Leading Group experts' workshop:

Preparing for 2015: the role of innovative financing in sustainable development and climate change

Paris, June 19th and 20th 2014

Venue: French Ministry of Foreign Affairs
25, rue de la Convention
75015 PARIS, France

Draft program:

Thursday June 19th

8:30 am	Welcome coffee and registration
9:00 am	**Introduction: Permanent Secretariat**
9:30 am	**Session1: How innovative financing can fit into the means of implementation of the new agenda for sustainable development and climate** Part 1: Innovative financing: a renewed vision of financing for development based on a multi- stakeholder approach.
11:30 am	*Coffee break*
12:00 am	Part 2: Classification and lessons learned from existing initiatives of innovative financing to prepare (design) a new "financial toolbox" to achieve sustainable development.
1:00 pm	*Lunch buffet*
2:30 pm	**Session 2: Review of promising innovative financing options for climate change and their potential contribution to the 100 billion commitment**
4:30 pm	*Coffee break*
4:45 – 6:00 pm	**Session 3: How innovative financing for biodiversity can contribute to climate finance**

Friday June 20th

8:30 am	Welcome coffee
9:00 am	**Session 4: How innovative financing for agriculture can contribute to climate finance**
10:30 am	*Coffee break*
10:45 am – 1 pm	**Closing: Finalization and adoption of recommendations**

Workshop's concept paper:

Preparing for 2015: the role of innovative financing in sustainable development and climate change

Since the first Monterrey discussions in 2002, innovative financing has gained importance in the international debates on financing for sustainable development. This type of financing introduces promising approaches to financing strategies and has been successfully tested by number of actors, including in the private sector. Innovative financing has been included in the discussions on financing for sustainable development as one of the options to facilitate the mobilization of resources, and more recently in those on the **means of implementation of the post-2015 agenda**.

Innovative financing is usually designed in order to bring financial solutions to development challenges that remain insufficiently addressed by traditional aid flows. However, common knowledge and use of the best practices stemming from these innovations remain limited. This situation – mainly due to the **lack of common understanding of the concept of innovative financing** – leads many actors to put efforts and resources in separated pilot initiatives, while failing to foster synergies.

In this context, the Leading Group – a platform dedicated to foster knowledge sharing on innovative financing – has decided to gather a panel of international experts to discuss the scope covered by innovative financing, work on the classification of existing initiatives and examine their potential. **The objective of this workshop is to produce recommendations to be submitted to the international community on how innovative financing can contribute to the post-2015 agenda**. Such recommendations should allow **facilitating the current work carried out within the United Nations on financing for sustainable development and climate change** while **offering an updated and organized financial "toolbox" for development actors**. This workshop will make a specific focus on innovative financing for **climate change** and examine the potential benefits from biodiversity, agriculture and food security finance for climate change adaptation and mitigation.

1. The scope of innovative financing

Innovative financing presents a wide set of options to mobilize resources and achieve more efficiently sustainable development objectives. They can be seen as means to expand the traditional financing toolboxes used by development stakeholders.

Two sub-categories of innovative financing initiatives have recently been identified: (1) Innovative sources of financing ("innovative sourcing") which help generating new financial flows for sustainable development that may come from various economic sectors; **(2) Innovative mechanisms of financing** ("innovative spending") which help maximizing the efficiency in the use of the resources, their leverage and / or their impact.

1. Generating "more money" and "smarter money" to address global challenges

Innovative financing was first officially mentioned in 2002 during the United Nations **Conference of Monterrey on financing for development**. Innovative financing was historically based on the willingness of governments to **find new ways to complement the existing financial flows for development in order to address specific global challenges such as health and climate.** It was also designed as a way to **address market failures** and redirect – through marginal contributions – the important and growing benefits resulting from globalized activities to fund global public goods preservation.

Since those initial discussions, numerous innovative initiatives have been implemented to raise more resources for sustainable development. Since its inception in 2006, the airline tickets contribution has, for example, raised 1,25 billion Euros mainly allocated to UNITAID and the Global Fund. The French Financial Transaction Tax (FTT) levies around 700 million Euros per year of which 15% percent is allocated to development purposes with no or marginal adverse effects on markets. Contributions from the European CO2 Emission Trading System (ETS) were partly used by Finland to fund development programs (80M€ in 2012-13). Many lotteries have been set to fund development causes, while raising awareness on these issues (Belgium, Netherlands, UK). Innovative sourcing initiatives are however not limited to the public sector: the ProductRED initiative has allowed raising money and awareness on the Global Fund against AIDS, Malaria and TB with the participation of firms like American express, Starbucks or Nike. Challenges to financing NGOs have also led banks or private companies to introduce voluntary contributions through special debit cards. Citizen-based crowdfunding initiatives are increasingly used, through grants, loans or even equity, as a source of funding for development purposes that represent markets of several billions of USD.

Engaging into sustainable development is not only an issue of quantity of resources but also an issue of quality of available resources. Indeed, innovative financing is also about improving development results and ownership through innovative spending mechanisms. ***Result-based mechanisms*** for instance, such as the Loan Conversion (a loan set up by JICA and the Gates foundation with Pakistan) or the Development Impact Bonds, allow incentivizing both beneficiaries and implementing actors towards good results. Besides, ***risk transfer mechanisms and new insurance mechanisms*** limit the risks and impact of exogenous shocks to which developing countries are exposed. Such mechanisms include financing products like the weather indexed insurances developed by agencies like USAID, the very concessional countercyclical loans offered the Agence Française de Developpement[1] or government-led facilities such as the Caribbean Catastrophe Risk Insurance Facility (CCRIF).

2. *A multi stakeholder approach in line with the idea of a global partnership for development*

In accordance with the Busan principles, innovative financing relies on a multi-stakeholder approach involving public and private actors from different levels of development as well as local and international entities. Numerous innovative financing initiatives have proven to be applicable in different development contexts and can contribute to the ownership by beneficiary countries of programs and to the adoption of best practices in their development financing strategies.

Public actors from many countries have been responsible for the implementation of innovative sources of financing such as solidarity taxes, contributions from the carbon market or lotteries. The air ticket levy – implemented in Cameroon, Chile, France, Madagascar, Mali, Mauritius, Niger, Republic of Congo and South Korea – raised new funds for global health while helping various developing countries starting reinforcing their own fiscal policies, illustrating the Monterrey principle of each country's responsibility for its own development. The Belgian Fund for Food Security has levied more than 88M€ for food security projects, linking citizens to development causes. **Private actors** have also proven to be key actors to address sustainable development challenges, through the design of or the participation to innovative mechanisms. Solidarity-based debit cards and initiatives such as Product(RED) are good examples. Private actors can be attracted to these innovative

[1] To cope with the negative effects that some exogenous shocks may exert on country's ability to serve its debt commitments, the Agence Française de Développement has issued very concessional countercyclical loans that allow for flexible disbursements when shocks take place.

structures by the perspective of financial returns from their investments into development through social businesses, impact investing or as part of their Corporate Social Responsibility programs.

Public and Private Partnerships have been at the core of some innovative financing initiatives. Pull mechanisms such as the Advanced Market Commitment for the Pneumococcal Vaccine elaborated by GAVI or AgrResults developed by the World Bank rely on partners elaborating win-win solutions. The IFFIm (International Finance Facility for Immunization) also involves private investors and governments (Australia, Brazil, France, Italy, The Netherlands, Norway, South Africa, Spain, Sweden and UK).

3. Our main challenge: scaling up!

According to the draft review of existing initiatives proposed by the Permanent Secretariat (see Annex), **around 11 billion USD have been raised thanks to innovative financing since 2006**. This amount is significant but leaves considerable scope for progression given the importance of resources needed to face challenges such as climate change (100 billion per year). For innovative financing to play a consistent role in the achievement of sustainable development goals and address the global public goods issus, scaling up of present initiative is therefore a priority.

However, as mentioned above, existing innovative financing initiatives are extremely numerous and information regarding their specificities in terms of implementation and results remains disseminated, which makes the advocacy for scaling up tricky. Given these circumstances, the Permanent Secretariat of the Leading Group solicits contributions from international experts to **establish a clearer classification of innovative sources and mechanisms** in order to **offer the international community an easier access to available options** of innovative financing organized by specificities and characteristics of implementation and added value.

Scaling up is also about **replicating experiences in various development sectors**. So far, innovative financing mostly benefited global health but other global challenges such as **climate change** need innovative solutions to be faced properly. In order to increase efficiency and coherence in our sustainable development financing strategies, potential synergies and co-benefits between different areas should be examined. In particular, financing the **protection of biodiversity** and ecosystems turns out in many cases to benefit climate change adaptation, therefore establishing an obvious link between biodiversity finance and climate finance. Similar associations may be made between **agriculture and food security finance** and climate finance. This workshop will be an opportunity to study the potential positive impact of financial investments made in biodiversity and agriculture on climate change.

Annex: **Review of some innovative financing initiatives**

Disclaimer: selection, figures and descriptions indicated are indicative and may be subject to revision.

Innovative sourcing	**Contributions and solidarity taxes**	**Air ticket levy** Small contributions deducted by a State when an air ticket is purchased. Funds mostly benefits **UNITAID**, a global health initiative that provides sustainable funding to tackle inefficiencies in markets for medicines, diagnostics and prevention against HIV/AIDS, Malaria and TB. Participants: **Cameroon, Chile, France, Korea, Madagascar, Mali, Mauritius, Niger, Republic of Congo.** Figures: 1.35 billion USD raised since 2006 (around 200M€ estimated for 2014) **Financial transaction tax** Small tax (0,02 to 0,2%) applied to securities, high frequency trading and CDS. A portion of the revenues is allocated to development (up to 10% in 2013, and up to 15% in 2014). Participants: **France** Figures: 60 million Euros raised in one year (2012-2013) **Contribution from the European CO2 Emission Trading System (ETS)** A small percentage of the revenues from the European ETS is allocated to sustainable development purposes. Finland for example channeled these resources for development (including IDA-17, the African Development Fund and the IFAD Adaption for Smallholder Agriculture Programme - ASAP). Participants: **Finland** Figures: 80 million Euros in 2012-2013 **1% water contribution** Up to 1% of local communities' water and sanitation budgets may be used to support development projects by other local communities in developing countries. Participants: **France** Figures: More than 100 million Euros since 2007

	Lotteries	**Contribution from national lotteries** A small percentage of the revenues from the national lottery are allocated to a Special Fund for Food Security and Agriculture (Belgium) and to civil society (UK, Netherlands). Participants: **Belgium, UK, Netherlands** Figures: 88 million Euros
	Citizen contributions	**Crowdfunding** Funding local projects by appealing to citizen's contributions through dedicated websites. Participants: This innovative source is mainly adopted by NGOs and charity organizations worldwide. Eloquent examples: **French Red Cross** (creation of a cereal bank in Tanzania to help fight future food crises) / **Sourires d'Enfants** (cricket farm to improve employment and food security locally in Cambodia. Figures: According to MasSolutions, Crowfunding platforms raised more than 2.7 billion USD in 2012 for more than 1 million projects; it forecasted an 81% increase in volume for 2013, equivalent to 5.1 billion USD. **Product (RED) Initiative** Creation of a brand named (RED) for specific products by famous companies. A part of the revenues from the sale of these products is reallocated to the **Global Fund** to to fight aids, tuberculosis and malaria. Participants: **American Express, Apple, Beats by Dr. Dre, Belvedere, Vodka Bugaboo, Converse, Dell, Gap, Nike, Penfolds, Starbucks.** Figures: 161 million USD raised since 2006 **Solidarity based Credit/Debit card** Consumers using certain debit and credit cards allocate voluntary contributions to specific causes or organisations (NGOs) Participants: market highly developed in the US & UK Figures: 4.2billion USD raised in the US and 1.2Bn£ in the UK (all causes included)

Innovative spending	**Pull mechanism**	**Advanced Market Commitments** A public-private partnership between donor countries and private companies. Donors commit funds to guarantee the price of specific products related to development (vaccines for instance) once they have been developed. These commitments provide manufacturers with an incentive to invest and expand manufacturing capacity. In exchange, these companies provide the products at an agreed long-term price to developing countries. Participants: **Canada, Italy, Norway, Russia, UK** provided the incentives to favour the distribution of vaccines against pneumococcal disease through **GAVI.** Figures: 1.45 billion USD **AgResults** A public-private partnership based on financial incentives from the public sector rewarding successful innovations of the private sector designed to enhance smallholder welfare and improve food security in developing countries. Participants: **World Bank Australia, Canada, UK, USA** Figures: tbc **Prizes to reduce the cost of remittances** A competition in the global remittance market in which prizes are granted if innovations to reduce the cost of remittances are invented. Each of the three options seeks to reduce barriers to market entry and scale at different steps of the remittance value chain, spurring entry by new RSPs and enabling existing RSPs to improve their competitiveness: 1/ limbo prize to see how low remittance service providers (RSPs) will go on price; 2/ networking prize that makes it much easier for RSPs to connect with disbursing agents; 3/ price transparency prize to increase consumer awareness and choice. Participants: **Australia, Canada (under discussion)** Figures: tbc **Innovation Challenges** Innovation competition that rewards the most creative inventions in products supply in the area of development.

		Participants: NGOs, private foundations, private companies, individuals. Eloquent examples: **Aid Innovation Challenge** by AIDEX / **Peace Corps Innovation Challenge** Figures: -
	Corporate social responsibility related Bonds	**IFFIm (International Finance Facility for immunization)** British company that issues bonds on financial markets on a regular basis thanks to multi-year commitments of several States. The World Bank plays a role of treasurer and facilitates the transactions on the financial markets. The funds of this facility may be used by **GAVI**, who has access to a flexible but predictable source of funding to negotiate prices with vaccine companies and launch particular operations. Participants: **France, UK, Italy, Norway, Australia, Spain, The Netherlands, Sweden, South Africa, Brazil.** Figures: 6.2 billion USD **Green bonds** AAA rated fixed-income 'plain vanilla' investment products, initially launched by the World Bank, are targeted to investments in projects of adaptation and mitigation and can be bought by large institutional investors. Participants: Figures: More than 4Bn USD raised since the initial issuances.
	Result-based PPP mechanisms	**Social Impact Bonds (SIBs)** A result-based mechanism in which financial returns to private investors are made by the public sector on the basis of improved social outcomes for a specific population. Participants: **UK, Social Finance (project in the Criminal Justice sector launched in 2010)** Figures : 5 million £ **Development Impact Bonds (DIBs)** Same mechanism as the SIBs applied to the area of development.

	Several case studies (*Reduction of sleeping sickness in Uganda, Antiretroviral treatment in Swaziland, Low cost private school in Pakistan, Access to quality secondary education in Uganda, etc.*) have been designed by the development impact working group (**Social Finance** and **Center for Global Development**). **Global Health Investment Fund** A social impact investment fund designed to provide capital for the development of global health products, via a form of 'mezzanine' debt funding. The intention is to provide companies with investments structured to accelerate the development of products to address global health challenges, and to complete projects they might otherwise not pursue. If the Fund's investments are successful, investors will receive a return of capital plus an investment return. Unlike a traditional mezzanine or private equity fund, the fund carry is not paid to the investment manager but will be held within a new not-for-profit entity and recycled back into global health research and development. Participants: **Gates Foundation, J.P. Morgan Chase, BMZ, Children Investment fund foundaction, Grand Challenges Canada, GlaxoSmithKline, KFW, Pfizer Foundation, Merck, SIDA, Storebrand) to provide debt and equity financing for drugs, vaccines and diagnostics.** Figures: 94 million USD **Result-Based Loan Conversions** Loan provided to a developing country to implement a development program. Credits are repaid by a third party (private foundation) to the creditor on behalf of the debtor if the project is successfully implemented. Participants: **Japan, Pakistan and the Gates Foundation for a polio vaccination program.** Figures: 65 million USD (4.9 billion JPY)
Debt swaps	**Debt-2-Health** Partnership between 2 countries: the creditor country cancels a bilateral debt in exchange for the debtor country to reinvest in health projects. Participants: **Australia/Indonesia, Germany/Indonesia, Pakistan, Ivory Coast and the Global Fund to fight Aids, tuberculosis and malaria.** Figures: 81,8 million Euros

	Debt for nature Same mechanism as the Debt-2-Health applied to environmental projects. Participants: **USA/Peru, France/Madagascar, Cameroon and WWF.** Figures: 85 million Euros **C2D ("Contrat de Désendettement et de Développement")** Conversion of a debt from a donor country to a developing country to refinance through grants development projects at the national level. Participants: **France with 15 African countries + Bolivia and Honduras** Figures: 629,8 million Euros
Pooling mechanisms	**Blending platforms** see EU initiatives **GAVI Matching fund** Every contribution from corporations, foundations, their customers, members, employees and business partners in matched by a donation from UK DFID or the Bill and Melinda Gates Foundation. Participants: **UK DFID, Gates foundation, J.P. Morgan, "la Caixa", Lions Clubs International, Vodafone, etc.** Figures: US$ 130 million to be matched **IDB Grant leverage mechanism** This pilot mechanism leverages grant resources from bilateral and multilateral donors with resources from the Ordinary Capital of the IDB to finance operations in shared priority areas for some of the poorest countries in Latin America and the Caribbean region. Participants: **Bolivia, Guyana, Honduras, Nicaragua** Figures: US$ 100 million of ordinary capital

	Index or contingent based mechanisms	**Countercyclical loans** AfD can tailor loans to the cyclical nature of the resources of certain borrowers by offering variable repayment and maturity options (indexed on international raw materials prices for ex.). These tools make agricultural players less vulnerable to fluctuations on global markets. Participants: **Agence Française de Développement, Senegal, Mali** Figures: **Caribbean Catastrophe Risk Insurance Facility (CCRIF)** CCRIF is a risk pooling facility, owned, operated and registered in the Caribbean for Caribbean governments. It is designed to limit the financial impact of catastrophic hurricanes and earthquakes to Caribbean governments by quickly providing short term liquidity when a policy is triggered. Participants: **Anguilla, Antigua & Barbuda, Bahamas, Barbados, Belize, Bermuda, Cayman Islands, Dominica, Grenada, Haiti, Jamaica, St. Kitts & Nevis, St. Lucia, St. Vincent & the Grenadines, Trinidad & Tobago and the Turks & Caicos Islands.** Figures: $1MUSD to the Dominican and St Lucian governments after the 29 November 2007 earthquake in the eastern Caribbean; $6.3 MUSD to the Turks & Caicos Islands after Hurricane Ike in 2008; $7.75 MUSD to the Government of Haiti after the 12 January 2010 earthquake.