WHITE PAPER #2

INNOVATIVE FINANCE TAXONOMY IN USAID LANGUAGE

GSA Innovative Finance Task Order

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CONTENTS

ACRONYMS

ADS	Automated Directives System
AIDAR	USAID Acquisition Regulation
APS	Annual Program Statement
AUM	Assets under management
BUILD	Better Utilization of Investments Leading to Development
CCTS	Conditional cash transfers
CO	Contracting Officer
COR	Contracting Officer Representative
CPFF	Cost plus fixed fee
CSR	Corporate Social Responsibility
DCA	Development Credit Authority
DFC	International Development Finance Corporation
DIB	Development impact bond
DIV	Development Impact Ventures
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization
ESG	Environmental, social and governance
ETF	Exchange traded fund
FAR	Federal Acquisition Regulation
FDI	Foreign direct investment
FI	Financial Institution
GDA	Global Development Alliance
GIIN	Global Impact Investing Network
GIIRS	Global Impact Investing Rating System
HNWI	High Net Worth Individual
IDEAL	Implementer-Led Design, Evidence, Analysis and Learning
LEAD	Leveraging Effective Application of Direct Investments
MENA II	Middle East Investment Initiative
NPV	Net present value
ODA	Official development assistance
PAD	Project Appraisal Document
PE	Private Equity
PFS	Pay for success
PPP	Public-private partnership
PSE	Private sector engagement
SIB	Social impact bond
SME	Small and medium enterprises
SROI	Social return on investment
TAEF	Tunisian American Enterprise Fund
TASME	Tunisian American SME Company
TBL	Triple bottom line
UHNWI	Ultra-High Net Worth Individual
WWBCPF II	Women's World Banking Capital Partners Fund II

EXECUTIVE SUMMARY

> "I look at the innovative finance opportunities that are out there as a way of not only making our dollars go further, but also refreshing our work."
>
> *— Mark Green, USAID administrator*

Innovative finance is a way to combine available financial tools into a new package or use established financial tools with new customers, in a new market, or in a strategic way to solicit new investors. As USAID has embarked on engaging the private sector and new partners to support global development objectives, innovative finance is a critical tool that cannot be ignored. USAID has successfully used financial tools such as Development Impact Bonds (DIBs), advance market commitments, prizes, guarantee mechanisms and fixed-amount awards but this is only the tip of the innovative finance iceberg. So, what other financial tools are available that are applicable to the donor context? How do we distill complex terminology around private sector driven financial tools into vernacular that empowers USAID to easily incorporate innovative finance approaches into activity design?

The purpose of "White Paper #2: Innovative Finance Taxonomy in USAID Language," outlines common terms in the innovative finance field that are applicable to USAID, provides what the traditional definitions for these terms are and presents an alternative definition using concise and easy to understand terminology for USAID staff. This document will be a reference point for USAID staff members interested in leveraging innovative finance approaches in activity design. The paper will break down barriers for understanding innovative finance, not just in theory, but implementation so they can be appropriately utilized in activity design. The result will be more ways for the private sector to finance development outcomes through USAID programming and therefore create an opportunity to maximize results for USAID's global investments.

White Paper #2 lays a strategic and foundational understanding for USAID's ongoing and future work incorporating innovative finance into activity design by ensuring that terms are used appropriately and consistently across the Agency. The paper also provides clarity for innovative finance terms that coincide or moderately vary from what is in reference documents such as the FAR, ADS, and AIDAR to further ensure terms are accurately used by all USAID staff. This document is meant to supplement the rigorous training Agency staff must undergo in federal regulations and the terminology underlying those regulations to the greatest extent possible, not provide a separate and siloed taxonomy. The taxonomy also utilizes relevant terms related to innovative finance and clear definitions from other internal reference documents from USAID including the Private Sector Engagement (PSE) Strategy, Pay-for-Performance Primer, and Setting, Pricing, and Administering Performance Metrics in Pay-For-Results Programming report. When clear and applicable definitions exist from external sources such as the OECD and the World Bank, those definitions are presented to avoid duplicating or unnecessarily rephrasing already streamlined definitions.

This paper is not a taxonomy for all terms in the innovative finance field. Terms outlined in Section 2 were strategically selected based on usability for USAID staff. Translated definitions into USAID vernacular (column 3 in Section 2), are written in a way to be widely understood for USAID staff regardless of technical specialty, title, role, or physical location. Innovative finance is not a tool only for economic growth activities. Innovative finance is a way to finance any development outcome in technical areas such as health, environment, democracy and governance and so on and therefore must be discussed in a way that non-finance professionals can easily understand. In summary, White Paper #2 is a document fully tailored to USAID's needs.

At the conclusion of reading this reference document there should be an increased understanding of:

- Concise terminology commonly used in innovative finance and how terms relate to one another;
- The various innovative finance mechanisms available to USAID staff;
- How innovative finance can, by nature, facilitate private sector engagement; and
- How innovative finance mechanisms have been, are or could be applied to activity design across the agency.

SECTION 1: TAXONOMY METHODOLOGY

The taxonomy outlined in Section 2 follows six guiding principles:

1. **Do not include terms that are not relevant to USAID staff**. For example, B-Corporations are commonly referenced in the innovative finance space, however this specific categorization of businesses is too niche to impact activity design.
2. **Do use relevant definitions from Agency reference documents such as the FAR, AIDAR, and ADS**. For example, collateral substitution is a notable term for innovative finance and also clearly defined in ADS Chapter 219. If there is a term used that exists within existing federal regulations but has a slightly varied definition when used in innovative finance, this is noted within the table.
3. **Do use relevant, reliable, and concise external definitions, when available**. For example, OECD's definition of blended finance is clear, commonly used and understood, therefore eliminating the need for a rephrased definition.
4. **Do ensure that translated definitions into USAID vernacular are clear, concise, and easy to understand**. For example, definitions should not use highly technical language, jargon, and unnecessary verbiage such as Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) that is unfamiliar for a majority of USAID staff.
5. **Do highlight how terms can be used to further engage the private sector**. For example, column 4 in the table, when possible, presents an example of how the private sector was engaged in activity design or implementation within the theme of that term.
6. **Do ensure that the final product is a succinct, approachable, and thorough reference document for USAID**.

The taxonomy is presented as a glossary in a table format with terms listed alphabetically ensure easily searchability both as electronic and hard copy versions. Each column contains critical information to fully understand each term and its application within the Agencies context. In summary:

Column 1, "Term" provides the term that was deemed relevant for USAID's work in innovative finance and will be further defined.

Column 2, "Traditional Definition" provides the classical and complete definition of the term. This definition is a point of reference to see any variance with the USAID translated version of the definition and to further understand how the term is used outside of the Agency.

Column 3, "Translation to USAID Vernacular" provides a customized definition for the term using clear and concise language. If there is no need to further refine the traditional definition, columns 2 and 3 are merged and only one definition is provided.

Column 4, "Example of Application in Activity Design or Implementation" provides an example of when USAID has applied that term in activity design or implementation or an example of how USAID could utilize that term in the future as innovative finance is further incorporated into activity design and implementation.

Column 5, "Related Terms," provides a connection, when applicable, to other terms within the glossary that further enforce the meaning of the term and how it can be used in the innovative finance context. This information also shows how terms are in some cases interrelated.

Annex A provides sources used throughout the taxonomy.

SECTION 2: TAXONOMY

GLOSSARY OF INNOVATIVE FINANCE TERMS				
TERM	TRADITIONAL DEFINITION	TRANSLATION TO USAID VERNACULAR	EXAMPLE OF APPLICATION IN ACTIVITY DESIGN OR IMPLEMENTATION	RELATED TERMS
A				
Additionality	The net positive difference expected to result from a donor-business partnership, (i.e., the positive change that otherwise would not happen without public support). It signifies the extent to which activities (and associated results) are larger in scale, are at a higher quality, take place more quickly, take place at a different location, or take place at all as a result of a donor intervention.	The possible positive result from a partnership or initiative that would otherwise not exist.	USAID DCA guarantees provide additionality for lenders to take on more risky borrowers by creating new loan products, offering improved loan terms, or lending to a new sector.	Attribution
Advance Market Commitments	Agreements to guarantee a price or market for a product upon its successful development, used to mitigate uncertainty in building products/markets	A pay-for-results mechanism that guarantees a price or market for a specific product once it is developed.	In 2007 the Bill and Melinda Gates Foundation, in conjunction with five countries, launched the first AMC to accelerate the development and availability of a new vaccine for pneumococcal disease. More than $1 billion was committed to guarantee prices of vaccines once developed.	Pay-for-results
Amortization	The paying off of debt with a fixed repayment schedule in regular installments over a period of time for example with a mortgage or a car loan. It also refers to the spreading out of capital expenses for intangible assets over a specific duration (usually over the asset's useful life) for accounting and tax purposes.	The repayment of loan principal (initial borrowed amount) over time on a fixed schedule.	The Development Credit Authority (DCA), and other Credit Programs per ADS 623, provide borrowers with an amortization schedule or payment remittance schedule showing the dates and amounts due, unless the loan agreement specifically provides for the terms and conditions of repayment.	Debt-based financing Debt
Appraisal	An overall assessment of the value of an asset. In banks, etc., the purpose of appraisal is to enable decision-makers to decide whether the investment represents an appropriate use of corporate resources.	An overall assessment of the relevance, feasibility and potential sustainability of an intervention or an activity prior to a decision of funding.	Project Appraisal Documents (PADs)- as defined in ADS 201- are a commonly used appraisal tool for USAID that includes a complete project design and serves as the reference document for project approval and subsequent implementation. This common appraisal process can be modified	Valuation Due Diligence ESG

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			to analyze a potential activity or investment.	
Attribution	The extent to which a specific intervention can be credited for any observed changes or results achieved after taking account of other interventions, confounding factors, or external shocks.	Per ADS 200-203- crediting a causal link between results and a specific intervention. A result is attributable to the USAID, or USAID can claim credit for a result, even when other partners are involved in achieving the result, if USAID can claim that without USAID intervention the outcome would not have taken place.	An impact evaluation helps demonstrate attribution to the specific intervention by showing what would have occurred in its absence.	Benchmark Valuation
Benchmark	A point of reference that is used to compare investment performance. It forms an objective test of the effective implementation of an investment strategy. Benchmarks allow returns and variations in investment returns to be measured and attributed, thereby making it possible to determine how effectively investors have performed against them.	A standard against which results are measured. The finance-focused definition of benchmarking varies from the definition in ADS Chapter 577.	USAID has used cash benchmarking, which compares the cost-effectiveness of a proposed program to the cost-effectiveness of a comparably sized cash transfer.	Outcome
B				
Blended Finance	The strategic use of development funding for the mobilization of additional, private finance towards sustainable development.		USAID INVEST utilizes a blended financing vehicle for USAID/India to crowd in private capital.	
Bond	A debt 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.	A loan to an organization or government that pays investors a fixed rate of return over a specific timeframe. Bonds are usually paid off from a dedicated revenue stream and payments are not conditional, hence why Development Impact Bonds (see below) are not actually bonds in the traditional sense.	See Development Impact Bond for example.	Development Impact Bond Social Impact Bond Debt Debt-based financing
Borrower	A person or an entity that takes money from someone else for various purposes. The borrower uses the money for the specified time duration and at the end of	Per ADS Chapter 250- sovereign (governments) or non-sovereign (private sector, or "stand-alone" government agencies).	Organizations that utilize the DFC's debt financing tools, are considered borrowers of USG funds.	Debt Debt-based Financing

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	the period returns the money to the lender.	Sovereign borrowers often may borrow by and through such entities as ministries of finance, central banks, or other government agencies carrying the full faith and credit of the borrowing country.		Equity Equity-based Financing Mezzanine Financing Quasi-equity Financing
C				
Cash on Delivery	A type of transaction in which the recipient makes payment for a good at the time of delivery. The terms and accepted forms of payment vary according to the payment provisions of a purchase agreement. Cash on delivery can also be referred to as collect on delivery since delivery may allow for cash, check, or electronic payment.	Donors pay aid recipients based on achievement of mutually agreed upon and confirmed progress toward an overarching goal; a "hands-off" approach that allows recipients to use funds as they desire.	USAID could pay a national government for registered births through a program in a specific country and could provide additional payments for each registered child who survives to age five.	Pay-for-performance
Catalytic funding	Investments aimed at leveraging external sources of capital (like private or institutional investment) or stimulating innovation and market-based solutions that can be sustainably delivered at scale.	Funding that utilizes non-USAID investment.	Pooled investment funds, matched funding arrangements and credit guarantees, as well as vehicles that support market-based solutions, such as "Grand Challenges," grant-based venture funds, and program-related investments (such as repayable grants or concessional loans).	Collaboration Models
Closed Innovation	Innovation generated within a company, using internal knowledge, resources, and expertise. Closed innovation makes little-to-no use of external resources.		By contrast, USAID's Development Innovation Ventures (DIV) is an example of open innovation. Solutions to development issues come from anyone, anywhere, and at any time.	
Collaboration Models	Partnership models which enable companies to leverage the assets of other organizations to access innovation, drive value creation, expand markets, share distribution or sales channels, and fine-tune business models.	Partnership models between a donor and the private sector.	Pre-competitive collaboration, innovation partnerships, public-private alliances, joint ventures, and other strategic alliances are examples of collaboration models. USAID's Power Africa is an example of a collaboration model.	Pre-competitive collaboration Innovation partnerships

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Collateral	Something pledged as security for repayment of a loan, to be forfeited in the event of a default.	A form of security to safeguard repayment of a loan.	USAID's DCA program combats high collateral requirements for emerging and small businesses from local banks by giving partial or full guarantees of loans.	Debt Debt-based financing Equity Guarantee
Collateral Substitution	A provision in a loan to allow the borrower to obtain a release of the original collateral by replacing it with another form of collateral satisfactory to the lender.	Per ADS Chapter 219- a mechanism for ensuring the repayment of loans other than the provision of formal collateral by the borrower.	By sharing risk with banks, a DCA guarantee is often treated as a substitute for collateral, leading to lower collateral requirements for the borrower.	Guarantee First-Loss Capital
Collective Action	Collective impact is the commitment of a group of actors from different sectors to a common agenda for solving a complex social problem.	A multi-stakeholder approach to collectively solve development challenges.	USAID, the European Union (EU), and DFID execute a Government to Government agreement to work towards addressing a development challenge. The Partnership for Resilience and Economic Growth in Kenya (PREG) created by the Kenya and East Africa missions is also an example of collective action.	Pre-competitive Collaboration Mulit-Stakeholder Fund
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.	Loans that typically have longer grace periods and lower interest rates that you could get at a financial institution (FI). Development finance institutions often use these loans to de-risk, or encourage, certain investments	Rather than issuing grants in program implementation, concessional loans can be used to foster self-reliance and ensure commitment from local partners to repayment and generating expected outcomes.	Debt Debt Financing
Conditional Cash Transfers (CCTS)	A type of welfare program in which money is disbursed to households on the condition that they comply with certain pre-defined requirements	A pay-for-results mechanism. Cash payments are made directly to households to stimulate investment in human capital upon meeting predetermined conditions (e.g., ensuring periodic health checks or school attendance).	The Bolsa Familiar Conditional Cash Transfer Program provides financial assistance to poor Brazilian families contingent on their attending school and receiving vaccinations. The model has now been replicated and turned into a federal program.	Pay-for results Conditional Funding

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Conditional Funding	Funds that would be available under a pre-negotiated agreement if a specific benchmark is reached or a threshold is crossed.	Payments to the implementing partner are tied to achieving specific development outcomes, which allow for greater implementer accountability and more efficient allocation of donor funds to proven programs.	Results-based financing models including pay-for-results, pay-for-performance, development impact bonds, social impact bonds, and performance-based incentives are all examples of conditional funding.	DIB SIB Outcome Rate Card Pay-for Success Pay-for Performance Pay-for-Results
Corporate Investment Partnership	Emerging category of partnerships that brings companies, development agencies, and investors to efficiently coordinate investments of capital and capabilities, such as talent, expertise, and local knowledge, to focus on growth and sustainability.	A partnership between companies, USAID, and investors to pool resources (like talent and expertise) to address a development challenge.	In 2019, Neumann Kaffee Gruppe (NKG) Bloom launched a corporate investment partnership with USAID, the Sustainable Trade Initiative, and 3 European banks. The partnership facilitates investments to farmers by providing critical inputs (fertilizer) and financing (cash advances). Operations are funded by NKG and farmer lending is supported by external blended capital. A $25 million facility supports lending to farmers, which was capitalized by three European commercial banks and two paired credit guarantees from USAID and IDH.	Blended Finance Collective Action
Corporate Social Responsibility (CSR)	A company's initiatives to assess, and take responsibility for, the firm's effects on environmental and social well-being. These issues typically align to a corporation's strategy and operations but are not part of its core business. The term generally applies to efforts that go beyond what regulators might require. CSR is also known as "corporate citizenship," and can involve incurring short-term costs that do not provide an immediate financial benefit to the company, but instead promote positive social and environmental change.	A company's initiatives to assess and take responsibility for the firm's effects on environmental and social well-being. These issues typically align to a company's strategy and operations but are not part of its core business.	Identifying businesses that have common CSR priorities with a program or Missions' development objectives is an opportunity for collaboration, including an opportunity to leverage private sector investment.	Socially Responsible Investment
Cost Share	The portion of project costs not paid by Federal funds (unless otherwise authorized by Federal statute) that meet the specific requirements of Part 200 of Title	Per ADS 303,3.10, cost share is defined as the resources a recipient	Volunteer services, donated employee time, donated supplies, cash contributions, donated equipment, building or	

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	2 of the Code of Federal Regulations (CFR, the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards).	contributes to the total cost of an agreement.	land, and project co-finding are examples of cost sharing.	
		D		
Debt	An amount of money borrowed by one party from another. Many corporations and individuals use debt as a method of making large purchases that they could not afford under normal circumstances. A debt arrangement gives the borrowing party permission to borrow money under the condition that it must pay back the sum at a later date, usually with interest.	Per ADS Chapter 625- an amount of money or property that has been determined to be owed to the United States by any person, organization, or entity except another Federal agency. Simply, it is money borrowed by one party from another to be paid back at a later date, usually with interest.	Examples of instruments to make on debt include loans, bonds, and reimbursable grants.	Debt-based financing Concessional Loans Collateral Substitution
Debt-Based Financing	When a firm raises money for working capital or capital expenditures by selling debt instruments to individuals and/or institutional investors. In return for lending the money, the individuals or institutions become creditors and receive a promise that the principal and interest on the debt will be repaid.	Raising money by borrowing it from somewhere else for a period of time.	A traditional bank loan is a form of debt-based financing.	Debt Concessional Loans Collateral Substitution
Debt Swap	A transaction in which the obligations or debts of a company or individual are exchanged for something of value, traditionally equity or a new debt contract. Debt swaps often call for discounting the value of the original debt before the conversion to new debt or equity.	A method of transforming debt into resources for development work. Creditors (e.g., private investors or governments) forgive a portion of a country's debt. In return, countries commit to using the funds that would have gone towards debt repayment for a social project.	The Tropical Forest Conservation Act, passed in 1998, led to the execution of "Debt for Nature" debt swaps. These allowed the US government to forgive developing country debt, which was in turn channeled into forest conservation initiatives.	Debt Debt-based financing
Development Impact Bond (DIB)	Results-based contracts in which one or more private investors provide working capital for social programs, implemented by service providers (e.g., NGOs), and one or more outcome funders (e.g., public sector agencies, donors, etc.) pays back the investors their principal plus a return if, and only if, these programs succeed in delivering results. They are the same as Social Impact Bonds (SIBs), with one key difference. In a SIB the	Results-based contracts in which private investors provide pre-financing for development programs and donors pay back investors their principal plus a return if, and only if, these programs succeed in delivering development outcomes. Unlike Social Impact Bonds (SIBSs- see below), DIBs involve donor agencies, either as full or joint funders of	The Utkrisht Impact Bond, funds maternal and newborn health in the Indian state of Rajasthan specifically to improve access to and quality of care in up to 440 private health care facilities in the state, so that they achieve the new certification standard in India.	SIB Bond Valuation Outcome Rate Card Pay-for-Results

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	outcome payer is typically the government in high-income countries, while in a DIB the outcome payer is typically a private donor or aid agency.	outcomes. Because repayment to investors is contingent upon the achievement of specified outcomes, DIBs are not "bonds" in the conventional sense.		
Development Innovation Ventures (DIV)	A recently developed USAID implementing mechanism which provides venture capital as a grant (not investment) to support innovative approaches to producing development outcomes. DIV awards are based on four key themes: breakthrough solutions; cost-reduction and leverage; rigorous testing and evidence of impact, and scalability.		DIV provides Evidence Grants (up to $1.5 million) that could be leveraged by new partners to support research and evaluations that generate evidence of an innovation's impact per dollar and potential for expansion. Evidence grants support impact evaluations, including randomized controlled trials and quasi-experimental methods.	Venture Capital Social Venture Capital
Direct Loan	A loan in which an institution lends directly to a borrower. Direct lenders include nonbank institutions, such as the government, as well as banks.	Per ADS Chapter 623- a disbursement of funds by USAID to a non-Federal borrower under a contract that requires the repayment of such funds within a certain time, with or without interest. The term includes the purchase of, or participation in, a loan made by another lender.	The DFC provides direct loans in the form of structured finance, development credit and its Portfolio for Impact.	Debt Debt-Based Financing
Diversification	A risk management technique that mixes a wide variety of investments within a portfolio. The rationale behind this technique contends that a portfolio constructed of different kinds of investments will, on average, yield higher returns and pose a lower risk than any individual investment found within the portfolio.	Creating a portfolio of investments that have varying levels of risk and expected returns.	While identifying investment opportunities, looking for investments in different sectors (in agriculture and health, for example), and in businesses that have varying levels of maturity (a start-up versus a business with 10 years of experience), is a way to diversify a portfolio.	Portfolio
Due Diligence	The necessary assessment of the past performance, reputation, and future plans of a prospective partner, private sector entity, or other organization, with regard to various business practices and principles to evaluate the risks and benefits of working together. This assessment of a prospective partner would normally involve, at a minimum, examining their	The methodological screening process for a potential investment or activity. This finance-focused definition varies from the definition in ADS Chapters 200-203.	USAID has developed a Reputation Risk Assessment, which is a form of due diligence when selecting private sector partners to collaborate with.	ESG Valuation

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	social, environmental, and financial track records, as well as assessing additionality from USAID's proposed involvement.			
		E		
Environmental, Social, and Governance Criteria (ESG)	A set of standards for a company's operations that socially conscious investors use to screen investments. Environmental criteria looks at how a company performs as a steward of the natural environment. Social criteria examines how a company manages relationships with its employees, suppliers, customers and the communities where it operates. Governance deals with a company's leadership, executive pay, audits and internal controls, and shareholder rights.	A set of internationally recognized standards used by socially or development-driven investors in the due diligence process to evaluate a company's operations and how a potential investment will or will not impact environmental, social and governance considerations.	ESG criteria can be incorporated into investment analysis and due diligence processes at the programmatic level. ESG criteria can also be incorporated into grantee selection process. Requiring this of implementers will align with the direction of the private sector.	Due Diligence Socially Responsible Investment
Equity	The value of an asset less the amount of all liabilities on that asset. It can be represented with the accounting equation: Assets – Liabilities = Equity.	The value of shares issued by a company.	The Tunisian American Enterprise Fund (TAEF), under their TASME program, executes loans to SMEs that combine equity, debt and mezzanine financing.	Quasi-Equity Equity-based financing Mezzanine Financing
Equity-Based financing	The contribution of capital to a company or project through the purchase of shares, stocks, or similar documents. Equity investors purchase shares on the expectation that shares or stocks will rise in value through appreciation, and/or generate capital gains from the company. In the development-finance context, equity investments provide developmental support and long-term growth capital that private enterprises need. The objective is to exit the investment with a return of at least the initial capital, if not enhanced values to invest elsewhere.	A form of investment in which investors become partial owners of a business and therefore do not have repayment requirements in the way a loan does. When investors purchase equity, they pay funds to the previous business owners, who are thus able to invest those funds in real assets. Equity investors expect to exist the investment with return on their investment.	The U.S. International Development Finance Corporation (DFC) provides equity financing- either direct into specific projects or to support emerging market investment funds.	Equity Quasi-Equity Venture Capital Social Venture Capital Mezzanine Finance Quasi-Equity Finance
Evergreening	The gradual infusion of capital into a new or recapitalized enterprise. This type of funding differs from the traditional funding situation in which all the capital required for a business venture is	An opportunity identified by USAID to strengthen or fund a concept note or idea by connecting it with other USAID mechanisms, other potential funders, and/or external partners, USAID may make that Concept Note or	Evergreening is a way to expedite implementing market-driven solutions that inherently attract private sector interest and funding.	Collective Action

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	supplied up-front by venture capitalists or other investors.	application available, internally or externally, for appropriate consideration.		
External Fund	A fund that operates outside of the organizations structure and typically make investments further removed from the core business. In addition to generating potential financial returns, an external fund may provide an organization with new market insights, deal flow, and access to industry experts (i.e., strategic benefits).	An investment fund that operates outside of an organization.	Sorona Asset Management is an example of an external fund for Menonnite Economic Development Associates (MEDA).	Fund Manger
F				
Finance-first investors	Investors who prioritize the financial return objective over the social or environmental objectives of an investment. This group tends to include commercial investors seeking investments that offer market-rate returns and yield social or environmental good.	Investors that prioritize financial returns over development outcomes	Example of finance-first investors are traditional venture capitalists and bankers, for example. They are not the target group for impact investment.	Venture capital Equity
First Loss Capital	A form of credit-enhancement in which a third party agrees to cover a certain amount of loss for an investor. By improving balance sheets and decreasing risk, first-loss capital catalyzes the participation of investors that otherwise would not have participated. If the project fails, the first-loss loan provider is the last to be repaid, which makes it more likely that other investors recoup some of their capital.	Grants that take the first loss on an investment if it loses money—protecting other investors—to catalyze the participation of private investors in development projects.	USAID INVEST structured the first contract-based, first-loss tranche transaction in USAID's history. Through INVEST, USAID will provide $500,000 in first-loss capital to Women's World Banking Capital Partners Fund II (WWBCP II) upon successful completion of its capital raise.	Guarantee Collateral Substitution
Fixed-Amount Awards	Per ADS 303.3.25, this is a type of grant agreement where USAID provides a specific level of support and for which the Agency does not base payment upon the actual costs incurred by the recipient. This type of award reduces some of the administrative burden and record-keeping requirements for all involved entities.	A grant type whereby the grantee is paid upon completion and approval of pre-determined and agreed upon milestones, thereby fostering accountability based primarily on performance and results. This mechanism is used where there is a very realistic notion of the costs.	The Implementer-Led Design, Evidence, Analysis and Learning (IDEAL) Activity's Small Grants Program utilizes fixed-amount awards to support applied research, test innovative approaches and strengthen strategic learning and adaptive management practices.	Pay-for-results

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Fixed Income investing	A type of investing or budgeting style for which real return rates or periodic income is received at regular intervals and at reasonably predictable levels. Fixed-income investors are typically retired individuals who rely on their investments to provide a regular, stable income stream.	Return on investment is received on a predetermined schedule, although the amount of the payment can vary.	Individual bonds are an example of a fixed income investment tool.	ROI Bonds
Force Majeure Clause	A clause that is included in contracts to remove liability for natural and unavoidable catastrophes that interrupt the expected course of events and restrict participants from fulfilling obligations.	A contract clause protecting parties within an investment against unforeseeable occurrences that no parties have control over.	To alleviate an investor's concerns about political risk or unpredictable climate in a developing country, including a force majeure clause is a possible remedy.	Debt-Based Financing Equity-Based Financing
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.	Point of contact for overseeing the day-to-day implementation of a fund's investment approach and managing investments within a fund.	This is a similar role, in theory, to a technical director in a USAID Mission. For example, the Economic Growth Technical Director for the USAID/Tunisia mission performs a similar role in managing USAID's investments (awards) in a specific technical area and providing oversight once investments are made (i.e. projects are awarded).	Venture Capital Social Venture Capital Institutional Investor External Fund
G				
Gift Authority	The legal ability of the Agency to accept gifts and donations, either in-kind or as cash, for carrying out its official functions.	Ability to accept gifts, including cash.	USAID has gift authorities, as addressed in ADS Chapter 628.3.2.	Collaboration Model
Global Development Alliance (GDA) Annual Program Statement (APS)	A solicitation aimed at fostering extensive collaboration with the private sector to achieve greater development impact. While the value of the expertise, capabilities, assets and resources contributed to an alliance by the private-sector must equal or exceed the value of resources requested from USAID, this is not a matching-grants program. The APS invites the private sector to proactively identify and define problems, scope, develop, and implement solutions.	A private sector engagement mechanism where USAID, the private sector, and other potential partners jointly create and develop GDAs. Initial alliance ideas and proposals are submitted as concept papers under the GDA APS.	The USAID Partnering to Accelerate Entrepreneurship (PACE) Initiative released a GDA APS to identify and test innovative investment models that provide private or blended financing to entrepreneurs in the developing world.	Evergreening

GLOSSARY OF INNOVATIVE FINANCE TERMS

TERM	TRADITIONAL DEFINITION	TRANSLATION TO USAID VERNACULAR	EXAMPLE OF APPLICATION IN ACTIVITY DESIGN OR IMPLEMENTATION	RELATED TERMS
Global Impact Investing Rating System (GIIRS)	Assessment of the social and environmental impact (but not the financial performance) of companies and funds, using a ratings approach analogous to Morningstar investment rankings or rating agency credit risk ratings.	An impact investment rating system that builds on the Impact Reporting and Investment Standards (see below) to assesses social and environmental performance.	GIIRS can be used in the due diligence process when identifying investment opportunities.	Impact Investing ESG IRIS
Greenfield Investment	A type of investment where an international company begins a new operation in a foreign company by constructing new operational facilities from the ground up. There are many different types of investments of which greenfield investments are only one small category. The new greenfield operation is often a subsidiary of the multinational corporation.	A type of foreign direct investment (FDI) where a traditionally large company establishes new operations in a country or invests in new facilities.	Superior Group received a partial credit guarantee through USAID's DCA and Sida to execute a greenfield construction investment in Bosnia and Herzegovina for a new state-of-the-art facility.	
Guarantee	A risk-sharing agreement under which a guarantor agrees to pay part or the entire amount due on a loan, equity or other instrument to a lender/investor in the event of non-payment by the borrower, or loss of value in case of investment	"Backing" a loan, fully or partially, to encourage a bank or nonbank FI to lend to more risky borrowers. Per ADS Chapter 623, a pledge with respect to the payment of all or part of the principal or interest on any debt obligation of a non-Federal borrower to a non-Federal lender.	USAID's DCA program provided partial credit guarantee products, backed by the U.S. Treasury, to generate additional lending to underserved markets and sectors and demonstrate the long-term commercial viability of lending in developing markets.	First-Loss Capital Collateral Substitute
H				
High Net Worth Individual (HNWI)	A classification used by the financial services industry to denote an individual or a family with high net worth. Although there is no precise definition of how rich somebody must be to fit into this category, high net worth is generally quoted in terms of liquid assets over a certain figure. The exact amount differs by financial institution and region, but the most commonly quoted figure for membership in the high net worth club is $1 million in liquid financial assets.	An individual or a family with high net worth in useable assets.	USAID engaged a HNWI on a blended investment for Nyungwe National Park to bolster ecotourism.	UHNWI Institutional investor

		I		
Impact-First Investors	Impact-first investors targeting social or environmental good as their primary objective, above achieving a financial return. This may mean accepting a below-market rate of return in order to reach tougher social/ environmental goals that are seemingly not achievable through mainstream investment or philanthropic activities.	Investors that prioritize development outcomes over financial returns.	Impact-first investors are a promising group to target for development programming investment opportunities with their focus on social and development outcomes and openness to a varying return on their investment.	Impact Investing
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) and actively seeks to make a positive impact by investing, for example, in non-profits that benefit the community or in clean technology enterprises. Core characteristics includes intentionality (i.e., an investor intends to have a positive impact); return expectation on capital, or at a minimum, a return of capital; and, measurement of social and environmental impacts.	Investing with the goal to generate positive social or development impacts and produce positive financial gains.	The Acumen Fund's "our Family clinic" project, which invested in affordable health clinics in India. this investment yielded modest returns via the clinics' profits, but the primary objective was to improve health outcomes. Both socially responsible investing and its impact investing subsection represent promising new sources of capital for global health.	Impact-First Investors ESG IRIS GIIRS
Impact Reporting and Investment Standards (IRIS)	The Impact Reporting and Investment Standards (IRIS) provide a common reporting language to describe social and environmental performance and ensure uniform measurement and articulation of impact across portfolios. The IRIS defines terms to enable consistent reporting and allows benchmarking of data across companies, funds, investment portfolios and other organizations by serving as a repository for aggregated IRIS-compliant data. IRIS is an initiative of the Global Impact Investing Network.	Generally accepted metrics that measure social, environmental and financial performance.	IRIS reporting language and measurement tools can be incorporated into project performance monitoring plans to ensure consistent benchmarking and tracking of resulting impact from investments.	Impact investment ESG GIIRS
Innovation Partnership	Encourage innovation by partnering with external parties to explore new ideas, new sectors, or new ways to innovate on core products. To innovate rapidly, multiple or single companies or independent organizations may host or sponsor conferences, start-up competitions, or hackathons to facilitate meetups and share ideas.	Working with implementers, local partners, think tanks and more to source innovative solutions to development challenges.	USAID's LAUNCH program is an example of an innovation partnership. LAUNCH is a network-centered innovation program founded on the belief that critical development issues are too big to be solved by any one organization. LAUNCH convenes networks of industry leaders, innovators and organizations around global challenges.	Collaboration Models

Institutional Investor	A nonbank organization that trades securities in large enough share quantities or dollar amounts that it qualifies for preferential treatment and lower commissions. Institutional investors face fewer protective regulations because it is assumed they are more knowledgeable and better able to protect themselves. Examples of institutional investors include pension funds and life insurance companies.	Pension funds or insurance companies which tend to invest in larger, more mature companies, infrastructure projects, or government debt	Institutional investor, the National Association of Securities Professionals (NASP), partnered with USAID to send its U.S. financial professionals to sub-Saharan Africa to help structure investment transactions and provide advice on infrastructure development finance.	High Net Worth Individuals Ultra-High Net Worth Individuals
Intermediary	An entity that acts as the middleman between two parties in a financial transaction, such as a commercial bank, investment banks, mutual funds and pension funds. Financial intermediaries offer a number of benefits to the average consumer, including safety, liquidity, and economies of scale involved in commercial banking, investment banking and asset management	A middleman between two or more entities in a financial transaction. I.e. linking finance seekers with finance providers in exchange for compensation.	Crowdsourcing platforms, like GoFundMe, perform a financial intermediary role.	
Investment Thesis	The beliefs that investors decide to use when determining what investments to purchase or sell, when to take an action and why. An investment thesis helps investors establish goals for their investments, and measures whether they have been achieved, either in written form or simply as an idea. A sound investment thesis can be a foundation for a profitable portfolio.	A mission statement and goal-tracking system for investors to follow when looking for investment opportunities.	When setting up a new funding vehicle, USAID should establish and examine the investment thesis to ensure there is a sufficient structure for deploying and monitoring new investments.	
		L		
Leveraging	A result from using borrowed capital as a funding source when investing to expand the firm's asset base and generate returns on risk capital. Leverage is an investment strategy of using borrowed money—specifically, the use of various financial instruments or borrowed capital—to increase the potential return of an investment. Leverage can also refer to the amount of debt a firm uses to finance assets.	Per ADS Chapters 200-203- a significant resource mobilization. In the case of public-private alliances, USAID seeks the mobilization of resources of other actors on a 1:1 or greater basis. Resources may include funds, in-kind contributions, and intellectual property.	USAID/Indonesia collaborates with a consortium of U.S. and local companies that are operating across the supply-chain for spices that are sustainably sourced and produced in the Papua region. Leveraging $2 million in private-sector co-investment, the project strengthens local companies in the supply-chain, and links them to global purchasers.	
Limited Partner	A partnership made up of two or more partners. The general partner oversees and runs the business while limited partners do not partake in managing the business. The general partner has unlimited liability for the debt, and any limited partners have	A partner who does not manage the core business and is only liable up to the amount of their investment.	Private equity funds typically have Limited Partners who are institutional and individual investors who provide capital. A fund must have at least one General Partner and	Institutional Investor Venture Capital Social Venture Capital

	limited liability up to the amount of their investment.		multiple Limited Partners. Engaging in an investment fund as a Limited Partner is a reasonable PSE engagement strategy for USAID.	
		M		
Matching Grant Capital	Supplementing an investment from the private sector with grant funding to bolster fundraising needs and create joint commitment to an investment opportunity.	Matching a portion of private sector investment with donor funds via a grant to increase the overall value of the investment and share risk with new, private sector investors.	The USAID MENA II, through its investment companies like Insure & Match Capital, partially matches private sector investment capital, easing fundraising for qualified investors.	
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.	A mix of debt and equity financing that gives the lender the rights to convert to an ownership or equity interest in the company in case of default. Mezzanine financing, usually completed with little due diligence on the part of the lender and little or no collateral on the part of the borrower.	TASME utilizes mezzanine financing to inject capital into growing businesses without fundamentally impacting the shareholding structure and governance.	Equity Debt-based financing Quasi-equity
Multi-Stakeholder Funds (pooled investment funds)	Funds that involve more than two organizations and/or individuals with shared investment objectives that aggregate their funds to invest in businesses or funds that generate social and financial returns.	Involve multiple organizations or stakeholders that are working in a particular sector or have similar investment objectives. They enable investments in innovations while mitigating risk, enhancing returns, and/or providing technical assistance to investors or investees.	USAID has provided significant support to the Global Innovation Fund (GIF), which uses investor resources to support innovative solutions to development problems at the pilot, testing, and scale-up stages.	Collaboration Model
		N		
Net Present Value (NPV)	The discounted value of a stream of either future costs or benefits. The term NPV is used to describe the difference between the present value of a stream of costs and a stream of benefits.	The difference between the present value of cash inflows and outflows over a period. NPV is used in investment planning to analyze the profitability of a projected investment.	Calculating financial NPV of off-grid solar customers can show how much wealthier in present value terms they are because of their solar investment.	Valuation
Note	A financial security that generally has a longer term than a bill but a shorter term than a bond. U.S. Treasury notes, for example, are sold in $100 increments, pay interest in six-month intervals and pay investors face value upon maturity. There are numerous types of notes, including unsecured notes, municipal notes, bank notes, promissory notes,	An "IOU" to repay a person or an organization for money borrowed. It is a more informal form of a loan.	In 2015, USAID launched the Indian Diaspora Investment Initiative, a public-private partnership (PPP) with the Calvert Foundation. U.S.-based retail investors were able to purchase Community Investment Notes offered by Calvert Foundation and USAID	Debt Debt-Based Financing

	demand notes and structured notes.		provided a DCA Guarantee to support Indian financial institutions lending to social enterprises. By purchasing these specially marketed and branded Notes, Indian Americans and other investors were able to fund the growth of social enterprises in India while earning a financial and social return.	
O				
On-Balance Sheet Investment	Investment using a company's cash reserves. The company manages on-balance sheet investments directly.	Making an investment using a company's own funds.	When a grantee participates in a cost-sharing agreement with USAID, their portion of the cost-share can be considered an on-balance sheet investment.	
Outcome	The bottom-line or final result. In finance, this is the net profit or loss of any transaction or undertaking, financial or otherwise.	Per ADS Chapters 200-203 a higher level or end result at the assistance objective level. Development Objectives should be outcomes. An outcome is expected to have a positive impact on and lead to change in the development situation of the host country.	USAID uses Outcome Harvesting to work backwards from an outcome to identify, describe and verify contribution to results, both expected and unexpected.	Outcome Rate Card DIB SIB Pay-for-Performance Pay-for Results Pay-for-Success
Outcome Rate Card	A set menu of outcomes that a government, donor, or partner seeks to achieve and the prices they are willing to pay for each outcome. One outcome rate card can result in multiple contracts with multiple providers.		Outcome rate cards could be used as a procurement and/or contracting tool with the ability to standardize performance-based financing and reduce the time deals take to get to market.	DIB SIB Pay-for-Performance Pay-for Results Pay-for-Success
P				
Patient Capital	A form of investment capital with relatively longer terms and more-flexible repayment schedules. Patient capital is meant to allow growth-oriented firms to "put capital to work" without being constrained by early, frequent or ill-timed repayment obligations.	An investment with longer pay-off terms and flexible repayment schedules. Patient capital is used for longer term investment opportunities.	Leveraging investment from an institutional investor is a form of patient capital	Institutional Investor HNWI UHNWI
Pay-for-Performance Model	An approach to financing where an organization commits funds to pay for a specific outcome that is achieved within a given timeframe. The capital to cover the operating costs of achieving	A payment system that offer financial rewards to providers who achieve, improve, or exceed their performance on specified quality and cost measures,	In 2016, the Government of Rwanda offered select teachers pay-for-performance contracts with payments tied to student learning	Outcome Rate Card

	the outcome is provided by independent investors. In return for accepting the risks of funding the project, the investors will likely expect a return on their investment if the project is successful; however, payment of the committed funds by the agency is contingent on the validated achievement of results.	as well as other benchmarks.	outcomes as well as teacher presence, preparation and pedagogy outcomes. The pay-for-performance contracts attracted more money-oriented individuals, but those individuals ended up being at least as effective teachers as those attracted by more traditional contracts.	
Pay-for-Results Model	An approach for financing development objectives in which donors make payments when implementers achieve milestones or development results. By bringing together all stakeholders together from the beginning of the development activity to set performance metrics, this approach seeks to ensure that funds allocated for development efforts achieve measurable results as cost effectively as possible.	A payment system where funders pay upon accomplishment of results rather than efforts to accomplish results.	Impact bonds are a way to execute a pay-for-results approach into a development program. Conditional cash transfers, advanced market commitments, and prizes are also examples of a pay-for-results mechanism.	Outcome Rate Card CCT Advance Market Rate Commitments Prizes
Pay-for-Success Model	An approach to financing social services to help governments target limited dollars to achieve a positive, measurable outcome. Under the Pay for Success model, a government agency commits funds to pay for a specific outcome that is achieved within a given timeframe. The capital to cover the operating costs of achieving the outcome is provided by investors. Investors may expect a return on their investment if the project is successful; however, payment of the committed funds by the government agency is contingent on the validated achievement of results.	A payment system where a government can fund social services and payment of the delivery of those social services is tied to measurable outcomes.	The Commonwealth of Massachusetts has launched a Pay for Success project to reduce recidivism—the return to prison—for young male ex-offenders by at least 40%. Roca, a local service provider, has developed a four-year preventative intervention with a track record of effectiveness. Goldman Sachs, Living Cities, and the Kresge Foundation are providing working capital as investors. The Commonwealth will only be responsible for payment if the program is successful. In this case, the state stands to save between $7 and $18 million, net of payouts to investors, from decreased imprisonment and increased employment.	Outcome Rate Card
Performance-Based Contracts/Awards	Contracts or grant agreements where payments are disbursed upon accomplishment of predetermined results. These arrangements are principally between funders and implementers/service providers.	Awards that disburse upon the accomplishment of predetermined results. All aspects of the acquisition are structured around the purpose of the work to be performed as opposed to either the manner by which the work is to be performed or broad and imprecise statements of work.	The Millennium Challenge Corporation's approach, the World Bank's Pay-for-Results approach, and Center for Global Development's proposed Cash on Delivery Aid2 approach are examples of using performance-based contracts.	Pay-for-Performance Pay-for-Results Pay-for-Success

		Performance-based contracts are also defined in FAR 37.101 and discussed in FAR 37.6.		
Place-Based Investment	Place based investment works to create economic and social outcomes through investing in a specific region or community, particularly those experiencing decline or disadvantage. Such investments create sustained, positive cycles of economic development and regeneration by providing local businesses with access to capital, markets, and growth opportunities, as well as fostering job creation, and spending power in the community.	Strategic and intentional investments based on geographic location to amplify development outcomes.	Targeting a specific region in a country where USAID is present to mobilize new investments is considered a place-based investment	Investment Thesis
Portfolio	A grouping of financial assets such as stocks, bonds, commodities, currencies and cash equivalents, as well as their fund counterparts, including mutual, exchange-traded and closed funds.	A range of investments and financial assets held by a person or organization	Mission's have a portfolio of ongoing programs- the same thinking can be applied when creating an investment portfolio.	Diversification
Pre-Competitive Collaboration	Enables companies that are normally competitors to come together to develop a solution for a shared problem, without impacting their competitive advantage. This model allows companies to collectively mitigate risks that jointly affect them, in addition to pooling knowledge, resources, and capabilities to problem solve complex challenges.	An opportunity for multiple stakeholders to openly problem-solve collectively without impacting their competitive advantage.	USAID's co-creation process, specifically a co-creation workshop, is an example of a pre-collaborative collaboration.	Collective Action Collaboration Models
Prizes	An arrangement where prizes (financial rewards) are awarded, usually through an open and competitive process, to one or more competitors that are successful at accomplishing a pre-specified desired result (which could be a fresh approach to a development challenge).	A reward or gift of money for success in competition. Prizes fall under the pay-for-results model.	Following the 2010 earthquake in Haiti, USAID and the Bill and Melinda Gates Foundation saw an opportunity to make a shift in the delivery model via digital financial services. They jointly raised funds and launched an initiative which offered a $10 million prize fund rewarding the first two companies to offer a viable mobile money service and all companies helping to scale up utilization of mobile money.	Pay-for-Results
Profit-Sharing	An incentive where businesses provide direct or indirect payments to employees that depend on a company's profitability.		On the Feed the Future Partnering for Innovation program, USAID partnered with Tolaro Global, to build the operational capacity of	

			smallholder cashew nut farmers in West Africa and also introduced profit-sharing to farmers through an equity stake based on USAID's contributions.	
Private equity (PE)	An asset class where individuals and/or organizations can buy ownership in shares or stock of a company through a public market such as the New York Stock Exchange.	Financing that focuses on buying shares in a company and then selling the whole company to make a return.	USAID/Serbia and INVEST created a media investment platform to support digital media companies by providing catalytic capital for private equity investors to invest in these commercially viable companies.	Equity Equity- based financing Quasi-equity Venture Capital Social Venture Capital Revenue Capital Financing
		Q		
Quasi-equity	A form of company debt that could also be considered to possess some traits of equity, such as being non-secured by any collateral.	A category of debt financing that has some traits of equity, such as having flexible repayment options or not requiring any collateral. An example of quasi-equity include mezzanine financing.	Per the Better Utilization of Investments Leading to Development (BUILD) Act, the International Development Finance Corporation is able to act as a minority investor by taking an equity or quasi-equity stake in an entity, including as a limited partner or other investor in investment funds.	Debt Debt-based Financing Equity Equity-based financing Mezzanine financing Revenue Capital Financing
		R		
Recoverable Grant	Essentially a convertible note, with no time expiration and no liquidation payback rights, where the conversion occurs only at valuations greater than a given threshold. It's designed specifically for very early-stage investment, where entrepreneurs need risk tolerant and inexpensive capital.	Grants given by grantors whom hope to get their money back to recycle the capital into future social impact projects. Recoverable grants are different from loans in that they are forgivable. Grantors may consider forgiving repayment under extraordinary circumstances. At their core, recoverable grants keep social mission and impact of the recipient central.	Recoverable grants could be a mechanism for enterprises that are still in a proof-of-concept stage, where even risk capital is scarce, and when the potential social or environmental benefits may be so great that they merit high levels of support before there is market traction.	Socially Responsible Investment SROI
Remittances	Funds sent by people who are living and working abroad back to their home countries. In many developing countries, remittances are the largest external source of finance, greater than official development assistance (ODA) and Foreign Direct Investment (FDI)		USAID's Leveraging Effective Application of Direct Investments (LEAD) project attracts investments in Haitian SMEs and amplifies the development impact of remittances by providing information about	Resource Leverage

			investment opportunities so that Diaspora can directly invest in promising enterprises.	
Resource Leverage	Per ADS 303.3.27, resource leveraging represents all of the non-USAID resources (excluding cost sharing) that are expected to be applied to a program. Leveraging is limited to awards that result from Public-Private Partnerships. Leveraging includes resources that third parties bring to the program without necessarily providing them to the recipient of the USAID assistance award. These parties may include the host government, private foundations, businesses, or individuals. The recipient is not responsible for meeting the leveraging amounts/resources and leveraging is not subject to audit.	Resources mobilized from non-U.S. Government sources. USAID seeks the mobilization of resources of other actors on a 1:2 or greater basis (i.e., 50 percent of the proposed value of the award). Leveraged resources may include grants/awards from non-U.S. Government organizations and other donor governments. Cost sharing is not a form of resource leverage.	Private sector funding for loans can be considered leverage.	GDA APS Loan
Result	Per ADS Chapters 200 and 203- a significant, intended, and measurable change in the condition of a customer, or a change in the host country, institutions, or other entities that will affect the customer directly or indirectly.		Ensuring that there is a streamlined and transparent way to verify results is critical when executing pay-for-results financing models.	Pay-for-Results Pay-for-Performance Pay-for-Success Performance-Based Contracts
Return on investment	A performance measure used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments. ROI measures the amount of return on an investment relative to the investment's cost. To calculate ROI, the benefit (or return) of an investment is divided by the cost of the investment, and the result is expressed as a percentage or a ratio.	The amount of return on an investment relative to the investment's cost.	USAID's PSE Policy focuses on implementing market-based approaches for solutions that address development challenges and also provide a return on investment for the private sector. Ensuring that investors get their money back, at a minimum, and see the ROI will encourage more private sector engagement in the future.	Equity Equity-Based Investing
Revenue-based financing	Revenue-based financing is 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. Investors receive a regular share of the businesses income until a predetermined amount has been paid. Typically, this predetermined amount is a multiple of the principal investment and usually ranges	Investors receive a predetermined portion of a company's revenues over time in return for their initial investment.	The USAID Asia and Middle East Economic Growth Best Practices Project (AMEG) produced an introductory video on revenue capital finance in 2017 to build USAID's capacity on this financing mechanism. Please find the short video linked here to learn more.	Quasi-equity Mezzanine financing

	between three to five times the original amount invested.			
Risk capital	Funds used for high-risk, high-reward investments. Such capital can either earn spectacular returns over a period, or it may dwindle to a fraction of the initial amount invested if several ventures prove unsuccessful, so diversification is key for successful investment of risk capital. In the context of venture capital, risk capital may also refer to funds invested in a promising startup.	Funds used for risk-prone investments. Risk capital is money that, if lost completely, would not have an overly harmful financial impact.	Within an investment portfolio, USAID can determine if a portion of the funds should be set aside for risk-capital- for initiatives that have extra-risk associated with them.	Venture capital Social venture capital
S				
Single-Stakeholder Funds (captive funds)	A private fund that is managed for a select group of investors or in affiliation with a single entity. These funds are not publicly offered or traded.	A fund capitalized entirely or majority by a single company.	Single-Stakeholder Funds are a potential target group for private sector engagement and co-financing development objectives	Collaboration Model Pre-Competitive Collaboration
Social Enterprise	An organization that has specific social objectives that serve its primary purpose. Social enterprises seek to maximize profits while maximizing benefits to society and the environment. Their profits are principally used to fund social programs.	An organization that addresses a basic unmet need or solves a social or environmental problem as its primary purpose through a market-driven approach.	In 2013, USAID and the Yunus Social Business (YSB) signed a memorandum of understanding to jointly support social enterprises that address the needs of low-income, vulnerable and underserved communities in Uganda, Albania and Haiti. As a result, YSB Uganda supported 40 businesses through its accelerator programs as of April 2017. One example is SPOUTS of Water, a social enterprise that created a ceramic water filter, made using only local materials that can effectively and sustainably provide clean water to Ugandans.	Social Impact
Social Impact Bonds (SIB)	A public-private partnership that allows private investors to front capital for public projects that deliver social outcomes; if the project succeeds, investors are repaid by the government with interest. Because repayment to investors is contingent upon the achievement of specified outcomes, SIBs are not "bonds" in the conventional sense.	An innovative financing mechanism for projects in which a government would pay only for real, measurable social outcomes—after those results have been achieved. Social outcomes result in financial returns.	The Sweet Dreams Project is a SIB in Saskatchewan, Canada with the objective to assist at-risk mothers to keep their children out of foster care and simultaneously further their education. As a result, over the five years of the bond, 54 children were kept out of foster care.	Bond DIB Outcome Rate Card

Social Impact Partnership Model	A relationship between investors, non-profits, governments and intermediary organizations to raise private investment capital to fund prevention and early intervention programs that reduce the need for expensive crisis responses and safety-net services. The government repays investors if the interventions improve agreed upon metrics of social impact, such as reducing homelessness or the number of repeat offenders in the criminal justice system.	A public-private partnership model focused on achieving positive social impact. Funding structures in this partnership model are centered around meeting mutually agreed upon outcomes.	Social Impact Bonds are an implementation mechanism for social impact partnerships. The Social Impact Partnerships to Pay for Results Act (SIPPRA) is an example of U.S. legislation promoting and financially supporting social impact partnerships.	Collaboration Model
Social Return on Investment (SROI)	A method for measuring values that are not traditionally reflected in financial statements, including social, economic and environmental factors, which can identify how effectively an organization uses its capital and other resources to create value for the community.	An altered cost-benefit analysis to evaluate the progress of an investment, showing both the financial and social impact.	SROI is used for planning purposes in terms of designing a Theory of Change or PAD. SROI also assesses to what extent impact is realized or what changes need to occur during implementation. SROI can be integrated in existing performance monitoring.	Socially Responsible Investment ROI
Socially Responsible Investment	An investment that is considered socially responsible because of the nature of the business the company conducts that you are investing in. Common themes for socially responsible investments include avoiding investment in companies that produce or sell addictive substances and seeking out companies engaged in social justice, environmental sustainability and alternative energy/clean technology efforts.	Also known as a social investment and determined as such by the nature of the business of the company (the investee) conducts. Socially responsible investment should integrate ESG and ethical issues into due diligence and decision-making.	Investments in organizations supporting USAID's priority development challenges including social justice, environmental sustainability, and alternative energy/clean technology efforts can be considered socially responsible investments.	ESG Due Diligence CSR
Social Venture Capital	Social venture capital differs from traditional venture capital in that investors look beyond financial return and risk-reward models when deciding where to place their money. Rather than placing utmost importance on return on investment (ROI), social venture capitalists seek to invest in ventures that offer profit potential and make the world a better place through their products and services.	Venture capital (see definition) with a social impact lens. Profits are not the only important factor in investment selection, there must be a social impact as well.	Venture capitalist are not a traditional target market for development-focused investment opportunities however social venture capitalists approach to investment and priorities make them a promising market to tap into for private investment on development programs.	SROI Impact Investing ROI Venture Capital
		T		
Triple bottom line (TBL)	A theory that recommends companies to commit to focus on social and environmental concerns just as they do on profits. The TBL posits that instead of one bottom line, there should be three: profit, people, and the planet. A TBL seeks to gauge a corporation's level of	The financial, social, and environmental value generated by a business or an investment.	TBL can be a method of monitoring a business or investments impact on social and environmental factors. When possible, TBL can be incorporated in performance monitoring plans.	IBL ESG Due Diligence

	commitment to corporate social responsibility and its impact on the environment over time.			
		U		
Ultra-High Net Worth Individual (UHNWI)	UHNWI are people with investable assets of at least $30 million, excluding personal assets and property such as a primary residence, collectibles and consumer durables. UHNWIs comprise the richest people in the world and control a disproportionate amount of global wealth. Ultra-high net worth is generally quoted in terms of liquid assets over a certain figure, but the exact amount differs by financial institution and region.	An individual or a family with a substantially high net worth in useable assets.	UHNWIs are an attractive group to target when identifying institutional investors.	HNWI Institutional Investor Patient Capital
		V		
Valuation	The determination of the value of an asset, including an outcome.		In the event that payments are tied to development outcomes (DIBs, for example), a concrete process for valuating those outcomes must be established to create a reasonable payment schedule.	Due diligence DIBs SIBs
Venture Capital	Startup or growth equity capital or loan capital provided by private investors (the venture capitalists) or specialized financial institutions (development finance houses or venture capital firms). Also called risk capital. Venture capital is a type of funding for a new or growing business. The venture capital firm gives funding to the startup company in exchange for equity in the startup. This is most commonly found in high growth technology industries like biotech and software. A person who deals in venture capital is a venture capitalist, and usually works for a venture capital firm.	Money provided by investors to start-up firms with long-term growth potential. It typically entails high risk for the investor, but also above-average returns.	USAID's Development Innovation Ventures (DIV) program's tiered funding model (proof of concept; testing and positioning for scale; scaling; and evidence grants) is inspired by traditional venture capital funds.	Social venture capital Equity Equity-based financing

ANNEX A: REFERENCES

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