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# BLENDED FINANCE LANDSCAPE REVIEW

January 2020

# CAPx (Capital Impact Exchange) Activity Landscape Review

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## Acronyms and Abbreviations

ACRONYM	MEANING
<b>ADS</b>	Automated Directives System
<b>BUILD ACT</b>	Better Utilization of Investments Leading to Development Act, 2018
<b>CAPx</b>	Capital Impact Exchange Activity
<b>DCA</b>	Development Credit Authority
<b>DFC</b>	United States International Development Finance Corporation
<b>DFI</b>	Development Finance Institution
<b>DFID</b>	Department for International Development [UK]
<b>DIB</b>	Development Impact Bond
<b>FMI</b>	Financial Markets International
<b>GIIN</b>	Global Impact Investing Network
<b>J2SR</b>	Journey to Self-Reliance
<b>M&amp;E</b>	Monitoring and Evaluation
<b>MBIO</b>	Missions, Bureaus, and Independent Offices
<b>MSS</b>	Market Systems Strengthening
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>OPIC</b>	Overseas Private Investment Corporation
<b>PACE</b>	Partnering to Accelerate Entrepreneurship
<b>POC</b>	Point of Contact
<b>PSE</b>	Private Sector Engagement
<b>RTI</b>	Research Triangle Institute International
<b>SDG</b>	Sustainable Development Goals
<b>SME</b>	Small to Medium Enterprises
<b>SRLA</b>	Self-Reliance Learning Agenda
<b>TA</b>	Technical Assistance
<b>UN</b>	United Nations
<b>USAID</b>	United States Agency for International Development
<b>WASH</b>	Water, Sanitation and Hygiene

# I. EXECUTIVE SUMMARY

Blended finance - the strategic use of public and philanthropic resources to mobilize private capital to achieve development outcomes - holds tremendous promise to finance critical development priorities in USAID's partner countries and support their journeys to self-reliance. This report presents the findings of a stocktaking process the [USAID CAPx \(Capital Impact Exchange\) Activity](#) conducted from September-December 2019. CAPx is designed to advance the knowledge base, generate and analyze evidence, and adaptively inform USAID's efforts to catalyze private investment for development outcomes. The primary purpose of the stocktaking was to survey the landscape for blended finance at USAID and, in so doing, provide a learning foundation for CAPx as it embarks on the development of a Blended Finance Learning Agenda.

During the stocktaking, CAPx conducted 31 key informant interviews with staff across USAID Operating Units, USAID projects, and other stakeholders; reviewed 100 reports and documents from USAID and other sources; and analyzed two recent surveys USAID conducted to gauge USAID staff familiarity with, and opinions of, various Private Sector Engagement (PSE) topics.

As described in more detail in the report below, top-level findings of the stocktaking include the following:

- **USAID has a significant opportunity to leverage and scale its blended finance experience to achieve development outcomes.** USAID has a rich history of leveraging private sector investment for development outcomes using blended finance approaches, dating back two decades. Much of this experience comes from the work of the Development Credit Authority (DCA), and there are other instructive examples of innovative approaches across technical sectors and geographies. There are a number of significant USAID initiatives currently underway in the broader Private Sector Engagement (PSE) space - including the INVEST and recently awarded CATALYZE projects - both of which promise to generate useful learning for CAPx. With that said, and as reinforced by the literature review and key informant interviews, much of USAID's blended finance experience to-date has been "ad hoc and opportunistic."<sup>1</sup> There is a significant opportunity to broaden the usage and scale of blended finance approaches across the Agency's portfolio. USAID's established history of broadly deploying blended finance to mobilize private sector financing in developing countries creates a valuable institutional knowledge base that can be utilized to help inform best practices and important lessons learned, and other instructional learnings related to blended finance.
- **Numerous other donors have relevant experience that can be instructive for USAID.** Like USAID, numerous other donors have experience with blended finance approaches. According to the Organization for Economic Cooperation and Development (OECD), 17 bilateral donors use some type of blended finance mechanism, 10 have well-established programs, and six have explicit blended finance strategies.<sup>2</sup> There are also interesting examples of blended finance approaches being used domestically in the United States.

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<sup>1</sup> "Greater than the Sum of its Parts: Blended Finance Roadmap for Global Health" – USAID, February 2019.

<sup>2</sup> "Blended Finance and Aligning Private Investment with Global Development" – CSIS, March 2018.

These development institutions active in the blended finance space represent opportunities for collaboration and data-sharing, as well as providing an additional source of important knowledge, best practices, key challenges, and lessons learned that can be applied across a variety of geographies, sectors, financial instruments, and development goals.

- **Blended finance at USAID is hindered by insufficient integration across the Program Cycle.** The Program Cycle is USAID's operational model for planning, implementing, assessing, and adapting development programming in a given region or country; it is how policy gets translated into action. However, there is no consistent or deliberate integration of blended finance across the Program Cycle. What integration that does happen in USAID's portfolio is typically driven by the skills and experience of individual USAID staff who are in a position to design or support a blended finance approach; conditions that are not universal. In spite of this, USAID has a successful track record of creating different and innovative approaches to blended finance.
- **Blended finance knowledge and capacity gaps within USAID present additional challenges.** There is limited knowledge and capacity inside USAID to fully realize the Agency's PSE aspirations, particularly those related to blended finance. While considerable tools and resources on blended finance exist within the Agency (and within the broader development community) the awareness of these tools by USAID staff is low, the resources are not easily and centrally organized and are therefore hard to find, they are often not written in language that is widely understandable, and key lessons or insights are not often explicitly identified or references. With that said, USAID has produced considerable literature that is a solid foundation for learning, and the Agency has created several promising communications and knowledge-sharing channels to share blended finance content.
- **Blended finance has clear linkages to the Financing Self-Reliance framework.** The nexus of blended finance and the Journey to Self-Reliance is the idea of sustainability, a bedrock component of USAID's development philosophy for many years. Financing Self-Reliance is enhanced by private sector participation via blended finance structures and strategies: private sector capital, knowledge, thinking, and discipline. Blended finance has the potential to contribute to the Financing Self-Reliance framework by, among other things, strengthening enabling conditions and ultimately transforming markets. Depending on the country context, USAID staff can assess what development problem they are trying to solve and whether a blended finance approach could be useful and applicable.

## II. BACKGROUND

### A. THE CHANGING NATURE OF DEVELOPMENT ASSISTANCE

The context for financing global development has evolved dramatically over the past several decades. While official development assistance (bilateral and multilateral aid) historically provided the majority of financing for development projects in developing or emerging markets, private capital now represents the majority of finance entering those same markets. In the US,

official development assistance represented 70 percent of financial flows into developing countries in 1960 yet is now below 10 percent.<sup>3</sup>

This influx of private capital is largely due to a growing recognition that emerging and frontier markets are expected to account for 97 percent of the world’s population growth through 2030 and that the businesses, consumers, and governments in these markets will drive the vast majority of global growth for the foreseeable future. Investors are energetically seeking returns, and new markets in which to invest. And these investors need not solely be foreign; domestic resource mobilization is an important element of the financing self-reliance framework.

However, while private sector investment is rapidly increasing and is expected to continue to do so, these funds will not necessarily automatically translate into increased development, owing to the fact that only a fraction of these capital flows currently target investment in *development priorities* (outcomes prioritized as being integral to a country’s growth and development). Indeed, the United Nations estimates an approximately \$2.5 trillion *annual* funding gap between the \$4 trillion they estimate will be needed annually to accomplish the Sustainable Development Goals (SDGs) and the estimated current SDG-focused annual funding of \$1.3 trillion from domestic and international sources.<sup>4</sup>

For this increased private sector investment to realize its full potential, public sector actors like USAID must continue to learn about the private sector and understand the necessary conditions and criteria to most effectively harness private sector investment - and scale it - to create sustainable development outcomes.<sup>5</sup> The growing role of the private sector presents expanding opportunities for USAID to engage and collaboratively design and deploy interventions which mobilize investment for achieving development outcomes.

## **B. WHAT IS BLENDED FINANCE?**

While the term “blended finance” is relatively new, the key elements have their origins in structured finance techniques (e.g., forms of credit enhancement) that have been a mainstay for decades on Wall Street. Blended finance has been used in the international development community for at least two decades as well, but only within the past few years has it begun to gain broad-based traction. A significant catalyst for blended finance was the adoption in 2015 by UN Member Countries of the SDGs, and the urgency placed upon achieving them.

As described in more detail in this report, there are numerous definitions of blended finance in use across the development community. For purposes of this stocktaking report, CAPx will use the following definition: “The strategic use of public and philanthropic resources to mobilize private capital to achieve development outcomes.” Private capital in this context is defined as capital invested by any non-public, non-philanthropic, or commercial investor where market returns are expected to be generated. Private investors include, but are not limited to, pension funds, insurance companies, sovereign wealth funds, commercial banks and investment banks, private equity firms, venture capital firms, family offices, and asset/wealth managers.

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<sup>3</sup> “Blended Finance and Aligning Private Investment with Global Development” – CSIS, March 2018.

<sup>4</sup> “The State of Blended Finance, 2019” – Convergence

<sup>5</sup> “Blended Finance and Aligning Private Investment with Global Development” – CSIS, March 2018.

Most blended finance structures include some form of cash contribution by donors/development finance institutions (DFIs), philanthropic institutions, and private sector parties. Hence the “blended” and “finance” monikers. But blended finance also includes other relevant resources such as guarantees and technical assistance (both up-front technical assistance and ongoing). While we will not attempt to propose a definitive, final, or universal definition in this report, we do acknowledge the utility that a consensus “working definition” would provide, particularly as CAPx is poised to support USAID operating units increase their blended finance capabilities.

With that said, we do feel it is important to clarify what blended finance is and what it is not, because the stocktaking revealed a wide disparity of knowledge amongst interviewees. We also noted a wide disparity of definitions across the USAID literature. Establishing clarity around this concept is a first step toward building a USAID working definition of blended finance, which contributes to part of CAPx’s mandate, namely, developing a consistent and known lexicon. While a universal definition is likely not attainable or practical, a working definition would promote consistency and understanding. It is also important because monitoring, evaluation, and learning (MEL) is normally applied to project and activity implementations and the outcomes achieved, not to the way they are resourced. It also has implications for how to start a conversation on how best to achieve a development outcome: leading with blended finance versus leading with the problem to be solved and the outcomes sought.

At a very basic level, blended finance is a resourcing model. It is an approach. It is an enabler of activities/projects/interventions, which are expected to produce the development outcomes, particularly when combined with more holistic, contextually aware market system strengthening (MSS) interventions.

Blended finance is not an activity/project/intervention itself, nor does it produce development outcomes. Development outcomes are produced by the application of the resources assembled in a blended finance structure combined with other context-appropriate market systems strengthening interventions. It is through the application of funds that hospitals and clinics get built and the sick get well; where the schools get built and the students get educations; where the small and medium enterprises (SMEs) get strengthened and jobs created; where the renewable energy projects deliver power to remote populations; and where the impact investment funds produce their social impacts.

### C. HOW CAN BLENDED FINANCE SUPPORT DEVELOPMENT OUTCOMES?

Coupled with the significant increase in private sector investment in developing countries, there is a growing recognition amongst USAID and the donor community that traditional donors do not have the resources or expertise to single-handedly solve the world’s development challenges. Indeed, USAID’s Private Sector Engagement Policy explicitly states that “On their own, donor agencies are unable to fulfill their goals for sustainable development... Private-sector engagement is fundamental to our goal to end the need for foreign assistance.”<sup>6</sup>

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<sup>6</sup> “Private Sector Engagement Policy” – USAID, 2018

## CASE STUDY: MEDICAL CREDIT FUND (MCF)

### USAID Grant Funding as First Loss Capital in an Impact Investment Fund

#### Development Challenge:

The private sector is a critical participant in providing healthcare in sub-Saharan Africa (SSA) due to limited public resources. However, private healthcare facilities, the majority of which are small and medium-sized facilities (SMEs), lack the necessary access to bank financing required to meet rising healthcare demands and adequately serve their patients. These SMEs are financially constrained by high bank collateral requirements, insufficient business skills, and lack of credit histories. With greater access to loans, the SMEs can scale to service a greater number of patients as well as pay for the necessary training and resources to improve their efficiency and quality of care.

#### Investor Constraints in Addressing the Development Challenge:

- *Risk-reward imbalance.* Investors view financing these healthcare SMEs as risky. Loans typically come with high collateral requirements and healthcare SMEs often have minimal leverageable assets. The SMEs' revenue streams are often small and choppy as patients pay out of pocket and often deal with delayed insurance reimbursement. The lack of credit history of most SME owners also presents greater investment risk and uncertainty. These issues make it challenging for investors to assess and analyze ability for loan repayment.
- *Information and capabilities gaps.* Investors are also challenged by difficulties in evaluating the financial performance of these SMEs, as they are mostly run by medical professionals with little to no business training and insufficient accounting/reporting systems in place. Also, the lack of clear and independent healthcare benchmarking or an established QA system make it challenging for investors to track the medical professionals' effectiveness, which is necessary for analyzing both financial performance and development impact.

#### Solution:

The PharmAccess Group established the MCF in 2009 to provide loans and business and medical training to healthcare SMEs in SSA. It was the first, and remains the only, debt fund dedicated to financing health SMEs in Africa. After winning the G20 Challenge for the best models for catalyzing financing for SMEs, USAID provided a \$1 million grant, which was used as first-loss capital as part of the fund's two-tier capital structure. This grant helped MCF "crowd-in" an additional \$10.6 million in debt financing from OPIC, Calvert Capital, three donor foundations, and Dutch private investors, as well as an additional \$17.4 million in financing in 2015. To date the fund size stands at \$50 million, with its later funding rounds coming from impact-orientated commercial funders. The fund no longer requires USAID grant support for expansion and aims to be increasingly less reliant on donor funding, reaching financial sustainability in 2021. MCF has proved to be a sustainable catalyst as banks have now increased their healthcare knowledge and expanded their health loan products and portfolio.

#### Development Impact:

Since its founding, MCF has provided roughly 3,000 loans to 1,760 SMEs across Ghana, Kenya, Liberia, Nigeria, Tanzania, and Uganda. The MCF supports clinics serving 360,000 patients per month and pharmacies serving 1.7 million patients per month. Over 5,000 medical professionals have received clinical and business training through MCF and 79% of providers have reported improved quality scores. Additionally, approximately 2,400 Financial Partner employees have received training from MCF on health sector financing and loan products, catalyzing local market financing of the private health sector.

#### Key Insights:

According to Convergence's case study on the fund, MCF can provide several key insights with respect to building or investing in blended finance structures.

- Development impact can come first in blended finance solutions.
- TA bolsters both financial returns and development impact.
- Partnering with local financial partners allows for both operational and financial leverage, but must be done responsibly.
- The first commitment (early-stage funding) goes the furthest in a blended finance transaction.
- The pathway to financial sustainability can be demanding for impact-first vehicles.

Blended finance presents a transformative opportunity to accelerate development outcomes. As noted by USAID:

“Blended finance—the strategic use of public and philanthropic resources to mobilize private capital to achieve development outcomes—can be an important tool to address [the SDG] funding gap. Blended finance uses public sector funding, financing instruments and other assets to overcome barriers preventing commercial private capital from being invested.

In addition to channeling increased funding towards development outcomes, blended finance offers several other benefits. For example, it can improve the sustainability of an intervention by catalyzing investments that can be scaled and

replicated even after the exit of donor capital. It can also stimulate innovation in high-impact sectors and foster the development of domestic markets, thereby contributing to countries' increased self-reliance. Like USAID, many development organizations have recognized the role of blended finance and are increasingly engaging in blended finance transactions.”<sup>7</sup>

The market for blended finance has grown apace and is estimated at more than \$50 billion per year. It has potential to more than double in the next 10 years.<sup>8</sup> Thus, there is tremendous opportunity to leverage blended finance approaches in USAID's work.

There are several different lenses that can help us to couch blended finance within the larger context of development and economic growth, outlining concrete pathways for blended finance to support larger development objectives. Highlighted below are three specific lenses - market systems, financial, and sectoral - that we find instructive:

**The Market Systems Lens:** When contemplating a blended finance approach, it is necessary to acknowledge that any financial transaction (including a blended finance one) fits within a larger “market system”, factoring both supporting functions (e.g. information, infrastructure, skills / capacity) and rules (e.g. standards, formal and informal norms, regulations). The visual at right, the “M4P Donut”, depicts this market system.<sup>9</sup> Transactions, and those inputs and actors associated with them, reside at the center. Nonetheless, the M4P Donut reminds us that these transactions, and the actors and resources engaged in them, are not working in a vacuum. Their success or failure will most likely depend on the extent to which supporting functions, rules, and key dynamics in the overall environment are considered and addressed in concert with the blended finance transaction itself. Of note, much of USAID's current worldwide work focuses on developing and/or strengthening markets to, eventually, support the implementation of more sophisticated blended finance transactions and/or private sector investment. Depending on the country context and its level of “preparedness” for different types of approaches, USAID can tailor an appropriate approach.

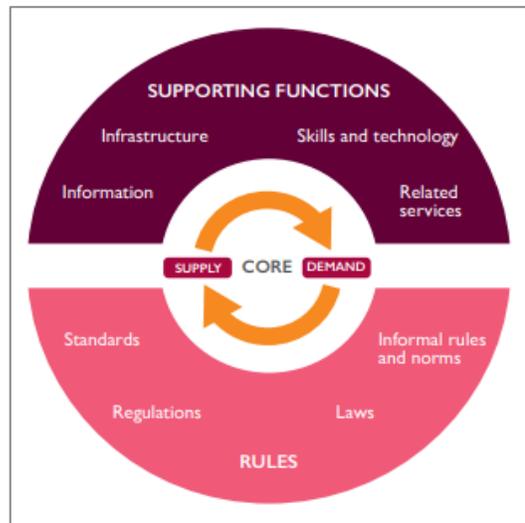


Figure 1: The Market System, "The Operational Guide for the Making Markets Work for the Poor (M4P) Approach – SDC and DFID

**The Financial Lens:** Recognizing that blended finance is a means to a private sector development end, USAID has developed resources that help practitioners evaluate whether mobilizing private investment and blended finance approaches hold potential to promote development outcomes. In “Mobilizing Private Finance for Development: A Comprehensive Introduction” USAID provides

<sup>7</sup> “Greater than the Sum of its Parts: Blended Finance Roadmap for Global Health” – USAID, February 2019.

<sup>8</sup> “Better Finance, Better World” – Blended Finance Taskforce, 2018

<sup>9</sup> “The Operational Guide for the Making Markets Work for the Poor (M4P) Approach, Second Edition” – SDC and DfID, 2015

the following suggested steps for determining how to assess and develop an intervention strategy for mobilizing private capital. While the steps are broader than just blended finance, the theoretical approach is relevant and bears inclusion:

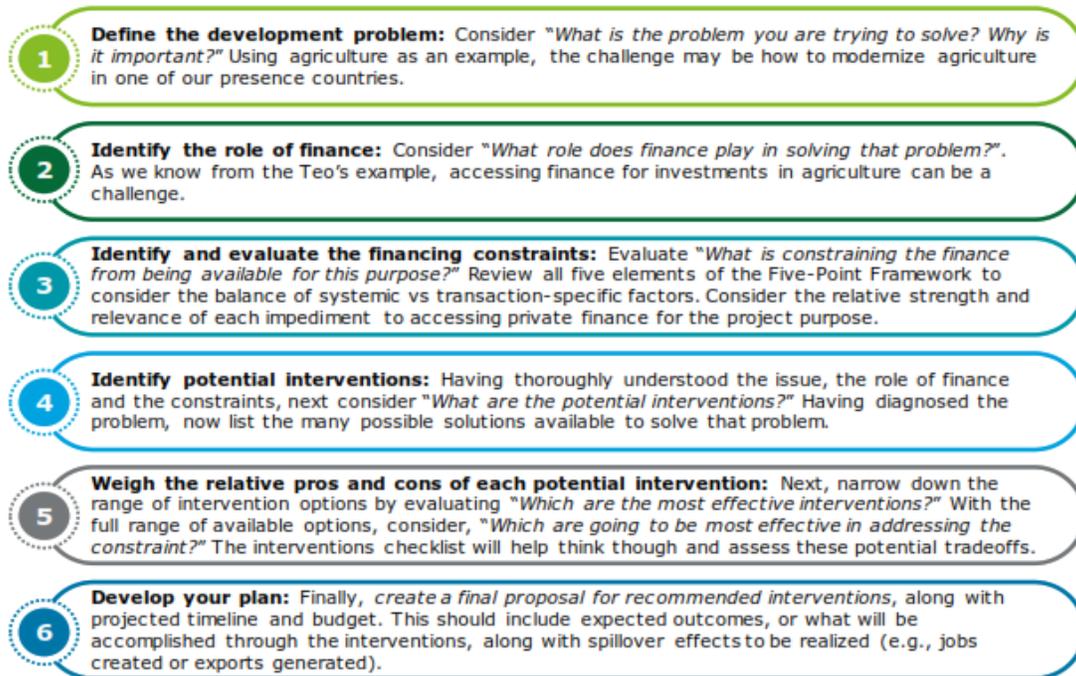


Figure 2: Suggested Steps for Assessing and Developing Interventions to Mobilize Private Capital for Development, "Mobilizing Private Finance for Development" – Deloitte, USAID

**The Sectoral (Health) Lens:** In "Greater than the Sum of its Parts: Blended Finance Roadmap for Global Health" USAID has taken this thinking a step further and developed an assessment approach that, while developed for the health sector, is likewise broadly applicable and relevant:



1. **Identify the country archetype:** The three country archetypes can guide the shortlisting of blended finance instruments that are most likely relevant for any given country context. These archetypes were determined by two composite indicators, one to measure a country's health system status and the other assessing attractiveness to investors.
2. **Define the health issue:** Identify the issue of focus that contributes to poor health outcomes in a specific area.
3. **Prioritize financing challenges:** Analyze the specific financing challenges underpinning the health issue.
4. **Evaluate the potential for blended finance:** Determine the potential for adopting a blended finance approach by evaluating: the sustainability of the underlying program or intervention; the potential for increased efficiency by engaging the private sector; and the presence and interest of private sector players.
5. **Shortlist blended finance instruments:** If there is potential for a blended finance approach, shortlist instruments that both address the financing challenges prioritized in step 3 and align with the country archetype identified in step 1.
6. **Identify activities for further engagement:** List the key follow-on activities to be undertaken in order to select the most appropriate instrument and identify the role(s) that USAID could play in the transaction.

Figure 3: A Roadmap for Engaging in Blended Finance in Global Health, "Greater than the Sum of its Parts: Blended Finance Roadmap for Global Health" – USAID

While blended finance has tremendous potential, it bears noting that by itself it is typically insufficient to create development outcomes. To help ensure both development impact and commercial viability (essential for consistency and alignment with the Journey to Self-Reliance) it is important to also invest in strengthening human capital and the overall enabling environment.

### III. OVERVIEW AND METHODOLOGY

The CAPx (Capital Impact Exchange) Activity is a five-year USAID-funding activity designed to examine the way USAID promotes capital mobilization, creates incentives for lending and investment, and leverages private sector involvement. CAPx was awarded July 31, 2019 and is implemented by LINC LLC, in partnership with Research Triangle Institute (RTI) and Financial Markets International (FMI).

CAPx's specific goal is to advance the knowledge base, generate and analyze evidence, and adaptively inform USAID's efforts to catalyze private investment for development outcomes. CAPx offers USAID's Private Sector Engagement Team and Missions, Bureaus, and Independent Offices (MBOs) new perspectives, methods, and evidence-based approaches to create better blended finance solutions that can be incorporated into future USAID programming.

#### A. PURPOSE

The stocktaking process was the first step in CAPx's iterative learning process designed to identify and prioritize areas of learning that can inform USAID's approaches to mobilizing private capital. The specific purpose of the stocktaking was to provide a *learning foundation* to support CAPx's development of a Blended Finance Learning Agenda, specifically by identifying:

- USAID's primary experience to-date in blended finance.
- Other notable donor-funded experience in blended finance that is relevant to, or instructive for, USAID.
- The current methods for integrating blended finance throughout the USAID program cycle.
- The current blended finance knowledge and capacity gaps within USAID.
- How blended finance can support the Financing Self-Reliance framework.

#### B. METHODOLOGY

The stocktaking was conducted between September-December 2019 and included the following components:

- 31 Key Informant Interviews with USAID staff from multiple operating units, USAID implementing partners, and blended finance conveners. The initial list of interviewees was proposed by USAID. Many meetings produced subsequent recommendations for additional individuals to interview.
- Desk review of 100 reports, studies, and other documents from USAID, other donors/funders, implementing partners, and conveners. The list includes documents

provided by USAID and those gathered from various online sources. USAID's Development Experience Clearinghouse (DEC) was used to search for USAID documents that broadly address blended finance or were produced by specific USAID programs and activities. Of the 90 documents available on the DEC that contain the term "blended finance," we excluded those that only briefly mentioned blended finance (e.g., in a footnote, one-off bullet point, etc.). We collected other documents via keyword searches on Google, including "USAID blended finance," "USAID blended capital," "USAID catalytic capital," and "USAID private capital mobilization." Additionally, we assessed all documents referred to us by individuals during the key informant interviews. All documents were then given an initial-phase evaluation based on the type of blended finance information presented, level of detail, and whether the document presented meaningful lessons, recommendations, and insights in a manner that could be leveraged to inform future USAID blended finance initiatives.

- Analysis of the results of the PSE Field Needs Study (completed November 2018) and the PSE POC Survey (completed July 2019). These USAID sources include responses from approximately 300 individuals (75 percent from the field). To avoid survey fatigue - and recognizing that CAPx will conduct a dedicated Capacity Assessment in 2020 - we opted against undertaking a dedicated survey for purposes of this stocktaking, and instead relied on the useful information contained in these existing recent surveys. While not focused purely on blended finance, they nevertheless provide valuable perspectives about USAID staff beliefs and opinions regarding private sector engagement broadly.

## C. LIMITATIONS

Given the particular scope of this process, this report has some important research limitations:

- The Stocktaking is not meant to be (i) an exhaustive or comprehensive list of every USAID or donor-funded project that included blended finance elements or, (ii) a catalog of every relevant document or report.
- The focus was primarily on qualitative input, namely impressions, opinions, and views.
- Capacity gaps are self-reported, through KIIs, the PSE Field Needs Study, and the PSE POC Survey.
- The stocktaking was intended to be a survey of the relevant landscape, not an analysis or drill-down for the purpose of identifying themes or trends. Synthesizing the existing knowledge will be part of the scoping process for the blended finance learning agenda.

## IV. KEY FINDINGS

### A. USAID'S PRIMARY EXPERIENCE TO-DATE IN BLENDED FINANCE

#### USAID: An Active Market Leader Among Development Agencies

USAID was an early actor in the blended finance space and has been active for some time. Much of USAID's blended finance history and experience is attributable to the Development Credit

Authority (DCA). DCA was created in 1999 to mobilize local private capital through the establishment of risk sharing arrangements. Although DCA also has lending authority, it has never exercised it. Through DCA, USAID has provided partial credit guarantees to mobilize local financing in USAID's partner countries. Since its inception, DCA has played a catalytic role in making available \$5.5 billion of credit to borrowers in 80 countries, issuing 500 guarantees that resulted in more than 250,000 loans. DCA normally guarantees up to 50 percent of a loan by a local bank or local nonbank financial institution to encourage them to lend to local entrepreneurs who would otherwise be perceived as too risky to receive credit.

DCA guarantees can be made available to all USAID Missions and can be used as a vehicle for providing much needed credit to a variety of enterprises in underserved sectors and geographies. Guarantees are often paired with technical assistance projects that can strengthen a borrower's ability to repay the loan or support a financial institution's lending capacity in a new sector or new borrower cohort.

DCA's creation and approach were an early marker of the broader movement toward leveraging private sector resources as the central driver of development. In DCA's case the objective is to not only leverage development resources, but to ensure continuation of the lending activities after the expiration of the guarantee. In this sense, DCA was an early pioneer in the field of blended finance; i.e., using government funds/programs to catalyze private capital to achieve development outcomes.

According to Convergence<sup>10</sup>, USAID is the most active development agency and a market leader in blended finance with 32 financial commitments to blended finance transactions from 2013-2018. As one interviewee noted, USAID is "the big gorilla" among development agencies and multi-donor funds in terms of experience. Commitments refer to transactions both closed and possibly pending, where USAID has committed funding/resources in some form. This figure of 32 commitments clearly does not count the approximately 500 guarantee transactions that DCA has done since its inception in 1999. Including DCA in USAID's experience base underscores the depth and breadth of USAID in the blended finance space, because credit guarantees for risk mitigation are unambiguously part of blended finance.

At USAID, blended finance is not just the domain of Economic Growth Offices and a few finance-savvy types. USAID has deployed blended finance solutions across a multitude of sectors and USAID technical offices (including Environment, Education, Health, Food Security and Agriculture, Energy, WASH), as well as cross-cutting cases such as the Women's WAM Fund, which is a gender-focused blended-finance backed investment fund to support women's financial inclusion.

USAID's established history of broadly deploying blended finance to mobilize private sector financing in developing countries creates a valuable institutional knowledge base that can be utilized to help inform best practices and important lessons learned, and other instructional learnings related to blended finance.

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<sup>10</sup> "The State of Blended Finance, 2019" – Convergence

## Typology of Blended Finance Experience at USAID

USAID's work in blended finance has been of the following types:

Financing Goal	Instruments/Tools	Definition	USAID Example
<b>Risk Mitigation - Reduce the risk for investors</b>	Guarantees	USAID pays back a portion of loans to underfunded, higher-risk sectors if the borrower defaults. Typically provided through the DCA.	Coffee Farmer Resilience Initiative, Armenia Bond Fund
	Insurance	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
<b>Catalytic Capital - Increase returns and financial attractiveness to incentivize private/commercial investment</b>	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 for example.	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)
<b>Pay-for-Success - Increase likelihood and size of impact</b>	Development Impact Bonds	USAID serves as an outcome funder in a model that ties payment to attainment of specific social outcome.	Utkrisht Impact Bond
	Results-based funding	USAID grant funding that is dispersed to recipients if and when pre-determined outputs or outcomes are achieved	FinGAP
<b>Investment Facilitation Support</b>	Technical Assistance and other financing support mechanisms	Provide investment facilitation support for investments in blended finance structures in order to supplement investor/investee capacity and reduce transaction costs	Design stage, fund preparation/due diligence, investor/investee support

Outside of the foregoing specific tools/instruments, USAID also engages in the broader blended finance ecosystem through operations support (investor/investee support, matchmaking, market research) and enabling environment support (developing customized instruments, strengthening enabling conditions, and regulatory reform). These non-financing tools can ultimately help facilitate blended finance activities and catalyze private investment. This is critical in countries with capacity or commitment challenges, or who otherwise have weak enabling environments that would not yet support blended finance approaches.

## USAID Literature Review

USAID has numerous resources available that can educate and aid in facilitating greater blended finance engagement, whether it be through direct financing mechanisms or broader

ecosystem/framework support. The most relevant of these resources are listed below. Overall, the USAID reports we reviewed showcase the importance of blended finance within USAID and broadly define examples of the blended finance tools available, with some project-specific applications outlined. The examples provide a starting point for understanding how a specific tool or mechanism can aid in driving private capital mobilization. However, it is important to note several challenges that currently inhibit these documents from broader applicability and usage:

- It is clear from the literature review that there is no single agreed upon definition of “blended finance” at USAID and what activities constitute “blended finance” varies across the Agency. In USAID literature, blended finance is categorized or framed as a use of funds, a model, a tool, an instrument, a structure, a mechanism, or an intervention. What

## CASE STUDY: Coffee Farmer Resilience Initiative

DCA Guarantee and USAID grant funding TA and capacity building to combat crop disease in Latin America

### Development Challenge:

Coffee plants in Latin America have been destroyed by a debilitating fungal crop disease known as coffee leaf rust or “La Roya”. La Roya has drastically reduced crop yields and caused significant economic losses for smallholder farmers (SHFs) and rural communities across Latin America. Analysts estimate that in early 2013, the height of the outbreak, greater than 50 percent of coffee producing land in Central America had been damaged. Coffee producers lost an estimated \$500 million to \$1 billion in revenue and a conservatively estimated 375,000 people across the value chain lost their jobs.

### Investor Constraints in Addressing the Development Challenge:

- *Risk-reward imbalance.* Agriculture investment is inherently risky. Though an increasing number of financial institutions are investing in the agricultural value chain, long-term loans for on-farm production improvements are not frequently available, with the renovation or rehabilitation (R&R) of perennial crops receiving even less financing. Increased probability of further crop disease outbreak, the rise of extreme weather, and a variety of other issues makes long-term R&R financing much riskier than traditional short-term value chain finance. As a result, there are only roughly a dozen R&R efforts addressing a small fraction of the global need.
- *Information and capabilities gaps.* Aggregators, in this case coffee producer cooperatives and private exporters, and not commercial banks, are the groups leading most R&R financing on a local level. Most of these groups lack the ability to manage R&R loans for SHFs. Often challenged by a lack of capacity, limited technical knowledge, and weak internal controls at the aggregator level, the co-ops and exporters are usually the biggest bottleneck in scaling R&R financing.

### Solution:

USAID through the DCA and Global Development Alliance (GDA) partnered with Root Capital, Keurig Green Mountain Coffee, and Starbucks in 2014 to create the Coffee Farmer Resilience Initiative (CFRI). The initiative’s fund, the Coffee Farmer Resilience Fund, provides long-term loans to farmer cooperatives who then distribute financing to SMF members to fund their upfront R&R costs as well as provide short-term trade credit for working capital. USAID provided credit enhancement via a 50% guarantee of \$15 million to complement Keurig’s \$400,000 first loss investment. Additionally, USAID provided an additional \$2 million in grant funding in the accompanying Resilience Fund to provide TA for the SHFs and co-ops with agronomic and financial literacy management training and tools. Representing the first time a GDA has been bundled with a DCA guarantee, the TA and additional resources leveraged from the GDA increased the likelihood of loan repayment.

### Development Impact:

CFRI has helped over 40,000 SHFs across Guatemala, Honduras, Mexico, Nicaragua, and Peru. By providing crucial risk mitigation, USAID helped Root Capital raise an additional \$8 million in private capital. USAID’s grant contribution to the Resilience Fund has incentivized even further private sector investment, as coffee producers essentially invested directly in their own supply chains.

### Key Insights:

According to Root Capital’s learning report on the initiative, CFRI learning has produced several insights and recommendations as it relates to R&R and blended finance.

- Leverage blended finance structures and incorporate targeted subsidies to finance and scale R&R.
- Identify and strengthen scalable aggregation points for channeling capital to smallholders.
- Expand risk management solutions to benefit individual producers.
- Bundle financial and non-financial support to increase the absorptive capacity of enterprises and individual farmers to qualify for and manage credit.
- Strengthen the overall enabling environment by ensuring consistent access to high-quality planting material and information about coffee varieties.

types of financial tools would fall under the blended finance umbrella also sometimes lacks consistency across USAID's reports. For example, in "Greater than the Sum of its Parts: Blended Finance Roadmap for Global Health," USAID's most comprehensive report on blended finance, Development Impact Bonds (DIBs) and results-based funding are mentioned as different types of blended finance tools. However, in USAID's and Deloitte's "Mobilizing Private Finance for Development," DIBs and result-based funding are their own distinct financing categories separate from what it defines as blended finance. These discrepancies may add to the challenges of understanding the basics of blended finance across the Agency.

- Insights and concrete lessons learned are present but sometimes hard to find, buried in reports, and in the case of some blended finance engagements, completely absent. The sector-specific documents contain information and evidence from which lessons can be drawn, but much of the information remains high-level, lacking in technical detail, or is not presented in a way that would easily inform or facilitate learning.
- The projects contained in the overall body of individual project documents rarely mention "blended finance" specifically, thus making it more difficult to research, compare, and gather relevant insights or lessons. Many projects did not explicitly call out key challenges, successes, and lessons learned that could inform future blended finance approaches and applications. Overall, more insights are needed on how structuring was approached, process, which instruments were evaluated and considered and the methods or framework through which they were assessed, technical analyses used, and other data that could inform future blended finance engagements.
- These resources are not currently centrally located, something that could be considered for future CAPx work.

### USAID Produced Reports and Publications

- ***"Finance Vignette Handbook."*** The USAID "Finance Vignette Handbook" provides a brief snapshot of 50 USAID interventions that resulted in private capital mobilization, grouped by focus (i.e., supporting growing SMEs, facilitating finance providers, financial structure/intermediation systems, and enabling conditions). Each vignette briefly describes the specific challenge addressed in each project, presents a high-level summary of the solution implemented, and identifies how private capital mobilization was utilized. While the handbook is helpful in showing the myriad ways private capital mobilization has been utilized in USAID interventions, presenting each intervention from a "start with the development challenge first" perspective, and showcasing the different "tools" used, it lacks potentially useful information on key challenges, lessons learned, technical specifics, and other insights that could easily inform future blended finance efforts or be leveraged as a learning tool. Additionally, it is unclear which approaches should be classified as "blended finance" and which are simply illustrative instances where private capital was mobilized with USAID support. Further, no document sources are cited nor are any links

to project specific projects provided. Either would be helpful to facilitate future learning and data analysis.

- **“Unlocking Private Capital for Development.”** While blended finance is not mentioned specifically, the report highlights three main approaches USAID staff can undertake to facilitate private investment depending on specific investor constraints. Overall, this document provides a useful overview of some tools available to USAID staff to help drive private investment. However, the report is light on information regarding the relative merits of one tool over another and does not provide illustrative examples for each instrument mentioned.
- **“Greater than the Sum of its Parts: Blended Finance Roadmap for Global Health.”** In its most comprehensive and detailed report on blended finance to date, USAID lays out a six-step framework to help staff working in global health determine when blended finance might be utilized in lieu of more traditional grant-based aid as well as a guide to understanding the implications and trade-offs between the two. This framework was applied in three country deep dives and then summarized in two illustrative transactions. The report provides a common framework, language, and understanding of blended finance tools to help teams identify and address important health challenges. It groups specific instruments based on a useful country archetype framework. It then briefly highlights specific examples where each instrument was used (some USAID and some non-USAID). While the roadmap is specific to global health issues, the many pieces of this framework and the methodical approach could likely be applied across multiple sectors or more broadly within USAID. The six steps of the approach are described above in section II.
- **“Investing for Impact.”** USAID provides an educational resource that outlines trends and non-traditional approaches to financing global health. While the report addresses the global health sector specifically, it provides a useful toolkit for utilizing the different types of financing available for the purpose of leveraging additional sources of capital, increasing the effectiveness of existing funding, or a combination of both. The eight tools mentioned are guarantees, debt swaps, pooled investment funds, social insurance, seed-funding/flexible grant capital, milestone-based payments, development impact bonds, and co-funding/GDA. The report provides a one-page high-level overview of each instrument, the impact and effectiveness of each tool, its most effective use cases, how it can be utilized using USAID resources, project-specific examples, and links to additional resources. While not overly technical, the report is a beneficial resource for assessing different financial instruments (some of which could be considered blended finance) and presenting findings in a manner accessible to non-finance experts.
- **“Mobilizing Private Finance for Development: A Comprehensive Introduction.”** This Deloitte and USAID produced guide for development professionals is designed to aid staff in project planning and engagement with experts and stakeholders. It outlines the financial sector actors, instruments, needs, the constraints impeding finance and investment, which interventions can mitigate those, how to decide which intervention is best and how to incorporate them, and provides a deeper dive into financial concepts and reporting. The

information provided is very high-level but is easily digestible and provides a good overall overview of important blended finance themes and applications.

Additional USAID reports include overviews, specific tool/mechanism/instrument definitions, and uses of blended finance with varying degrees of detail. These include:

- ***USAID’s “Water, Sanitation, and Hygiene Finance (WASH-FIN) Financing Facility Landscape Assessment Report,”*** which provides a fairly detailed landscape of various financing facilities in the water supply, sanitation, and hygiene sector and includes lessons learned related to facility management and governance, external environment and market context, and facility model approaches and techniques.
- ***Power Africa’s “Blended Finance Position Paper,”*** which highlights how blended finance has been successfully applied in Kenya with more technical details specifically on debt financing instruments that can be utilized.
- ***“Mobilizing Capital for Agricultural Development with the DCA,”*** which outlines financing issues within the agricultural sector and when to use a DCA product. It lacks information on the instruments’ effectiveness at mobilizing private capital.
- ***Knowledge primer “Using Blended Finance to Mobilize Capital for Agricultural Development,”*** which provides an overview of blended finance and its importance to agricultural development. It provides three examples of the types of tools available along with key takeaways for mission staff.
- ***“Pay for Results in Development,”*** which does not mention the term blended finance specifically, but addresses pay-for-performance financial instruments (which USAID considers to be blended finance instruments) that have helped catalyze private investment.

Several other reports broadly mention blended finance as a key trend, potential tool, or mention blended finance themes (without focusing on blended finance, catalytic investing, or private capital mobilization). These include:

- ***“Renovation & Rehabilitation for Resilient Coffee Farms: A Guidebook for Roasters, Traders and Supply Chain Partners,”*** which mentions the need for blended finance to scale investment and de-risk lending to crowd-in commercial investment.
- ***“CSAF financial benchmarking presentation,”*** which contains one page on high-level descriptions of blended finance instruments that can help donors address the finance gap in agriculture

### USAID Project/Activity Specific Documents

We aggregated and reviewed more than 40 documents from USAID projects and activities that were identified through our initial analysis or which were cited in specific case studies/vignettes as examples of blended finance instruments within other USAID produced reports. The type of documents we found varied greatly project to project. Certain projects had final reports easily

accessible, while others only had press releases, fact sheets, brief one-page summaries, Convergence case study reports, or annual/quarterly reports. There were many projects that would fall under the umbrella of “private capital mobilization” where no meaningful project documents were found.

In the USAID projects where a final report was found, several reports did contain meaningful insights, data, lessons learned, or recommendations related to blended finance including information on structuring, private investment appetite, supporting technical assistance, and other blended finance considerations. Some of these projects include Private Sector-Driven Agricultural Growth (PSDAG), Medical Credit Fund, Sarona Investment Partnership, Coffee Farmer Resilience Initiative, CrossBoundary Energy, PACE Investment Readiness Program, and Saving Lives at Birth. In several of these projects (PACE Investment Readiness Program, Medical Credit Fund, CrossBoundary Energy), Convergence case studies, which also draw from interviews with key stakeholders, provide more concise, digestible trends, insights, issues, and recommendations related directly to blended finance. Others, such as FIRMA in Bosnia and Herzegovina, contained final impact reports but lacked readily identifiable insights, lessons, or challenges in the context of blended finance lessons and learning.

In the projects where only a quarterly or annual report was found, there was little technical detail or readily identifiable information on process, structuring, lessons learned, challenges, or other recommendations related to blended finance (e.g., Rural Finance Initiative).

In the projects where the only information was in a project summary overview, fact sheet or one-pager, such as Haiti HOME, the information is summary-level, not technical, and contains no information on process, structuring considerations, challenges, or lessons learned.

In other projects, useful information related to blended finance issues and financial products could be found in other types of reports, such as the “Value Chain Finance Report” in the case of the Rural Finance Initiative.

Regarding INVEST projects, three factsheets provide summary details on lessons learned, while “Close-Up” reports such as those created for Offgrid-Energy Access in Kenya and Women’s World Banking Capital Partners Fund II provide more robust lessons learned and recommendations for blending finance approaches, structuring, risk, technical assistance, timing, or collaboration considerations.

## **B. OTHER NOTABLE DONOR-FUNDED EXPERIENCE IN BLENDED FINANCE**

### **Non-US Government Donors**

There have been more than \$100 billion worth of blended finance transactions globally, the majority of which have closed in the last decade.<sup>11</sup> In addition to USAID, many other development (donor) agencies and donor funds are active players in the blended finance landscape, including:

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<sup>11</sup> “The State of Blended Finance, 2019” – Convergence

- DFID (UK): 13 financial commitments to blended finance 2013-2018
- Dutch Good Growth Fund: 19 financial commitments to blended finance 2013-2018
- World Bank: 21 financial commitments to blended finance 2013-2018
- Sida (Sweden): 12 financial commitments to blended finance 2013-2018

These development institutions active in the blended finance space represent opportunities for collaboration and data-sharing, as well as providing an additional source of important knowledge, best practices, key challenges, and lessons learned that can be applied across a variety of geographies, sectors, financial instruments, and development goals.

Some notable/instructive non-USAID blended finance initiatives include:

- **Grassroots Business Fund (GBF)** – An International Finance Corporation (IFC) fund, spun out from its Grassroots Business Initiative, which invests in and provides advisory services to high-impact businesses in Latin America, Asia, and Africa. Its blended finance approach consists of both a “for profit” investment fund, made up of debt, equity, and quasi-equity capital from institutions, angel investors, and foundations as well as a donor “non-profit” arm which uses grants for TA for business advisory services.
- **Agribusiness Capital Fund (ABC Fund)** – Sponsored by the International Fund for Agricultural Development (IFAD) as part of its recent directive to more deeply engage the private sector directly outside its typical lines of credit and risk-sharing agreements with banks and other financial institutions. This impact fund, which launched in February 2019, has an initial first loss capital of EUR 50 million provided by the European Union (EU) and African, Caribbean and Pacific Group of States (ACP), the Government of Luxembourg and the Alliance for a Green Revolution in Africa (AGRA) and a fundraising target of EUR 200 million. The ABC Fund will provide loans of less than EUR 5 million to local financial intermediaries and make direct investments of EUR 1 million or less in small and medium-sized agribusinesses in ACP countries.
- **Climate Investor One (CIO)** – Climate Investor One, proposed by the Netherlands Development Finance Company FMO, is a public private facility (\$475 million in commitment as of 2017) with a unique lifecycle approach that involves bundling multiple funds under one facility to address different stages of the project cycle with a range of instruments offered to achieve goals at each stage. CIO mobilizes blended financing to invest in private sector renewable energy projects in low- and middle-income countries in Latin America, Africa, and SE Asia. Its three facilities include project development, construction, and refinancing funds, and include instruments such as grants, debt, and equity that are dispersed throughout the project lifecycle. CIO’s ability to provide either equity or mezzanine debt for construction projects is considered unique and it benefits from enabling a cost-effective project finance approach to bridge construction and operation phases. By targeting/sequencing across the entire project lifecycle in a more streamlined manor, it expects project sponsor access to increase and the typical delays arising from transitioning between phases to be reduced.

- **Scaling Enterprise** – OPIC, the Ford Foundation, and Citi Inclusive Finance (an arm of Citigroup that focuses on emerging markets) established Scaling Enterprise in 2019, a \$100 million loan guarantee facility, which will enable Citi to provide early-stage financing in local currency to companies that expand access to products and services for low-income communities in emerging markets. Loans and working capital in local currency and at affordable rates will enable early-stage social impact companies to achieve scale, greater efficiencies, and lower costs. Scaling Enterprise will facilitate vital growth financing to eligible companies that are expanding access to finance, agriculture, energy, affordable housing, water, and sanitation to low-income households in emerging markets.
- **IDA18 IFC-MIGA Private Sector Window** – The World Bank’s \$2.5 billion blended concessional finance instrument that deploys concessional funding from the International Development Association (IDA – the fund for low-income countries) to blend with or provide a backstop for IFC investments/MIGA (Multilateral Investment Guarantee Agency) guarantees to facilitate private investment via four facilities:
  - 1) Risk-Mitigation Facility – Provides guarantees to crowd-in private investment in large infrastructure projects as well as public-private partnerships backed by IFC.
  - 2) MIGA Guarantee Facility – Provides MIGA guarantees through shared first-loss and risk participation similar to reinsurance.
  - 3) Local Currency Facility – Provides long-term local currency investments in countries lacking in market solutions with underdeveloped capital markets.
  - 4) Blended Finance Facility – Blends Private Sector Window support with IFC investments in high development impact sectors such as SMEs, agribusiness, health, education, affordable housing, infrastructure, and climate-change

Blended finance is also used in the United State domestic market; experience which may also generate useful learning for USAID and CAPx. One specific example is the following:

- **Forest Resilience Bond** – In a new approach to funding restoration, the FRB uses private capital to finance U.S. forest restoration, with the U.S. Forest Service (USFS), utility companies, and state and governments making cost-sharing and pay-for-results payments over the course of ten years to provide private investors with competitive returns.<sup>12</sup>

### Overseas Private Investment Corporation (OPIC)

OPIC has historically been the official U.S. Development Finance Institution. Authorized by the Foreign Assistance Act of 1961, it officially began operations in 1971 as an agency of the U.S. Government. Unlike traditional aid models based on providing grants, OPIC’s model was based on private sector investment, in all cases requiring a U.S. counterpart or other U.S. nexus. OPIC disbursed political risk insurance and loans only to projects with sound business plans. This rigorous attention to business plans was designed to enable OPIC to operate as a self-sustaining agency at no cost to American taxpayers. In addition to promoting economic growth and addressing major world challenges like hunger, OPIC projects enabled many U.S. companies to conduct business in countries that would have otherwise been inaccessible.

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<sup>12</sup> “*Forest Resilience Bond: Fighting Fire with Finance, A Roadmap for Collective Action*” – Blue Forest Conservation, September 2017.

Through the Freedom Support Act of 1992, OPIC played a major role in working toward economic stability of the New Independent States, as centrally controlled economies gave way to free markets and privatization throughout Central and Eastern Europe and the former Soviet Union. OPIC responded quickly to the fall of communism and established its Investment Funds program to support private equity funds investing in these emerging markets.

OPIC's business model, based on investment rather than aid, has in recent years gained traction within the international development community and has established OPIC as a blended finance pioneer. When OPIC was formed in 1971, there were just a handful of agencies in the world doing development finance. Now there are more than 30 development finance institutions working to catalyze private capital and provide finance in a self-sustaining, commercially-oriented manner. Today, OPIC maintains a robust portfolio of more than \$20 billion and spans more than 160 developing countries, including a large number of conflict-affected countries.

Pursuant to the BUILD Act of 2018, OPIC has been reorganized and merged with the new U.S. International Development Finance Corporation (DFC).

### United States International Development Corporation (DFC)

In October 2018, the Better Utilization of Investments Leading to Development (BUILD) Act was signed into law, creating a new development finance institution called the United States International Development Finance Corporation (DFC) with total capitalization of \$60 billion.<sup>13</sup> The DFC's purpose is to mobilize and facilitate the participation of private sector capital and skills in the economic development of countries in transition from nonmarket to market economies, to complement the development assistance objectives - and advance the foreign policy interests of - the United States. The DFC will absorb both OPIC and DCA and staff up as appropriate to enable it to fulfill its mandate.

The DFC's mandate is to pursue a clear development strategy, in close cooperation with USAID, to include utilizing development finance tools such as loans, guarantees, investment funds, equity investment, technical assistance, and political-risk insurance to facilitate private-sector investment, leading to market-based private sector development and economic growth. Priority will be given to countries with a low-income economy or lower-middle-income economy, as defined by the World Bank. The DFC should ensure additionality and avoid market distorting subsidies and crowding out of private sector lending or investment.

The DFC will find itself pursuing investments and other activities in challenging environments, given its country priorities. This includes many countries with chronic suffering as a result of extreme poverty, fragile institutions, or a history of violence. While the DFC is expected to pursue projects of all sizes, it will look especially to those that are small and designed for impacting the most underdeveloped areas.

According to the World Bank, there are 31 countries in the Low-Income Economy designation and 52 countries in the Lower-Middle Income designation. For the current year, the World Bank defines Low-Income Economies as those with per capital Gross National Income (GNI) of \$1,025

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<sup>13</sup> "H.R. 302, *The Better Utilization of Investments Leading to Development (BUILD) Act of 2018*"

or less; Lower Middle-Income Economies are those with per capita GNI of \$1,026 to \$3,995. Of the World Bank's 31 countries designated as Low-Income Economies, OPIC has or had projects in 24 of them (USAID has 27 country Missions in these countries). Of the World Bank's 52 countries designated Lower Middle-Income Economies, OPIC has or had projects in 31 of them (USAID has 40 country Missions in these countries). Considering the reach of the USAID regional Missions, USAID can claim coverage of 100% of both the Low-Income and the Lower Middle-Income countries.

USAID Missions and the DFC have complimentary skillsets, which can deliver synergies as the DFC looks to enter and engage more deeply in Low-Income economies. USAID Missions have a long-term country presence with local staff supporting expatriate staff, and many Missions have experience working with DCA. Complimenting Missions' in-country experience, the DFC brings deep knowledge of the local investment climate and expertise structuring investments.

### Non-USAID Literature Review

A significant volume of information relating to the work of other donors on private capital mobilization and blended finance is publicly available and can help inform USAID. Many reports and publications contain critical data, trends, challenges, and lessons learned for different blended finance instruments, deal structures, and private sector investors that can help inform blended finance approaches and engagement. These sources represent a potential catalog of information from which CAPx and USAID can source important lessons, insights, and learnings specific to blended finance. They also provide sources of specific non-USAID blended finance transactions that can be further studied and evaluated in the context of aggregating more broadly applicable insights and lessons from specific blended finance mechanisms or approaches. Additionally, potential opportunities may exist for data-sharing or other collaborative efforts between USAID and the organizations producing these reports and studies. Non-USAID documents should be evaluated, analyzed, and aggregated so that meaningful lessons can be applied on future USAID blended finance initiatives.

For the purpose of this exercise, we sourced and reviewed a selection of documents published by organizations outside of USAID. These include a variety of white papers, annual state of the market reports, data trend reports, annual surveys, case studies, and sector or country specific research. While this list is not exhaustive, it represents an informative selection of publicly available resources on blended finance that could be utilized to drive further blended finance learnings within USAID. It is important to note that the differing definitions of blended finance create challenges, so attention should be paid to how different organizations define blended finance.

Other reports and publications can provide further insights into trends, sectors, regions, instruments, structuring, as well as primers and guides on using blended capital. For the purpose of this report, we have grouped documents into the following categories: Overall Blended Finance Data and Trend Reports, Region or Sector Specific Reports, Case Study Reports, and Structuring/Instrument Specific Reports. The most informative reports are highlighted below.

## Overall Blended Finance Data and Trend Reports

- ***Convergence’s “State of Blended Finance 2019”*** collects data and insights from 3,700 financial commitments to more than 500 blended finance transactions to create detailed findings on markets, regional data, sector data, blending approach data, and deal trends (size, structure, type) within the blended finance landscape. Convergence utilizes a 200-member network to provide blended finance case studies and highlight key opportunities and challenges.
- ***OECD’s “Blended Finance in the Least Developed Countries”*** analyzes data from ad hoc surveys and annual reports around six different leveraging mechanisms to capture the latest trends in blended finance, data on different types of leveraging mechanisms by country and sector, specifically relating to the LDCs, with project specific commentary on key challenges and lessons learned on design, concessionality, governance, and sector and country specific issues.
- ***ODI’s “Blended finance in the poorest countries report”*** focuses on low-income countries (LICs), analyzes investment portfolios of the largest and most important players in blended finance and provides data trends and insights on blended finance instruments, deal metrics, sector metrics, and factors likely to constrain blended finance potential.
- ***UNCDF’s “Blended Finance in the Least Developed Countries”*** contains five case studies that provide an in-depth analysis of blended finance projects.

## Region or Sector Specific Reports

- ***OECD’s “Making Blended Finance Work for Water and Sanitation: Unlocking Commercial Finance”*** contains case studies, interviews, workshop reports, and extensive desk research to examine what has worked so far in terms of experience with blended finance for water-related investments and the potential to scale up blended finance approaches to apply to a broader range of investment types and contexts.
- ***Enclude’s “Transforming Agriculture by Linking Technical Assistance to Blended Finance for Agriculture: Trends and Lessons from Africa”*** contains lessons learned from technical assistance with blended finance in Africa.
- ***KOIS’s “Financing Sustainable Land Use: Unlocking business opportunities in sustainable land use with blended finance”*** evaluates different financial structures and technical case studies related to sustainable land use.
- ***Climate Policy Initiative’s “Blended Finance in Clean Energy: Experiences and Opportunities”*** provide specific analyses, case studies, metrics, challenges, and lessons related to clean energy investment.
- ***“Pathways to Prosperity: Rural and Agriculture Finance State of the Sector”*** report, which mentions blended finance structures such a concessional capital, guarantees/risk insurance, technical assistance funds, and design-stage grants. It also provides a high-level case study on the Rwanda Farmer Financing Facility (RAFF).

## Case Study Reports

- *Convergence case studies* outside USAID work, including the Global Partnerships Investment Fund, Media Development Investment Fund, Emerging Africa Infrastructure Fund, Danish Climate Investment Fund Case Study, provide key insights on creating and investing blended finance vehicles with lessons on structuring, fund design, and other general blended finance considerations.
- *SunFunders’ “Scaling Energy Access with Blended Finance,”* which summarizes lessons from leveraging catalytic capital from various foundations to structure aggregated debt funds in the energy sector in Africa.

## Structuring/Instrument Specific Reports

- *Global Impact Investing Network (GIIN)’s “A Resource for Structuring Blended Finance Vehicles”* provides investors a useful guide on when to utilize blended finance, the catalytic tools that are available within blended finance, and outlines key considerations and questions for specific stakeholders. It also highlights a specific blended finance instance for each catalytic tool, which can aid in further study.
- *“GIIN Annual Impact Investor Survey”* contains data on investor participation in blended finance deals by investor type, roles of blended finance in impact investing, and reasons why investors are not currently investing in blended finance. GIIN’s “Catalytic First Loss Capital” contains case studies and lessons from deal structuring and setting expectations in catalytic first loss transactions.
- *CSIS’s “Innovations in Guarantees for Development”* provides structuring, implementing, best practices, and key recommendations specific to credit guarantees.
- *“Blended Concessional Finance: The Rise of Returnable Capital Contributions”* explores the impact of combining of concessional funds with other types of finance on commercial terms, focusing incentives, accounting, resource management, and reporting.
- *Convergence’s “Who is the Private Sector”* provides analysis of the investment motivations, requirements, and constraints of six segments of institutional investors: i) pension funds, ii) insurance companies, iii) sovereign wealth funds, iv) commercial banks and investment banks, v) private equity firms, and vi) asset/wealth managers.
- *OECD’s “Blended Finance Funds and Facilities - 2018 Survey Results”* reports on trends in the management, capital structure, investment strategy, and portfolio allocation of the surveyed blended finance funds and facilities.

## Other Reports

- *CSIS’s “Strategic Directions for the United States International Development Finance Corporation (DFC) Supporting Development and National Security”* gathers insights from 80 stakeholders and 15 DFI experts and outlines how the DFC complements USAID’s efforts in making countries self-reliant by helping them develop their private sectors and provides helpful guide for uses where DFC can work with USAID.

- *World Economic Forum’s “A How-To Guide for Blended Finance”* outlines an 8-step framework for engaging in blended finance.
- *World Economic Forum’s “Blended Finance Vol. 1: A Primer for Development Finance and Philanthropic Funders”* contains practical insights on how development and philanthropic funders can use blended finance to meet their impact objectives and tools to address knowledge and execution gaps.
- *The Donor Committee for Enterprise Development’s “Donor Engagement in Innovative Finance: Opportunities and Obstacles”* reviews four frequently used development finance tools: innovative finance, blended finance, impact investing, and results-based finance.

### C. CURRENT METHODS FOR INTEGRATING BLENDED FINANCE THROUGHOUT THE USAID PROGRAM CYCLE

Integrating blended finance throughout the Program Cycle is not done consistently, systematically or intentionally at USAID. What integration that does happen in USAID’s portfolio is typically driven by the skills and experience of individual USAID staff who are in a position to design or support a blended finance approach; conditions that are not universal. Further, in the 2018 *PSE Field Needs Study*, USAID staff cited the lack of ADS guidance as an obstacle to integrating private sector engagement throughout the Program Cycle.

In spite of this, USAID has a successful track record of creating different and innovative approaches to blended finance. CAPx has an opportunity to leverage these experiences to develop and deploy a suite of tools, resources, and knowledge products tailored to the different phases of the Program Cycle to support the wider adoption of blended finance approaches. We will build capacity by developing tools and resources that walk USAID staff through the process of integrating blended finance throughout the Program Cycle. CAPx will establish feedback loops to strengthen and streamline the integration process to ensure guidance is based in experiential learning and convey a sense of ownership among contributors. Finally, CAPx will capture and share lessons learned to help raise awareness of blended finance throughout USAID.

Another factor contributing to the lack of integrating blended finance into the Program Cycle is USAID’s focus on private sector engagement broadly and not blended finance specifically. The publication of USAID’s PSE Policy signaled a renewed interest in engaging the private sector as part of USAID’s Journey to Self-reliance. The policy, which does include two references to blended finance and “blended public and private capital,” ignited a conversation regarding the utilization of private investment to achieve development outcomes. The policy and resulting discussions make the case for PSE but not specifically blended finance.

**ADS Guidance Lacking**

“Guidance needs to be codified in the ADS. When due diligence or rules for communicating with the private sector aren’t in the ADS, they’re just suggestions.”

*Source: PSE Field Needs Study.*

A key component of USAID’s program cycle is M&E. Indicators provide an important feedback mechanism to inform monitoring and evaluation efforts. As of yet, indicators for blended finance

appear to be underutilized. As blended finance takes-off, we would anticipate the need for investment in meaningful blended finance indicators.

There are successes though, as the literature review above makes clear. Blended finance approaches are being designed and implemented by innovative staff across the Agency. Ongoing projects such as INVEST and PEPSE provide PSE support to Missions that may include blended finance.

#### D. BLENDED FINANCE KNOWLEDGE GAPS WITHIN USAID

As described in the sections above, USAID has a proven history of utilizing blended finance to achieve development outcomes. As such, there exists not inconsiderable blended finance knowledge and capacity inside the Agency. At the same time, the stocktaking revealed that this knowledge and capacity is not widely distributed throughout the Agency, and most importantly, is not sufficient to enable the Agency to meet the ambitious aspirations articulated in both the PSE Policy and Journey to Self-Reliance. As indicated in nearly every Key Informant Interview and reinforced in both the 2018 Field Needs Survey and 2019 PSE POC survey, more is needed. Strengthening capacity will help to scale up blended finance by helping MBIOs see themselves as risk reducers for private investment.

Blended finance is defined differently throughout the Agency in documents, the PSE POC survey, and during KIIs. This may lead to a feeling of uneasiness and a sense that blended finance “is not a part of my job.” CAPx will address this knowledge gap by collaborating with USAID to develop a working definition of blended finance. A working definition will provide a starting point from which USAID can learn and grow; it will also help to create a common understanding of blended finance’s role in achieving USAID development outcomes and allow Missions to see themselves as facilitators of risk reduction through the application of blended finance.

Additionally, USAID and the private sector have contrasting workstreams, processes, and lexicon. USAID’s use and definition of financial terms is different from the private sector’s use and definition of the same terms. The private sector’s investment review process also differs from USAID’s funding processes. These differences may lead to confusion and frustration on both sides. CAPx will address these knowledge gaps through capacity building and, if appropriate, the development of tools.

As listed in the literature review sections above, there is an abundance of blended finance tools inside and outside of USAID. Unfortunately, awareness of these tools is limited because they are not stored and organized in a central location. Tools are often peppered with financial jargon and do not account for the unique contexts and sectors in which USAID works. Insufficient awareness,

not having a central and accessible repository, heavy use of financial jargon, and non-specified context and sector considerations contribute to knowledge gaps around USAID usage of blended finance tools. CAPx will tackle the blended finance tool issue in two ways. First, we will closely work with USAID and other PSE programs to decide on a common space for a blended finance

**Challenges with information organization**

“It’s hard to identify the knowledge gaps without knowing what exists.”

*Source: Key Informant Interview.*

repository. Second, CAPx will work to promote awareness and engagement of these tools through knowledge sharing and learning activities.

In the previous section, we discussed the integration of blended finance into the USAID Program Cycle from a policy and guidance standpoint. The CAPx stocktaking process also identified a knowledge gap for integrating blended finance into the Program Cycle from a programming standpoint. Blended finance should not be the start of the discussion when addressing a development problem. Instead, it is important to begin with the development problem and then decide if blended finance is the right funding approach to achieve program objectives and outcomes. If blended finance is found to be the appropriate funding approach, the next question is, how do you incorporate blended finance into the Program Cycle? And how do you measure its effectiveness?

## E. POTENTIAL LINKAGES BETWEEN BLENDED FINANCE AND THE JOURNEY TO SELF-RELIANCE

Finally, as part of the stocktaking exercise, the CAPx team performed a high-level analysis of how blended finance fits with the Agency’s Journey to Self-Reliance (J2SR) policy framework, and in particular, the Self-Reliance Learning Agenda (SRLA) questions 4 and 5:

4. How can private sector engagement support countries in advancing on the journey to self-reliance
5. How can we apply evolving approaches to Financing Self-Reliance in different contexts?

The newest USAID policy framework is the Journey to Self-Reliance, which in simple terms means ending the need for foreign assistance by substituting a country’s dependence on donor support with a thriving private sector, and domestic resources, capability, and commitment sufficient to finance ongoing development. J2SR therefore seeks self-sufficiency and sustainability in our programming, i.e., creating durable and lasting solutions that will survive the withdrawal of donor funds.

We would anticipate that the CAPx contributions to the SRLA will not only contribute to answering questions 4 and 5, but also help us to better understand how to select and calibrate the appropriate blended finance solution given the nature of the problem to be

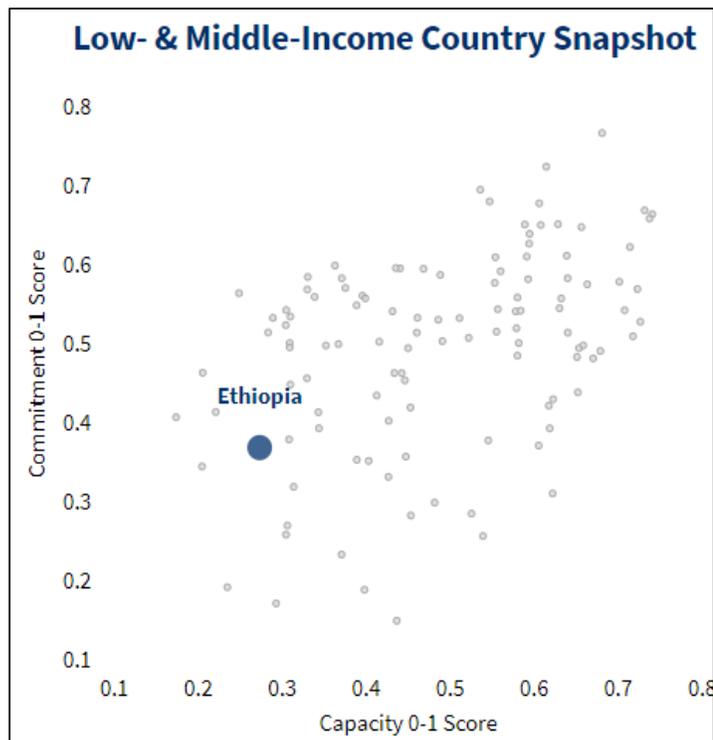


Figure 4: Ethiopia JSR FY2020 Country Roadmap

solved and the country's positioning along the JSR capacity/commitment continuum. Specifically, are blended finance solutions more impactful in contexts where there is both high commitment and high capacity? Or alternatively, would they be more impactful when targeted to countries with high commitment and low capacity? We will endeavor to explore these dynamics and generate insights to help guide blended finance investments at USAID going forward.

Sustainability demands that projects demonstrate ultimate commercial viability: on-going funding needs must be satisfied by internal means or by commercially available sources after USAID funding ceases. The loss of donor support must not jeopardize the project's longer-term viability. This notion is consistent with private sector thinking, while being integral to blended finance which itself is all about private sector participation. So, the nexus of blended finance and JSR is the idea of sustainability, a bedrock component of USAID's development philosophy for many years. Financing Self-Reliance is enhanced by private sector participation via blended finance structures and strategies: private sector capital, knowledge, thinking, and discipline. The implication for blended finance approaches is clear: blended finance must be smartly structured with an eye toward ensuring positive impact as well as sustainability of the project or activity it is designed to support.