

Four questions you have about blended finance but were too afraid to ask



WHAT IS BLENDED FINANCE?

Blended finance is “the strategic use of public and philanthropic resources to mobilize private capital to achieve development outcomes.” Put more simply, it means using funds from a donor (like USAID) or a philanthropic source (like a foundation) to attract funds from the private sector and using these “blended” funds to help solve a development problem. By “crowding-in” private sector funds that would not otherwise have been devoted to a development problem, blended finance can mobilize more financial resources to solve the development challenges USAID is working to solve worldwide. As such, blended finance has tremendous potential to finance critical development priorities in USAID’s partner countries and support their journeys to self-reliance.

USAID has a rich history of leveraging private sector investment for development outcomes using blended finance approaches, dating back two decades. The Agency has a significant opportunity to leverage and scale this experience.

IS THIS JUST ANOTHER FAD?

No. 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. For instance, official development assistance represented 70 percent of U.S. financial flows (including foreign direct investment, grants, and other transactions) into developing countries in 1960 yet is now below 10 percent. Traditional donors do not have the resources or expertise to single-handedly solve the world’s development challenges. The fact that official development assistance is now vastly surpassed by private sector financial flows into developing countries means that the impact and scale of USAID’s work will depend in large part on how we strategically engage and work with the private sector.

Incorporating blended finance approaches across USAID’s portfolio can support development outcomes by leveraging the private sector’s financial resources and technical expertise.

HOW CAN IT SUPPORT MY WORK?

Blended finance can be integrated at any point in your work and can be used across technical sectors or geographies. USAID has used blended finance to, for instance, strengthen health care facilities in sub-Saharan Africa and improve coffee farmer resilience in Latin America. Whether you are designing a new strategy, project, or activity; just completed your Mission’s PSE Plan; or are implementing an ongoing activity, there is value in intentionally and systematically evaluating the barriers to private sector investment and considering whether blended finance – or another type of private sector engagement – is a potential solution. While not every situation will be amenable to the use of blended finance, it’s never too late to think through how you can leverage the private sector and potentially use a blended finance approach to amplify the development outcomes you are seeking.

HOW DO I START?

There are numerous blended finance approaches to fit your context and development challenge. The specific type of blended finance approach that will best fit your situation will be based on factors including the country context, technical sector, geography, enabling environment, development challenge, and potential constraints to private sector involvement.

The USAID CAPx (Capital Impact Exchange) Activity supports the uptake of blended finance across the Agency. Through our core work of learning, knowledge management, and capacity-building, and our bespoke buy-in services for Missions and Operating Units, we provide new perspectives, methods, and evidence-based approaches to help USAID create better solutions to mobilizing private capital that can be incorporated into current and future USAID programming

Still have questions? Want to talk to someone to help?

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