highest bidder in a closed auction.	Investopedia
Bond	A fixed income investment in which an investor loans money to an entity (typically corporate or governmental) which borrows the funds for a defined period of time at a variable or fixed interest rate. Bonds are used by companies, municipalities, states and sovereign governments to raise money and finance a variety of projects and activities. Owners of bonds are debt holders, or creditors, of the issuer.	Investopedia
Capital markets	Activities that gather funds from some entities and make them available to other entities needing funds. The core function of such a market is to improve the efficiency of transactions so that each individual entity does not need to conduct search and analysis, create legal agreements, and complete funds transfer.	Investopedia Goldman Sachs
Derivatives	A financial security with a value that is reliant upon or derived from an underlying asset or group of assets. The derivative itself is a contract between two or more parties based upon the asset or assets. Its price is determined by fluctuations in the underlying asset. The most common underlying assets include stocks, bonds, commodities, currencies, interest rates and market indexes.	Investopedia
Foreign direct investment	Foreign direct investment (FDI) is an investment made by a firm or individual in one country into business interests located in another country. Generally, FDI takes place when an investor establishes foreign business operations or acquires foreign business assets, including establishing ownership or controlling interest in a foreign company. Foreign direct investments are distinguished from portfolio investments in which an investor merely purchases equities of foreign-based companies.	Investopedia
Fund manager	Responsible for implementing a fund's investing strategy and managing its portfolio trading activities. A fund can be managed by one person, by two people as co-managers, or by a team of three or more people. Fund managers are paid a fee for their work, which is a percentage of the fund's average assets under management.	Investopedia
Government securities	A bond issued by a government authority with a promise of repayment upon maturity. Government securities such as savings bonds, treasury bills and notes also promise periodic coupon or interest payments. These securities are considered low-risk, since they are backed by the taxing power of the government.	Investopedia
Earnings before interest, tax, depreciation and amortization (EBITDA)	A measure of a company's operating performance. Essentially, it's a way to evaluate a company's performance without having to factor in financing decisions, accounting decisions or tax environments.	Investopedia How Stuff Works

initial public Offering (IPO)	The first time that the stock of a private company is offered to the public. IPOs are often issued by smaller, younger companies seeking capital to expand, but they can also be done by large privately owned companies looking to become publicly traded. In an IPO, the issuer obtains the assistance of an underwriting firm, which helps determine what type of security to issue, the best offering price, the number of shares to be issued and the time to bring it to market.	Investopedia The Balance
Internal rate of return (IRR)	A metric used in capital budgeting to estimate the profitability of potential investments. Internal rate of return is a discount rate that makes the net present value (NPV) of all cash flows from a particular project equal to zero. In other words, it is the expected rate of return that will be earned on a project or investment. Generally, the higher a project's internal rate of return, the more desirable it is to undertake. IRR is uniform for investments of varying types and, as such, IRR can be used to rank multiple prospective projects on a relatively even basis. Assuming the costs of investment are equal among the various projects, the project with the highest IRR would probably be considered the best and be undertaken first.	Investopedia Harvard Business Review
Liquidity	The degree to which an asset or security can be quickly bought or sold in the market without affecting the asset's price.	Investopedia
Market makers	A "market participant" or member firm of an exchange that also buys and sells securities at prices it displays in an exchange's trading system for its own account which are called principal trades and for customer accounts which are called agency trades. Using these systems, a market maker can enter and adjust quotes to buy or sell, enter, and execute orders, and clear those orders. Market makers exist under rules created by stock exchanges approved by a securities regulator.	Investopedia Investor Trading Academy
Market rate	The real price or cost of something, decided by a market rather than calculated or fixed, for example by a government. A typical rate for something on a market at a particular time. The price of something calculated in relation to what buyers are willing to pay at a particular time.	My Accounting Course
Maturity	The date on which the life of a transaction or financial instrument ends, after which it must either be renewed, or it will cease to exist. The term is commonly used for deposits, foreign exchange spot and forward transactions, interest rate and commodity swaps, options, loans and fixed income instruments such as bonds.	Investopedia
Money market	Where financial instruments with high liquidity and very short maturities are traded. It is used by participants as a means for borrowing and lending in the short term, with maturities that usually range from overnight to just under a year. Among the most common money market instruments are Eurodollar deposits, negotiable certificates of deposit (CDs), bankers acceptances, U.S. Treasury bills, commercial paper, municipal notes, federal funds and repurchase agreements (repos).	Money Market My Accounting Course
Mutual fund	An investment vehicle made up of a pool of moneys collected from many investors for the purpose of investing in securities such as stocks, bonds, money market instruments and other assets. Mutual funds are operated by professional money managers, who allocate the fund's investments and attempt to produce capital gains and/or income for the fund's investors. A mutual fund's portfolio is structured and maintained to match the investment objectives stated in its prospectus.	Investopedia The Balance

Pension fund	Pooled contributions from pension plans set up by employers, unions, or other organizations to provide for the employees' or members' retirement benefits. Pension funds are the largest investment blocks in most countries and dominate the stock markets where they invest. When managed by professional fund managers, they constitute the institutional investor category with insurance companies and investment trusts. Commonly, pension funds are exempt from capital gains tax and the earnings on their investment portfolios are either tax deferred or tax exempt.	Investopedia The Balance
Price transparency	The ability to know all of the bid prices, ask prices, and trading quantities for a given stock, good, or service at any point in time.	Investing Answers
Primary market	Issues new securities on an exchange for companies, governments and other groups to obtain financing through debt-based or equity-based securities. Primary markets are facilitated by underwriting groups consisting of investment banks that set a beginning price range for a given security and oversee its sale to investors. Once the initial sale is complete, further trading is conducted on the secondary market, where the bulk of exchange trading occurs each day.	Investopedia Finance Walk
Repurchase agreements (re-po)	A form of short-term borrowing for dealers in government securities. The dealer sells the government securities to investors, usually on an overnight basis, and buys them back the following day.	Investopedia The Street
Secondary market	Where investors buy and sell securities they already own. It is what most people typically think of as the "stock market," though stocks are also sold on the primary market when they are first issued. The national exchanges, such as the New York Stock Exchange (NYSE) and the NASDAQ, are secondary markets.	Investopedia
Trading systems	A group of specific parameters that combine to create buy and sell signals for a given security. Trading systems can be developed using many different technologies, including Microsoft Excel, MATLAB®, TradeStation, R, Python, and other platforms and languages. The buy and sell signals from these platforms may appear in a file for you to execute or be programmatically executed using a brokerage that supports automated trading.	Investopedia Investopedia
Yield curve	A line that plots the interest rates, at a set point in time, of bonds having equal credit quality but differing maturity dates. The most frequently reported yield curve compares the three-month, two-year, five-year and 30-year U.S. Treasury debt. This yield curve is used as a benchmark for other debt in the market, such as mortgage rates or bank lending rates, and it is also used to predict changes in economic output and growth.	Investopedia The Balance
Alternative Finance for Development		
Angel investor	An individual who invests in small startups or entrepreneurs. Often, angel investors are among an entrepreneur's family and friends. The capital angel investors provide may be a one-time investment to help the business or an ongoing injection of money to support and carry the company through its difficult early stages.	Investopedia Investing Answers
Blended finance/ capital	The strategic use of development finance for the mobilization of additional commercial finance. Blended finance occurs when development finance in the form of grants, loan guarantees or philanthropic funds are used to attract or leverage private capital into developing countries. The term derives from the mix of types of capital. Blended finance is typically used to de-risk investments or bring returns in line with what investors are expectations.	World Economic Forum Development Initiatives

Catalytic first loss capital	Socially and environmentally driven credit enhancement provided by an investor or grant-maker who agrees to bear first losses in an investment to catalyze the participation of co-investors that otherwise would not have entered the deal.	Global Impact Investing Network Global Partnerships
Concessional loans	Loans that are extended on terms substantially more generous than market loans. The concessionality is achieved either through interest rates below those available on the market or by grace periods, or a combination of these. Concessional loans typically have extended grace periods. Development finance institutions often use these loans to de-risk or encourage certain investments.	OECD
Crowdfunding	The use of small amounts of capital from a large number of individuals to finance a new business venture. Crowdfunding makes use of the easy accessibility of vast networks of people through social media and crowdfunding websites to bring investors and entrepreneurs together and has the potential to increase entrepreneurship by expanding the pool of investors from whom funds can be raised beyond the traditional circle of owners, relatives and venture capitalists.	Investopedia Forbes
Development credit authority	USAID's primary vehicle to support access-to-finance programs. DCA existence based on the recognition that sustainable development financing must come more and more from the private sector (particularly as aid flows recede and as countries move along the development continuum) and that domestic and international capital providers are sitting on a great deal of uncommitted capital (liquid reserves) they would be interested in putting into play under the right conditions and risk profile. The DCA partial credit guarantee is designed to reduce risks to generate additional lending to underserved markets and demonstrate the long-term commercial viability of lending in developing markets.	USAID USAID
Development impact bonds	Development mpact bonds (DIBs), like social impact bonds (SIBs), are results-based contracts in which private investors provide pre-financing for social programs and public sector agencies pay back investors their principal plus a return if, and only if, these programs succeed in delivering social outcomes. Unlike SIBs, DIBs involve donor agencies, either as full or joint funders of outcomes. Because repayment to investors is contingent upon the achievement of specified social outcomes, DIBs are not "bonds" in the conventional sense. A DIB may be more similar to an equity investment than a debt investment.	Center for Global Development Center for Global Development
Diaspora bonds	A sovereign bond that targets investors that have emigrated to other countries and the relatives of those emigrants. For example, the government of Greece tries to sell a government bond to Americans of Greek origin.	Investopedia Nasdaq
Diaspora investment	Targeting emigrants to invest in businesses in their country of origin.	Migration Policy Institute
Factoring	A form of financing that helps companies with cash flow problems due to slow-paying clients. It allows a business to finance invoices, which improves the company's access to working capital. Factors buy a company's invoices in two installments – the advance and the rebate. The advance covers up to 80% of the invoice and is deposited to the company's bank account immediately. Note that the advance varies by industry and by company. Once the customer pays, the factor rebates the second installment to cover the remaining 20%, less any fees. This payment settles the transaction for that specific invoice.	Ij Global

Gender-lens investment	A form of investing in which investors seek specifically to generate both a positive financial return and a beneficial impact on the lives of women.	University of Pennsylvania Criterion Institute
Global Development Alliance (GDA)	A partnership involving USAID and the private sector and other partners that works together to develop and implement activities that leverage and apply partners' respective assets and expertise to advance core business interests, achieve USAID's development objectives, and increase the sustainable impact of USAID's development investments.	USAID
Green bonds	A tax-exempt bond issued by federally qualified organizations or by municipalities for the development of brownfield sites. Brownfield sites are areas of land that are underutilized, have abandoned buildings or are underdeveloped, often containing low levels of industrial pollution. Green bonds are short for qualified green building and sustainable design project bonds.	Investopedia
High-net-worth individual	A classification used by the financial services industry to denote an individual or a family with high net worth. Although there is no precise threshold to fit into this category, high net worth is generally determined by liquid assets over a certain figure. The exact amount differs by financial institution and region.	Investopedia
Impact investing	Investing that aims to generate specific beneficial social or environmental effects in addition to financial gain. Impact investing is a subset of socially responsible investing (SRI), but while the definition of socially responsible investing encompasses avoidance of harm, impact investing actively seeks to make a positive impact by investing, for example, in nonprofits that benefit the community or in clean technology enterprises.	Investopedia Global Impact Investing Network
Institutional investor	A nonbank person or organization that trades securities in large enough share quantities or dollar amounts that it qualifies for preferential treatment and lower commissions.	Investopedia OECD
Loan guarantee	A loan guaranteed by a third party in case the borrower defaults. Sometimes, a guaranteed loan is guaranteed by a government agency, which will purchase the debt from the lending financial institution and take on responsibility for the loan. Another more common example of a guaranteed loan is a payday loan. When someone takes out a payday loan, their paycheck plays the role of the third party that guarantees the loan.	Investopedia
Multi-stakeholder funds (pooled investment funds; pooled investment vehicle)	Funds or facilities in which public or private investors interested in development impact, and sometimes commercial investors, pool their capital into a collective investment entity.	Center for Global Development
Overseas Private Investment Corp. (OPIC)	A self-sustaining U.S. government agency that helps American businesses invest in emerging markets. OPIC provides businesses with the tools to manage the risks associated with foreign direct investment, fosters economic development in emerging market countries, and advances U.S. foreign policy and national security priorities.	OPIC
Pay-for-success finance/ performance-based finance	An approach to contracting that ties payment for service delivery to the achievement of measurable outcomes. The movement toward PFS contracting is a means of ensuring that high-quality, effective social services are working for individuals and communities. In a PFS contract, the payer for outcomes — typically, but not exclusively, a government — agrees to provide funding if and when the services delivered achieve an agreed-upon result. Typically, an independent evaluator determines whether the agreed-upon outcomes have been met.	Nonprofit Finance Fund

Private equity	Capital that is not listed on a public exchange. Private equity is composed of funds and investors that directly invest in private companies, or that engage in buyouts of public companies, resulting in the delisting of public equity. Institutional and retail investors provide the capital for private equity, and the capital can be utilized to fund new technology, make acquisitions, expand working capital, and bolster and solidify a balance sheet.	Investopedia
Purchase order finance (POF)	The act of receiving an advance from a financial institution that pays a company's suppliers for goods a company is reselling or distributing to a customer who has completed a written purchase order. POF helps businesses that need cash to fulfill product orders by paying a company's supplier for the manufacturing and transportation of goods upfront, before a company receives payment from its customers.	FitSmall Business.com
Quasi-equity investment	A category of debt taken on by a company that has some traits of equity, such as having flexible repayment options or being unsecured. Examples of quasi-equity include mezzanine debt and subordinated debt.	KnowHow Non Profit
Remittances	The funds an expatriate sends to his or her country of origin via wire, mail, or online transfer. These peer-to-peer transfers of funds across borders are economically significant for many countries that receive them.	Investopedia Migration Policy Institute
Revenue capital finance/royalty finance	Also known as royalty-based financing, a method of raising capital for a business from investors who receive a percentage of the enterprise's ongoing gross revenues in exchange for the money they invested. In a revenue-based financing investment, investors receive a regular share of the business's income until a predetermined amount has been paid. Typically, this predetermined amount is a multiple of the principal investment, and it usually ranges between three to five times the original amount invested.	Investopedia
Savings groups	An improved form of the traditional Accumulating Savings and Credit Associations (ASCA). They provide members a secure place to save, the opportunity to borrow in small amounts and on flexible terms, and affordable basic insurance services.	CGAP
Social impact bonds	A contract with the public sector or governing authority, whereby it pays for better social outcomes in certain areas and passes on the part of the savings achieved to investors. A social impact bond is not a bond per se, since repayment and return on investment are contingent upon the achievement of desired Outcomes. If the objectives are not achieved, investors receive neither a return nor repayment of principal. SIBs derive their name from the fact that their investors are typically those who are interested in not just the financial return on their investment, but also in its social impact.	Investopedia OECD
Technical assistance facility (TAF)	A mechanism for making experts/training available to provide on-demand strategic and technical support to entrepreneurs and businesses.	
Venture capital	Financing that investors provide to startup companies and small businesses that are believed to have long-term growth potential. Venture capital generally comes from well-off investors, investment banks and any other financial institutions. However, it does not always take a monetary form; it can be provided in the form of technical or managerial expertise.	Investopedia Harvard Business Review Volunteers for Economic Growth Alliance

Warehouse finance	A form of inventory finances in which loans are made to manufacturers and processors on the basis of goods or commodities held in trust as collateral for the loans. The goods may be held in public warehouses approved by the lender or may be held in field warehouses located in the borrower's facilities but controlled by an independent third party. A financial institution engaged in warehouse financing will usually designate a collateral manager who issues a warehouse receipt to the borrower that certifies the quantity and quality of the stored goods or commodities.	Investopedia IFC
Working capital loan	A loan that has the purpose of financing the everyday operations of a company. Working capital loans are not used to buy long-term assets or investments and are instead used to cover accounts payable, wages, etc. Companies that have high seasonality or cyclical sales cycles usually rely on working capital loans to help with periods of reduced business activity.	Investopedia
Digital Finance		
Agent	Any third party acting on behalf of a bank or other financial services provider (including an e-money issuer or distributor) to deal directly with customers. The term "agent" is commonly used even if a formal principal–agent relationship does not exist under the laws of the country in question. Depending upon the regulatory framework and their agreement with the provider, agents may provide a variety of services on the provider's behalf, ranging from account opening to acceptance (cash-in) and disbursement (cash-out) of cash.	GSM Association
Bitcoin	A digital currency (also called crypto-currency) that is not backed by any country's central bank or government. Bitcoins can be traded for goods or services with vendors who accept Bitcoins as payment.	Coindesk Techtarget
Blockchain	A digitized, decentralized, public ledger of all cryptocurrency transactions. Constantly growing as 'completed' blocks (the most recent transactions) are recorded and added to it in chronological order, it allows market participants to keep track of digital currency transactions without central recordkeeping. Each node (a computer connected to the network) gets a copy of the blockchain, which is downloaded automatically. Blockchains were originally developed as the accounting method for the virtual currency Bitcoin.	Investopedia Blockgeeks
Branchless banking/beyond branchless banking	The delivery of financial services outside conventional bank branches, often using agents and relying on information and communications technologies to transmit transaction details – typically card-reading point-of-sale (POS) terminals or mobile phones.	CGAP
Cash merchant	A type of agent that only conducts cash-in/cash-out services. Cash merchants typically pose less risk than full-service agents and may be regulated differently as a result.	
Cryptocurrency	A type of digital currency that uses cryptography for security and anti-counterfeiting measures. Public and private keys are often used to transfer cryptocurrency between individuals.	Blockgeeks
Digital financial services (DFS)	A broad range of financial services accessed and delivered through digital channels, including payments, credit, savings, remittances and insurance. The digital financial services (DFS) concept includes mobile financial services (MFS).	Alliance for Financial Inclusion CGAP

Electronic money (e-money)	An electronic store of monetary value on a technical device that may be widely used for making payments to entities other than the e-money issuer. E-money can be held on cards, devices, or on a server. Examples include pre paid cards, electronic purses, such as M-PESA in Kenya, or web-based services, such as PayPal. As such, e-money can serve an umbrella term for a number of more specific electronic value products and services.	The World Bank Visual Capitalist
Electronic payment system	A method of making transactions or paying for goods and services through an electronic medium, without the use of checks or cash. Also known as an electronic payment system or online payment system.	Your Dictionary Market Links
Electronic wallet (e-wallet)	A type of electronic card used for transactions made online through a computer or a smartphone. Its utility is same as a credit or debit card. An e-wallet needs to be linked with the individual's bank account to make payments. By using a digital wallet, users can complete purchases easily and quickly with near-field communications technology.	Economic Times Investopedia
FinTech	Any technological innovation in financial services including innovations in financial literacy and education, retail banking, investment and even cryptocurrencies such as Bitcoin.	Investopedia
Interoperability	The property that allows for the unrestricted sharing of resources between different systems. This can refer to the ability to share data between different components or machines, both via software and hardware, or it can be defined as the exchange of information and resources between different computers. Broadly speaking, interoperability is the ability of two or more components or systems to exchange information and to use the information that has been exchanged.	Techopedia CGAP World Bank
Mobile banking	The use of a smartphone or other cellular device to perform online banking tasks such as monitoring while away from a home computer, account balances, transferring funds between accounts, bill payment and locating an ATM.	Investing Answers Investopedia
Mobile money	The use of a mobile phone in order to transfer funds between banks or accounts, deposit or withdraw funds, or pay bills. This term is also used for the broader realm of electronic commerce; it can refer to the use of a mobile device to purchase items, whether physical or electronic.	Business Dictionary CGAP
Mobile etwork operator (MNO)	Independent communication service providers that own the complete telecom infrastructure for hosting and managing mobile communications between the subscribed mobile users with users in the same and external wireless and wired telecom networks.	Techopedia GSM Association