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DEVELOPMENT FINANCE GLOSSARY

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This Glossary aims to provide the decision makers and the practitioners of the UN System in Turkey (UN Country Team, Result Groups, Task Teams etc.) with the key concepts of financing for sustainable development. The concepts and terms referred within the Glossary are compiled from various publicly available sources, including those developed by the UN organizations and external partners.

CONTENT

A

Addis Ababa Action Agenda

Addis Ababa Action Agenda is the outcome document of the Third International Conference on Financing for Development held on 13-16 July 2015 in Ethiopia and endorsed by the General Assembly in its resolution 69/313 of 27 July 2015. The AAAA provides a global framework for financing development post-2015 under seven action areas: domestic public resources; private business and finance; international development cooperation; international trade; debt and debt sustainability; addressing systemic issues and; science, technology, innovation and capacity building.

B

Blended Finance

Blended finance is the strategic use of development finance for the mobilisation of additional finance towards sustainable development in developing countries.

Bond Issuers

Bond Issuers are the entities that raise and borrow money, from the people who purchase the bonds (Bondholders), with the promise of paying periodic interest and repayment of the principal amount upon maturity of the bonds. Companies, governments, supranational entities are the major bond issuers.

Bond

A bond is a fixed income instrument that represents a loan made by an investor to a borrower (typically corporate or governmental). Bonds are used by companies, municipalities, states, and sovereign governments to finance projects and operations.

Blue Bond

Blue bonds, as instruments of blue finance, are an innovative ocean financing instrument whereby funds raised are earmarked exclusively for projects deemed ocean-friendly.

C

Climate Finance

Climate finance refers to local, national or transnational financing—drawn from public, private and alternative sources of financing—that seeks to support mitigation and adaptation actions that will address climate change. The United Nations Framework Convention on Climate Change, the Kyoto Protocol and the Paris Agreement call for financial assistance from Parties with more financial resources to those that are less endowed and more vulnerable.

Corporate Social Responsibility (CSR

Corporate social responsibility (CSR) is a self-regulating business model that helps a company be socially accountable—to itself, its stakeholders, and the public. By practicing corporate social responsibility, companies can be conscious of the kind of impact they are having on all aspects of society, including economic, social, and environmental.

Climate Budget Tagging (CBT)

Climate Budget Tagging (CBT) is a tool for monitoring and tracking of climate-related expenditures in the national budget system. It provides comprehensive data on climate change relevant spending, enabling government to make informed decisions and prioritize climate investments. CBT also encourages planning authorities and policy makers to incorporate climate considerations in project design.

Credit Rating Agency (CRA)

A credit rating agency (CRA, also called a ratings service) is a company that assigns credit ratings, which rate a debtor's ability to pay back debt by making timely principal and interest payments and the likelihood of default.

D

Debt

Debt is an obligation that requires one party, the debtor, to pay money or other agreed-upon value to another party, the creditor. Debt is a deferred payment, or series of payments, which differentiates it from an immediate purchase. The debt may be owed by sovereign state or country, local government and/or company.

Development Financing Assessment

DFA is a fully fledged assessment of the financing flows to implement the SDGs through a country-level, context-informed approach that provides data and analytical information on both quantitative and qualitative aspects of development resources in a country.

Development Financing

The term development financing is centered around supporting the follow-up to the agreements and commitments reached during the three major international conferences on Financing for Development: in Monterrey, Mexico in 2002; in Doha, Qatar in 2008; and in Addis Ababa, Ethiopia in 2015. The Addis Agenda urges that all domestic and international resource flows, policies and national/international agreements be aligned with economic, social and environmental priorities.

Development Finance Agency (DFA)

Development finance agencies (DFAs) can be either public or quasi-public/private authorities that provide or otherwise support economic development through various direct and indirect financing programs. DFAs may issue tax-exempt and taxable bonds, provide credit enhancement programs, and offer direct lending, equity investments, or a broad range of access to capital financing mechanisms.

D

Domestic Private Finance

Domestic private finance is one of the main sources of development finance, which is composed of domestic investments and borrowing as well as NGO/philantropic resources.

Domestic Public Finance

Domestic public finance is one of the main sources of development finance, which is composed of resources generated through government finance (tax and non-tax) and public enterprises.

E

ESG Index and Sustainability Reporting

Environmental, social and governance (ESG) indices help investors mitigate and assess the risks against ESG factors, and help socially responsible investors to navigate around ESG risks.The indices represent a comprehensive benchmarking system for impact investors. Companies worldwide are rated in over 400 key indicators of ESG performance.

ESG Linked Loans

Companies can leverage their ESG performance to improve their bottom line and their company's overall ESG performance through Sustainability Linked Loans (SLLs). SLLs give borrowers the opportunity to apply the loan toward general business purposes as the terms are tied solely to the borrowers ESG-related performance and not the use of proceeds or the projects financed. This flexibility has made the SLL a popular alternative to traditional capital raising and debt.

F

Faith-based Investing

Faith-based investing remains a niche within the overall socially responsible investing theme, but involves the idea of using ethics to guide monetary decisions.

Financial Landscape

The composition of different volumes, mixes, lengths and sequencing of sources of finance, namely international, domestic, private and public in a given economy.

Financial Inclusion

Financial inclusion is defined as the availability and equality of opportunities to access financial services. It refers to a process by which individuals and businesses can access appropriate, affordable, and timely financial products and services. These include banking, loan, equity, and insurance products. Financial inclusion efforts typically target those who are unbanked and underbanked, and directs sustainable financial services to them.

Financial Landscape Analysis

The financing landscape assessment paints a comprehensive picture of existing sources and types of finance and their respective contributions to sustainable development. Alongside the financing needs assessment (which focuses on the demand side), it supports the identification of financing gaps to be closed by a financing strategy.

F

Financial Resilience

Financial resilience is related to a range of economic and financial factors, including temporary fiscal and regulatory measures to relieve governments, businesses and citizens in financial difficulty, and enable them to coping with financial shocks through necessary strategies and means.

Financing Instruments

Financial instruments are monetary contracts between parties. They can be created, traded, modified and settled. They can be cash (currency), evidence of an ownership interest in an entity or a contractual right to receive or deliver in the form of currency (forex); debt (bonds, loans); equity (shares); or derivatives (options, futures, forwards).

Financing Gap

Financing gap refers to the difference between the amount and type of finance needed to achieve identified national development outcomes and the amount and type of finance currently being spent or invested toward them.

Financing Policy

Financing policies refer to a set of policies including public finance (revenue, borrowing, expediture, investment), private finance and investments (commercial and non-comercial) as well as macroeconomic/systemic conditions (debt sustainability, macroconomic and financial stability).

F

Financing Strategy

The financing strategy is at the heart of the INFF. It brings together all financing policy actions from across all areas of the Addis Ababa Action Agenda and matches them to priorities in the national sustainable development strategy. This includes better integration of national planning and public budgeting processes, with a focus on results, and the alignment of policy and regulatory frameworks with sustainable development.

Fiscal Policies and Instruments

Fiscal policy is the use of government revenue collection (taxes or tax cuts) and expenditure to influence a country's economy. Changes in the level and composition of taxation and government spending can affect macroeconomic variables, including aggregate demand and the level of economic activity; saving and investment; income distribution and allocation of resources.

Fintech Innovations

Financial technology (abbreviated fintech or FinTech) is the technology and innovation that aims to compete with traditional financial methods in the delivery of financial services. It is an emerging industry that uses technology to improve activities in finance. Financial technology has been used to automate investments, insurance, trading, banking services and risk management.

Fiscal Space

Fiscal space is the flexibility of a government in its spending choices, and, more generally, to the financial well-being of a government. Peter Heller (2005) defined it “as room in a government’s budget that allows it to provide resources for a desired purpose without jeopardizing the sustainability of its financial position or the stability of the economy.”
There are different exact definitions for the term, and different metrics on how to measure it. The most influential definitions of the term come from international institutions, e.g., the International Monetary.

F

Foreign Direct Investment (FDI)

A foreign direct investment (FDI) is an investment made by a firm or individual in one country into business interests located in another country. Generally, FDI takes place when an investor establishes foreign business operations or acquires foreign business assets in a foreign company.

Funding Compact

Inaugurated in 2019, the Funding Compact commits the United Nations development system to be more transparent and accountable for its spending, more effective and efficient in using limited resources, and clearer in communicating what it does and achieves.

Funding the UNSDCF

The concept of funding the UNSDCF refers to the traditional concept of mobilizing resources through United Nations accounts to close budgetary gaps in the United Nations Sustainable Development Cooperation Framework, as the United Nations' primary planning and implementation instrument to contribute to the achievement of the 2030 Agenda at the country level.

G

Gender Responsive Budgeting

Gender responsive budgeting (GRB) is an innovative public policy tool for assessing the impact of policies and budgets from gender perspective and for ensuring that policies and their accompanied budgets do not perpetuate gender inequalities but contribute to more equal society for women and men. For more information:https://eca.unwomen.org

Government Borrowing

The demand for loans obtained through the financial markets by the government sector to finance government spending over and above taxes.

Global Financial Architecture

The Global Financial Architecture is the collective governance arrangements at the international level for safeguarding the effective functioning of the global monetary and financial systems. For further information: Elson, A. 2010. The Current Financial Crisis and Reform of the Global Financial Architecture.

Grant Finance

Grants are funds given by an entity – frequently, a public body, charitable foundation, or a specialised grant-making institution – to an individual or another entity (usually, a non-profit organisation, sometimes a business or a local government body) for a specific purpose linked to public benefit. Unlike loans, grants are not to be paid back.

G

Green Bonds

Green bonds are designated bonds intended to encourage sustainability and to support climate-related or other types of special environmental projects. More specifically, green bonds finance projects aimed at energy efficiency, pollution prevention, sustainable agriculture, fishery and forestry, the protection of aquatic and terrestrial ecosystems, clean transportation, clean water, and sustainable water management. They also finance the cultivation of environmentally friendly technologies and the mitigation of climate change.

Green Loans

A green loan is a financing instrument to support clients' Green projects and investments aiming to contribute to environmental sustainability (i.e. renewable energy, energy efficiency, integrated waste management, GHG reduction etc.)

Green Taxonomies

A green taxonomy is a classification system for identifying activities or investments that will move a country toward meeting specific targets related to priority environmental objectives. A green taxonomy aims to help financial actors and others determine which investments can be labeled "green" for their jurisdictions. This support for making informed decisions on environmentally friendly investments can encourage the undertaking of projects and activities that help scale up environmentally sustainable economic development. For more information: https://www.worldbank.org

Illicit Financial Flows

Illicit financial flows refer to cross-border movement of capital associated with illegal activity or more explicitly, money that is illegally earned, transferred or used that crosses borders. Regardless of how IFFs are precisely defined, it's clear that the flows are an impediment to development. What's most important is to understand how and why money flows out of developing countries and to devise strategies to stem these flows. https://www.worldbank.org

Impact Investment

Impact investment are the investments made into companies, organizations, and funds with the intention to generate a measurable social and environmental impact alongside a financial return. Impact investment is described (and differentiated from other forms of investment) by three guiding principles:

1. The expectation of a financial return: impact investors expect to earn a financial return on the capital invested, below the prevailing market rate, at the market rate or even above it.
2. The intention to tackle social or environmental challenges (i.e. the impact or intentionality): in addition to a financial return, impact investors aim to achieve a positive impact on society and/or the environment.
3. A commitment to measuring and reporting against the intended social and environmental impact: impact investors commit to measure performance using standardized metrics. For more information: https://www.undp.org

Inclusive Business Models (IBMs)

Inclusive business models include the poor and the disadvantaged groups into a company's supply and value chains as employees, suppliers, producers and business owners or develop affordable goods and services needed by these groups. These business models may be developed by entrepreneurs or within existing companies, large or small.

Integrated National Financing Frameworks (INFF)

INFF is a strategic planning tool to help governments and their partners to build more integrated approaches to financing that strengthen the alignment between public and private investments with longer-term sustainable development objectives, build greater coherence across the governance of public and private financing policies, and promote greater collaboration among actors in each area of financing.

INFF Building Blocks

Integrated National Financing Frameworks (INFFs) are processes composed of four complementary building blocks (i.e. sub-processes): (i) Assessment and Diagnostics; (ii) Financing Strategy; (iii) Monitoring and Review and (iv) Governance and Coordination.

INFF Oversight Committee

The INFF oversight team listed below will be responsible for leading, guiding and shaping the Roadmap for developing an INFF and implementing it. Collaboratively the team will determine the scope and focus of the four building blocks to an INFF. The oversight team is composed of the representatives of th government (in particular the institutions mandated with financial policies and strategic planning), line ministries, the UN and the key donors, partners and financiers in the context of national sustainable development.

INFF Roadmap

INFF roadmap is the planning tool (i.e. time bound work plan) that guides the design of the DFA and INFF inception phase as well as conduct of the whole INFF process. INFF roadmaps are country context specific.

International Borrowing

International borrowing is the borrowing from economies with fund surplus to countries with fund deficit. The forms of international borrowing can be intergovernmental, from international organizations (such as IMF, World Bank), from markets against bond issues and/or from foreign banks.

International Private Finance

International private finance is one of the main sources of development finance, which is composed of foreign direct investments, portfolio investment, remittances, international borrowing as well as NGO/philantropic resources.

International Financial Institutions (IFIs)

An international financial institution (IFI) is a financial institution that has been established (or chartered) by more than one country, and hence is subject to international law. Its owners or shareholders are generally national governments, although other international institutions and other organizations occasionally figure as shareholders. The best known IFIs were established after World War II to assist in the reconstruction of Europe and provide mechanisms for international cooperation in managing the global financial architecture.

International Public Finance

International public finance is one of the main sources of development finance, which is composed of official development assistance, other official flows and south-south cooperation.

Inter-agency Task Force on Financing for Development

The Inter-agency Task Force (IATF) on Financing for Development is mandated to report annually on progress in implementing the financing for development outcomes and the means of implementation of the 2030 Agenda, and to advise the intergovernmental follow-up process on progress, implementation gaps and policy recommendations. The IATF comprises over 60 United Nations agencies, programmes and offices and other relevant international institutions and entities.

Islamic Finance

Islamic finance is a type of financing activities that comply with Islamic Law. The concept can also refer to the investments that are permissible under Sharia. The common practices of Islamic finance and banking came into existence along with the foundation of Islam. However, the establishment of formal Islamic finance occurred only in the 20th century.

L

Loan

The term loan refers to a type of credit vehicle in which a sum of money is lent to another party in exchange for future repayment of the value or principal amount. In many cases, the lender also adds interest and/or finance charges to the principal value which the borrower must repay in addition to the principal balance. Loans may be for a specific, one-time amount, or they may be available as an open-ended line of credit up to a specified limit.

M

Market Efficiency

Market efficiency refers to the degree to which market prices reflect all available, relevant information. If markets are efficient, then all information is already incorporated into prices, and so there is no way to "beat" the market because there are no undervalued or overvalued securities available.

Medium-term Expenditure Frameworks (MTEFs)

MTEFs are multi-annual planning and reporting tools which provide a link between the allocation of budget expenditures according to policy priorities and the fiscal discipline required by budget realities.

Market Integrity

Market integrity is a cornerstone of fair and efficient markets, ensuring that participants enjoy equal access to markets, that price discovery and trading practices are fair, and that high standards of corporate governance are met.

Multilateral and Regional Development Banks (MDBs/RDBs)

A multilateral development bank (MDB) or a regional development bank (RDB) is an institution, created by a group of countries, that provides financing and professional advice to enhance development. An MDB has many members, including developed donor countries and developing borrower countries. MDBs finance projects through long-term loans at market rates, very-long-term loans below market rates and grants.

N

National Development Banks (NDB)

A national development bank (NDB) is a development bank established and/or mandated by a country's government or through private sector initiatives that provides financing for the purposes of economic development of the country.

Non-tax Revenues

Non-tax revenue or non-tax receipts are government revenue not generated from taxes. These types of revenues include bond issues, profits of state-owned companies, revenue (including interest or profit) from investment funds (collective investment schemes), sovereign wealth funds, investment or endowments, revenues from sales of state assets etc.

O

Official Development Assistance (ODA)

Official development assistance (ODA) is a category used by the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD) to measure foreign aid. The DAC first adopted the concept in 1969. It is widely used as an indicator of international assistance flow.

ODA Grants

ODA Grants are types of financial assistance in which funds are granted to a developing country to support construction works or services such as procuring equipment and materials that are necessary for economic and social development. Since ODA Grants are financial assistance with no obligation for repayment, it targets mainly developing countries with low income levels.

ODA Commitments

ODA commitments demonstrate the funding/financing support committed by the donor countries to the recipient countries/multilateral agencies. ODA commitments are generally determined through ODA/GNI ratio.

ODA Loans

ODA loans support developing countries by providing low-interest, long-term and concessional funds to finance their development efforts.

O

Official Development Finance (ODF)

ODF is used in measuring the inflow of resources to recipient countries: includes (a) bilateral official development assistance (ODA), (b) grants and concessional and non concessional development lending by multilateral financial institutions, and (c) Other Official Flows for development purposes (including refinancing Loans) which have too low a Grant Element to qualify as ODA.

P

Philantrophy / Philantrophic Resources

Philanthropy is an individual and/or collective effort to organize activities to raise the social and economic standards of others in need to increase their welfare. The resources provided by the philantrophic organizations (i.e. foundations, charities, private sector etc.) are called as the philantrophic resources.

Private Finance

Private finance covers direct investments (domestic and foreign) and how they are financed (equity and debt financing from domestic and international sources). It is primarily profit-oriented. It makes vital contributions to sustainable development, e.g. through job creation, growth and payment of taxes that increase fiscal space, as well as direct investments in sectors such as agriculture, industry, technology, infrastructure, energy and others.

Portfolio Investment

A portfolio investment is ownership of a stock, bond, or other financial asset with the expectation that it will earn a return or grow in value over time, or both. It entails passive or hands-off ownership of assets as opposed to direct investment, which would involve an active management role.

Public - Private Partnerships

A public–private partnership (PPP) is a cooperative arrangement between public and private sectors on a framed programme/project which aims to provide services to the population.

P

Public Enterprises / State-owned Enterprises

Public enterprises are autonomous or semi-autonomous corporations and companies established, owned and controlled by the state and engaged in industrial and commercial activities.

Public Finance

Public finance includes government revenue and taxation, public borrowing (concessional and non-concessional), and development cooperation (ODA, South-South cooperation, triangular cooperation and other relevant official flows) as sources of public finance, and public spending and investment (budgets, and beyond-budget investments, such as SOEs and national development banks).

Public Finance for Children

Public finance for children is an innovative financing approach to tackle challenges in public financial management so that all children, especially the most vulnerable, get a fair chance in life. The approach calls for strong partnerships with governments and financial decision makers to influence and support the mobilization, allocation and utilization of domestic public financial resources. For more information: https://www.unicef.org/social-policy/public-finance

R

Remittance

A remittance is a non-commercial transfer of money by a foreign worker, a member of a diaspora community, or a citizen with familial ties abroad, for household income in their home country or homeland. Money sent home by migrants competes with international aid as one of the largest financial inflow.

Results Based Budgeting

RBB is a methodology in which programme formulation revolves around a set of predefined objectives and expected results; expected results justify the resource requirements which are derived from and linked to outputs required to achieve such results; and actual performance in achieving results is measured by objective performance indicators.

Responsible Banking Principles

Responsible banking principles are introduced by UNEP as non-binding principles for the banking sector to foster alignment of business strategies to be consistent with and contribute to individuals' needs and society's goals, as expressed in the SDGs, the Paris Agreement and relevant national and regional frameworks. For more information: https://www.unepfi.org

Risk Financing

Risk financing is the determination of how an organization will pay for loss events in the most effective and least costly way possible. Risk financing involves the identification of risks, determining how to finance the risk, and monitoring the effectiveness of the financing technique that is chosen.

S

SDG Aligned Budgeting / SDG Budget Tagging

Embedding the SDGs within the allocation and expenditure processes of the national budget to enable scarce public finance to be favourably aligned with the SDGs and national development priorities. https://ww.undp.org

SDG Financing

The concept of financing the SDGs is based on the Addis Ababa Action Agenda's call for "nationally owned sustainable development strategies, supported by integrated financing frameworks" to achieve the 2030 Agenda. In other words, this is about governments mobilizing and aligning all sources of finance to implement national plans to achieve the SDGs.

SDG Costing

Assessment of monetized investment needs for the prioritized national development goals and the SDGs as integral component of strategic planning. https://www.unescap.org

Social Bond

Social bonds are a form of debt that allow investors to help raise funds for projects with positive social outcomes that in some cases, provide an investment return. They include projects on improving food security and access to education, as well as health care and financing.

S

Sources of Development Financing

The sources of development finance can be categoried as Public Finance and Private Finance. Domestic public finance includes government finance and public enterprises, wheras international public finance covers ODA, other official flows and SSC. Domestic private finance includes domestic investment and borrowing; whereas international private finance captures FDI, portfolio investment, remittances, international borrowing and philantrophic resources.

Sovereign Bonds

Sovereign bonds are a way governments raise money in addition to tax revenue. A sovereign bond is a debt security issued by a national government to raise money for financing government programs, paying down old debt, paying interest on current debt, and any other government spending needs.

South - South Cooperation

South-South cooperation (SSC) refers to the technical cooperation among developing countries in the Global South. It is a tool used by the states, international organizations, academics, civil society and the private sector to collaborate and share knowledge, skills and successful initiatives in specific areas of sustainable development.

SDG Impact Standards for Bond Issuers

Social bonds are a form of debt that allow investors to help raise funds for projects with positive social outcomes that in some cases, provide an investment return. They include projects on improving food security and access to education, as well as health care and financing.

S

Sustainability Bonds

Sustainability Bonds are bonds where the proceeds are exclusively applied to finance or re-finance a combination of both Green and Social Projects.

Sustainability-linked Bonds

Sustainability-linked bonds are conventional debt instruments including specific features and/or pay-offs related to a set of environmental, social, governance (ESG) key performace indicators.

T

Tax Revenues

Tax revenue is the income that is gained by governments through taxation. Taxation is the primary source of government revenue. Revenue may be extracted from sources such as individuals, private corporations, public enterprises, trade, royalties on natural resources and/or foreign aid.

Thematic Bonds

Thematic bonds are traditional fixed income instruments which allow investors to finance specific investment themes such as climate change, health, food, education, access to financial services and target specific Sustainable Development Goals (SDGs) through investing. Thematic bonds include but are not limited to green, blue, youth, SDG, islamic bonds etc.

V

Vertical Funds

An emerging source of global development finance that is vertically earmarked towards a single issue, such as fighting HIV-AIDS, malaria or tuberculosis, environmental protection, climate action etc., rather than horizontally towards a programme areas.

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