

# ➤ Innovative Financing for Development: Scalable Business Models that Produce Economic, Social and Environmental Outcomes

*Landscape Overview for the Leading Group Expert's Workshop*

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## Need



Mobilize Resources



Enable Access to Markets



Provide Access to Goods and Services

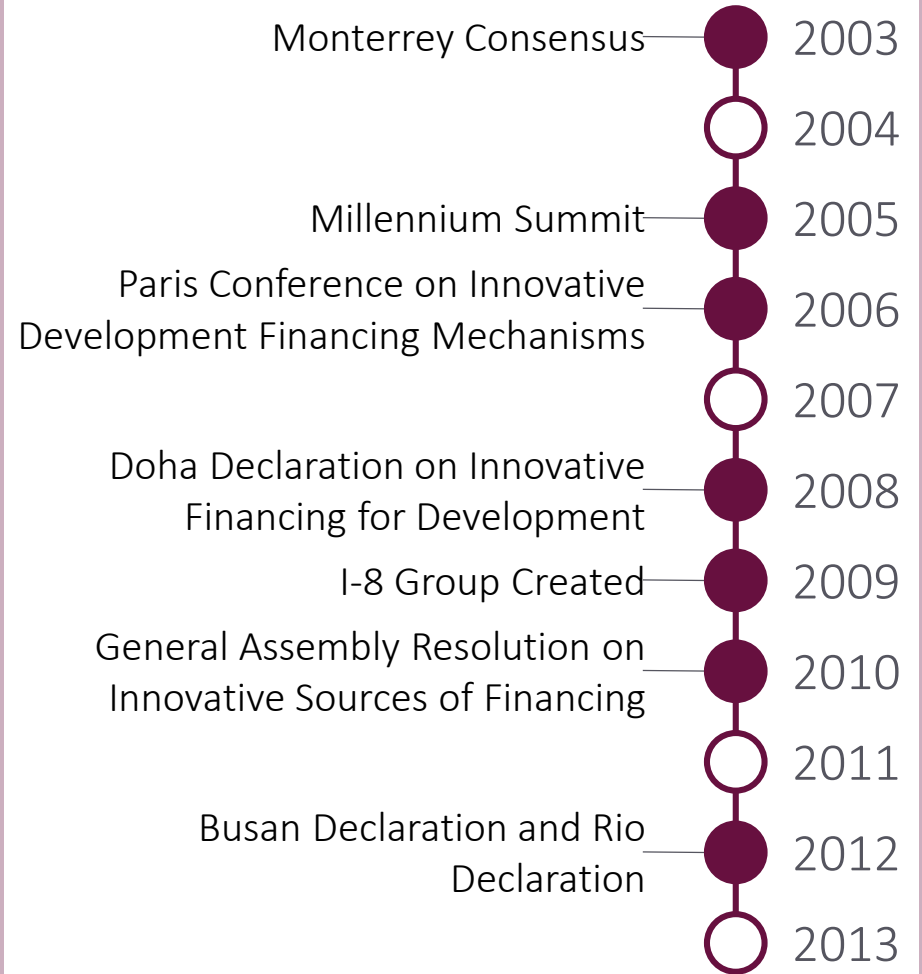


Supply Public Goods



Increase Value for Money

## International Commitments

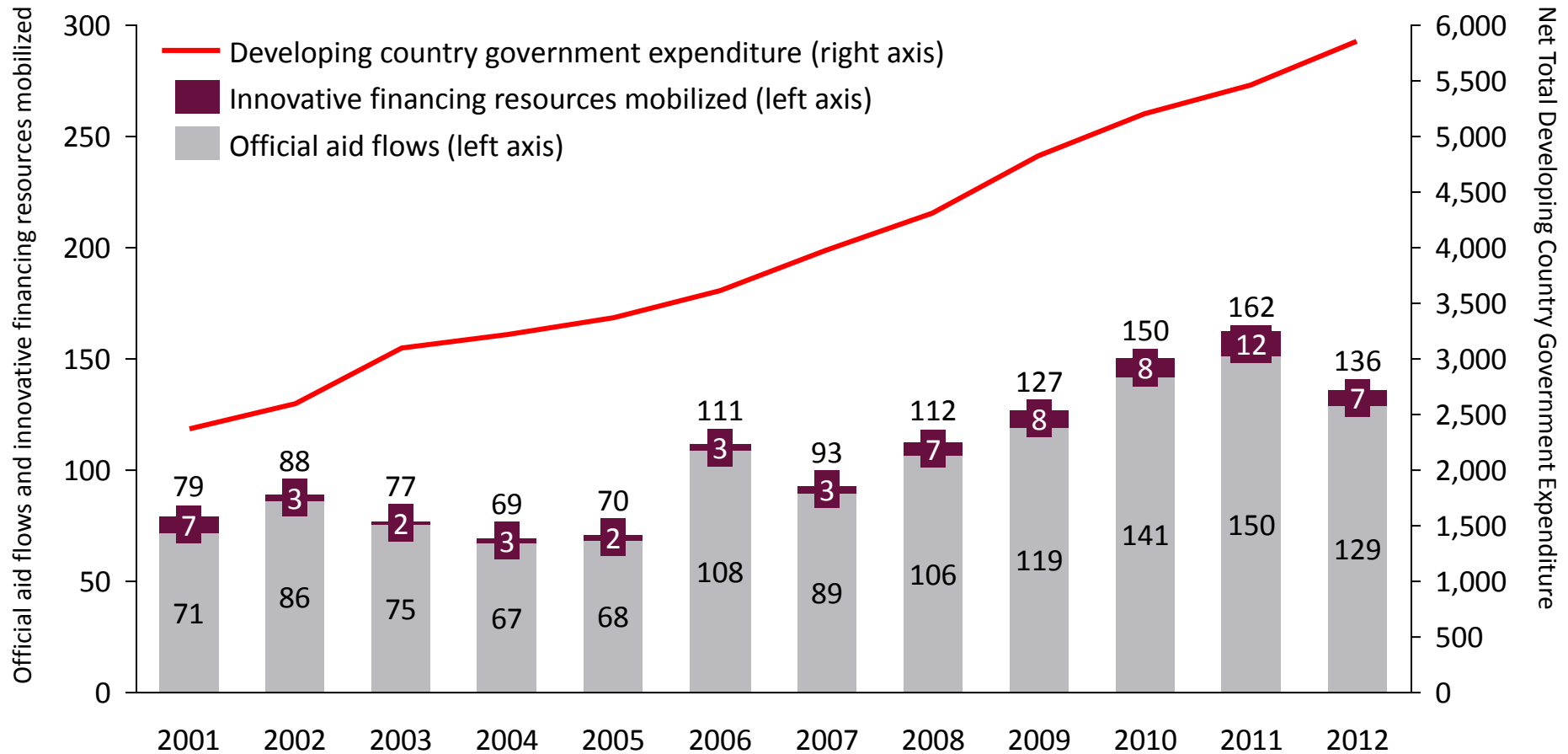


# Context

## Innovative financing remains a small component of public sector assistance

### Evolution of funding for public goods in developing countries, 2001-2012

USD billions



Notes: Net Government expenditure does not include general budget support and loan disbursement to public sector; Official aid flows include Official Development Assistance, Officially funded loans and Others Official Flows; Innovative finance data is based on 138 innovative finance initiatives where volume data broken down by year was available.

Source: Development initiatives, "Investments to End Poverty," 2013, Dalberg Database of Innovative Financing Mechanisms, Dalberg analysis

The Innovative Financing Report describes the market and is a platform for further conversations

# There is no common, clear definition for innovative financing for development

Several common themes emerge from various market definitions ...



Innovative financing mechanisms for development (“innovative financing”) encompass approaches to **mobilizing resources** and to **increasing the effectiveness and efficiency** of financial flows that **address global social and environmental challenges**.

# Methodology

## Bottom-up analysis based on type of instrument and instrument characteristics

Securities and Derivatives	
1	Guarantees
2	Impact Investing Funds
3	Microfinance Investment Funds
4	Thematic Bonds
5	Thematic Loans
6	Other derivative products
Results-Based Mechanisms	
7	Advanced Market Commitments
8	Awards and prizes
9	Debt-swaps and buy-downs
10	Development Impact Bonds
11	Performance-based contracts
Voluntary contributions	
12	Auctions
13	Consumer donations
Compulsory Contributions	
14	Taxes and Levies

### A | Maturity and Scope

Did the instrument mobilize resources for a developing country?

### B | Innovation

Did the instrument:

- Introduce a new product;
- Enter a new market; or
- Attract new participants?

### C | Intention

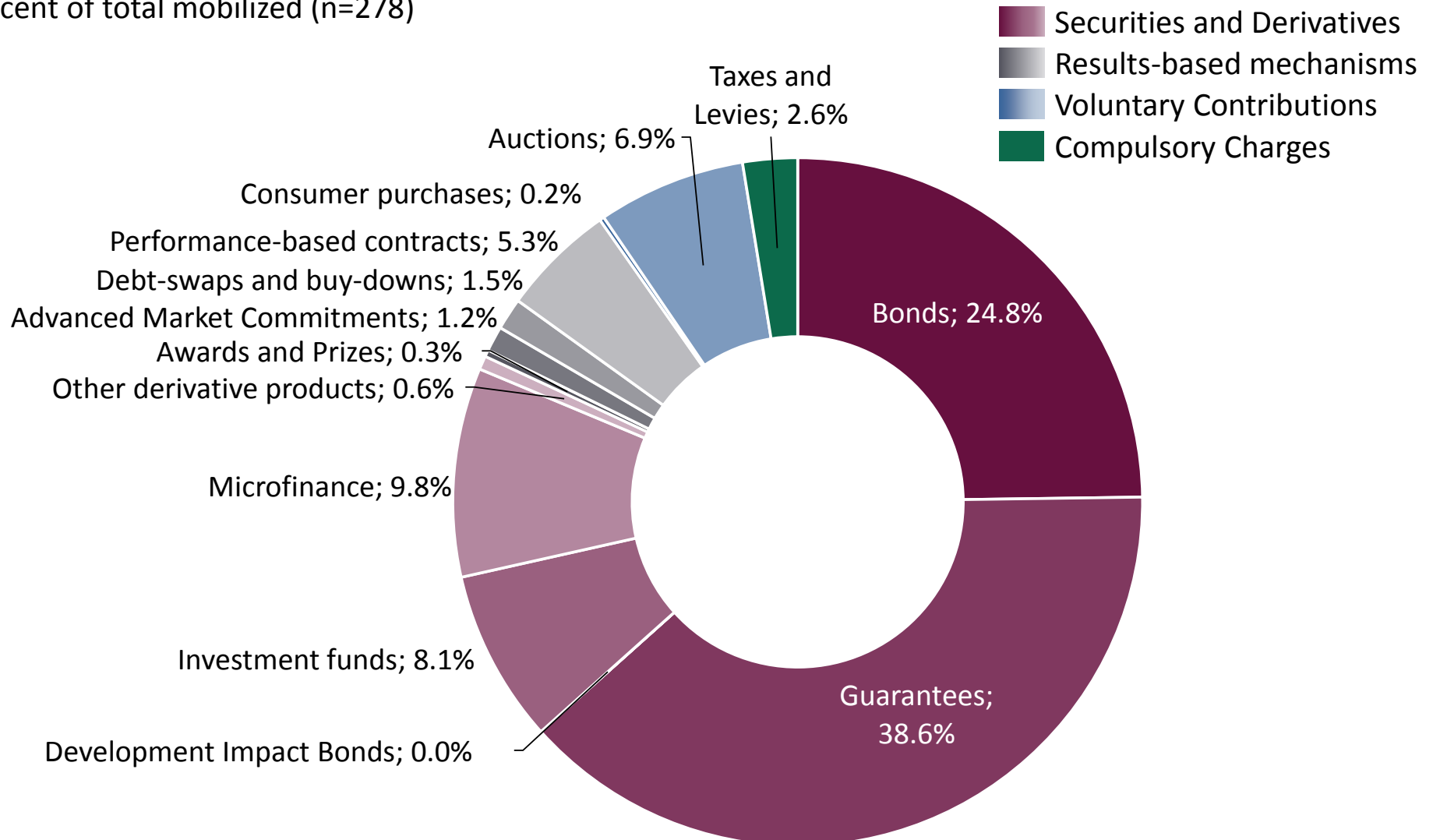
Did the sponsors of the instrument intend to produce positive social and environmental outcomes?

# Market Size and Distribution

Innovative Financing has mobilized nearly USD 100 billion since 2000

## Amount mobilized by innovative financing mechanisms, 2000-2013

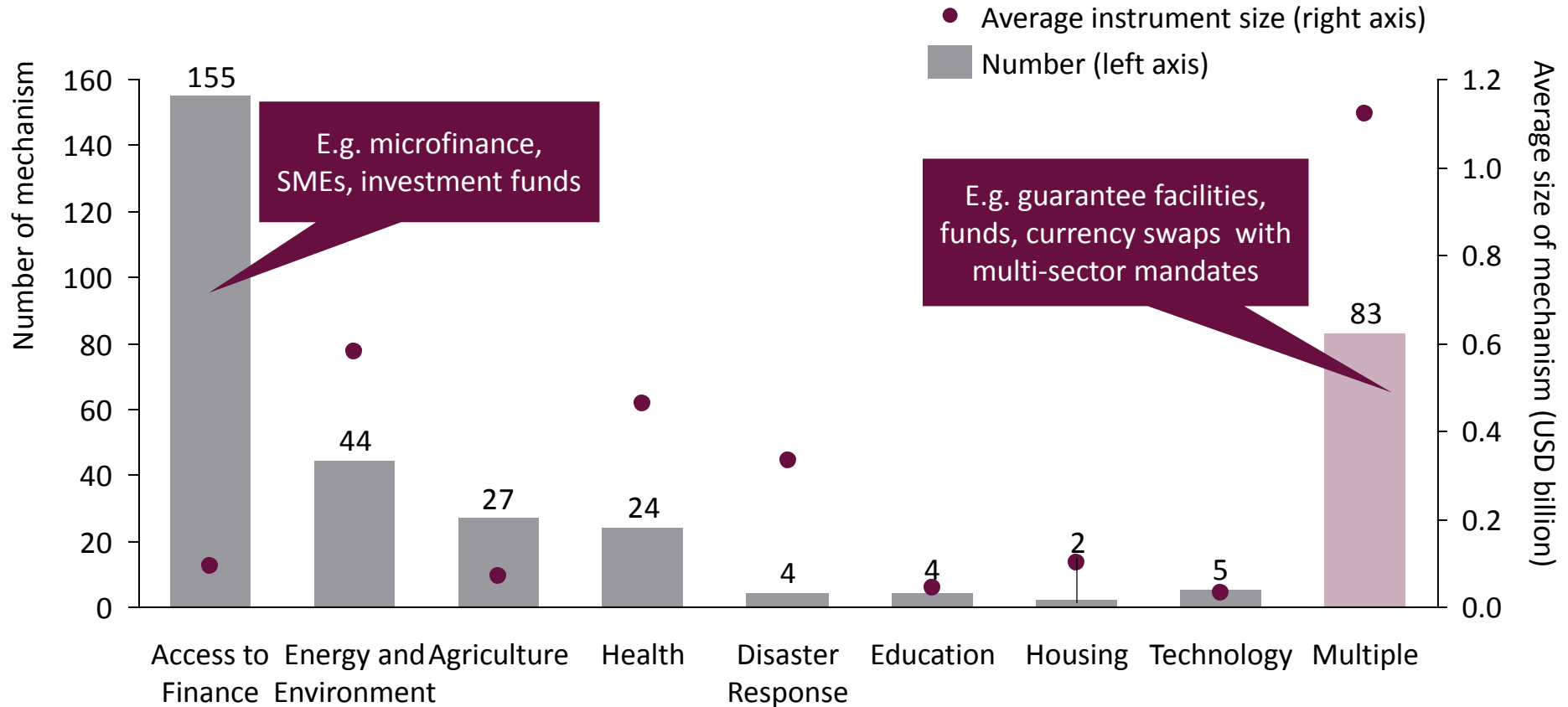
Percent of total mobilized (n=278)



# Development Focus

## Many initiatives tend to have broad sector coverage

### Innovative financing mechanism by sector



Desire by sponsors to diversify exposure and reach and need for cross-cutting solutions to address common financial challenges

Note: Sector information was available for 348 mechanisms. Average initiative size was based on data for 278 mechanisms. Other smaller sectors not shown include Technology, Housing and Urban Development, Water and Sanitation, ICT and Media.

Source: Innovative Financing Initiative Database; Dalberg analysis

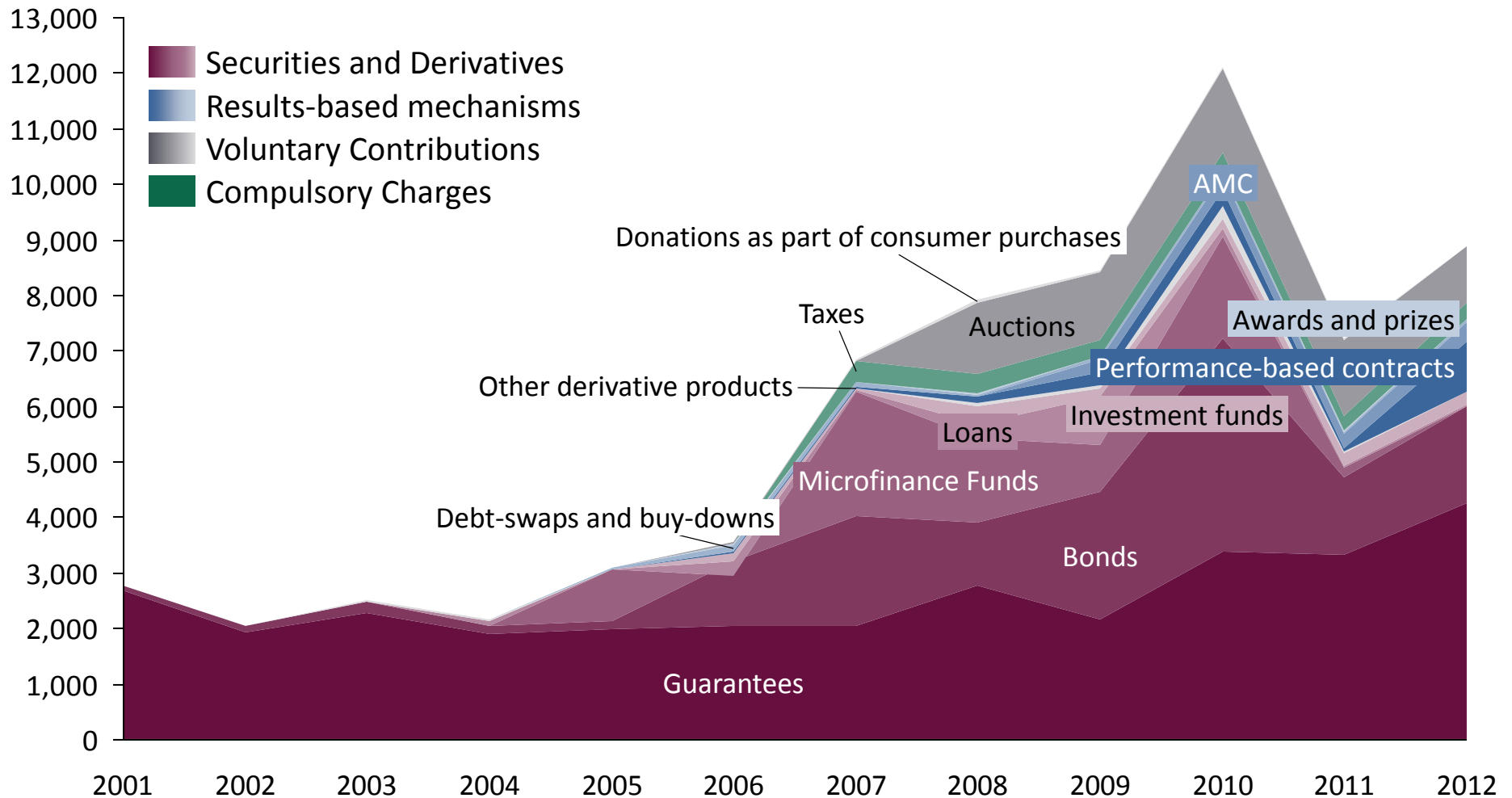


# Market Evolution

Since 2001, innovative financing has experienced 11% annual growth

## Annual amount mobilized, 2001-2012

USD millions (n=137)



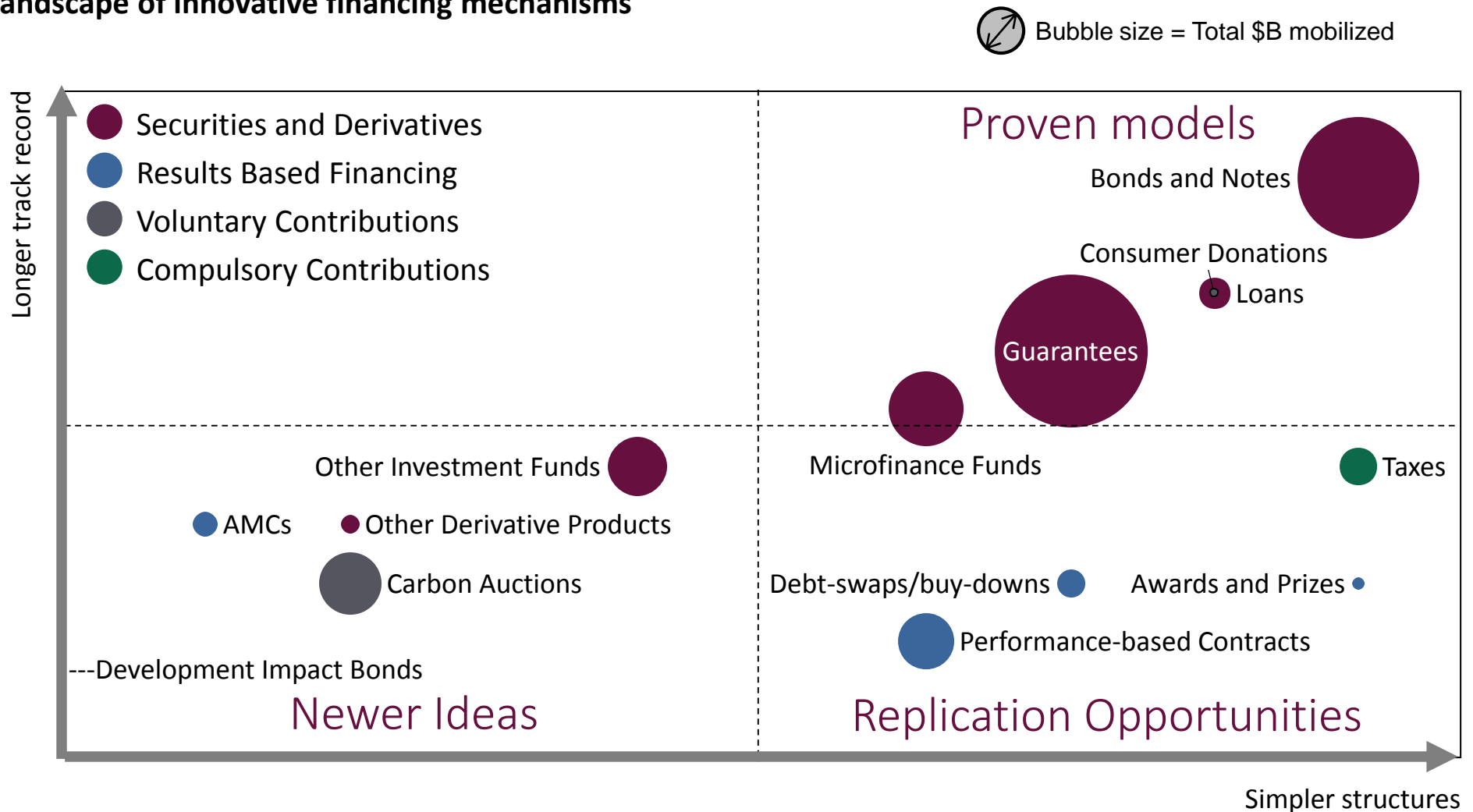
Note: The figure does not include 141 mechanisms for which annual mobilized data was unavailable.

Source: Innovative Financing Initiative Database

# Potential for Increased Scale

Established mechanisms with simple structures are most likely to scale

## Landscape of innovative financing mechanisms

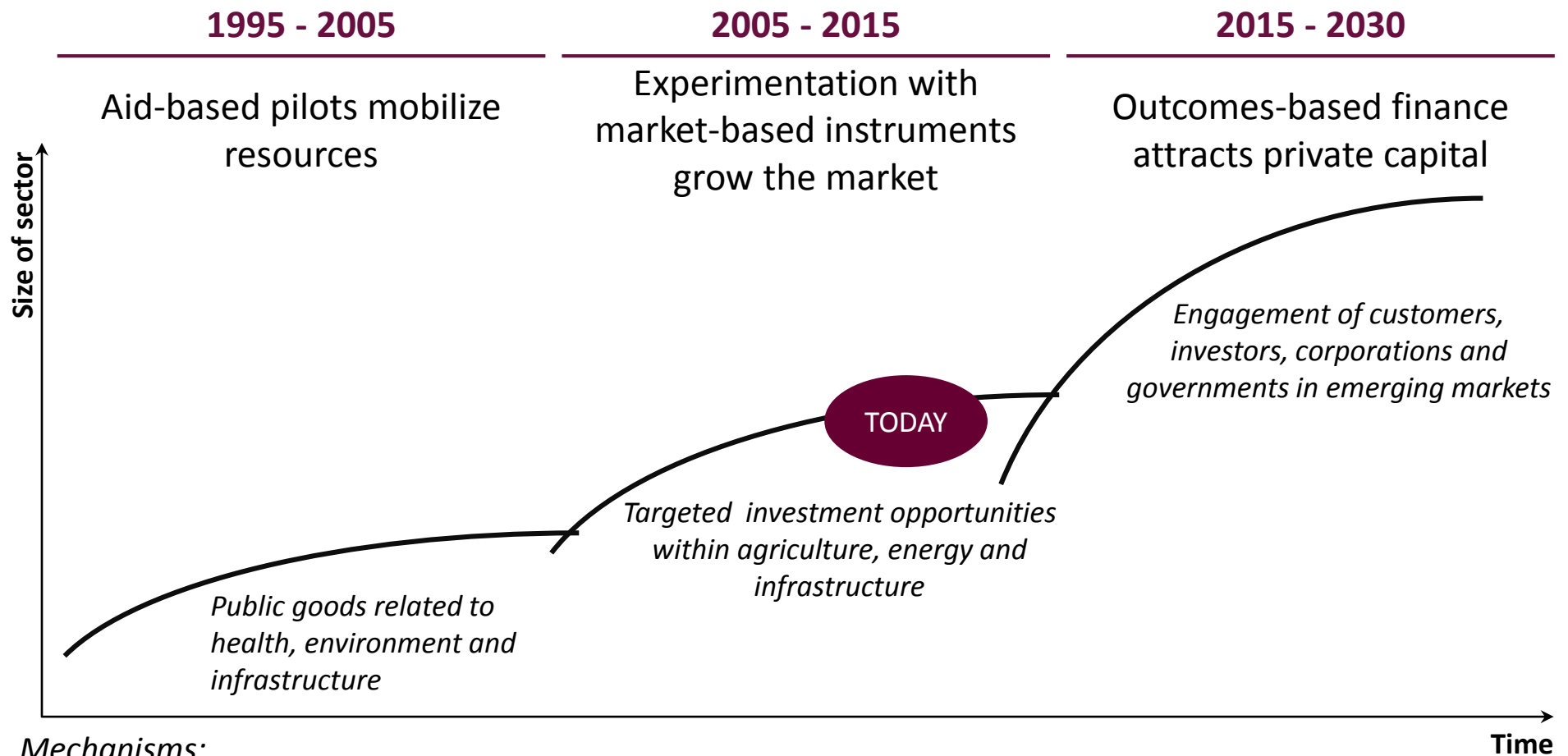


Note: No known Development Impact Bonds have been successfully issued to date although many are under development.

Source: Innovative Financing Initiative Database; Dalberg analysis

# Expectations for the Future

The innovative financing market is still evolving



## Mechanisms:

Taxes, levies and voluntary private contributions

Foreign-based investment funds, public-partnerships, and solutions to address political constraints

Risk sharing and incentives to mobilize private enterprises and local investors

# Additional Slides

# There is no common, clear definition for innovative financing for development

## World Bank

“Innovative financing involves non-traditional applications of solidarity, PPPs, and catalytic mechanisms that (i) support fund-raising by tapping new sources and engaging investors beyond the financial dimension of transactions, as partners and stakeholders in development; or (ii) deliver financial solutions to development problems on the ground.”

## OECD

“Innovative financing comprises mechanisms of raising funds or stimulating actions in support of international development that go beyond traditional spending approaches by either the official or private sectors, such as: 1) new approaches for pooling private and public revenue streams to scale up or develop activities for the benefit of partner countries; 2) new revenue streams (e.g. a new tax, charge, fee, bond raising, sale proceed or voluntary contribution scheme) earmarked to developmental activities on a multi-year basis; and 3) new incentives (financial guarantees, corporate social responsibility or other rewards or recognition) to address market failures or scale up ongoing developmental activities.”

## Leading Group on Innovative Financing for Development

“An innovative development financing mechanism is a mechanism for raising funds for development. The mechanisms are complementary to official development assistance. They are also predictable and stable. They are closely linked to the idea of global public goods and aimed at correcting the negative effects of globalisation.”

# Overview of the Innovative Financing Database

	Number in Database	Number that mobilized resources between 2000-2013	Amount mobilized between 2000-2013 (USD M)	Percentage of Total (percent)	Total mobilized (USD M)
<b>Securities and Derivatives</b>					
Bonds	14	14	23,200	25%	29,500
Guarantees	23	17	36,100	39%	56,700
Impact Investing Funds**	98	82	5,800	6%	5,900
Loans	6	4	1,800	2%	2,300
Microfinance Investment Funds	130	112	9,200	10%	9,300
Other derivative products	13	8	600	1%	600
<i>Subtotal</i>	<i>284</i>	<i>237</i>	<i>76,700</i>	<i>82%</i>	<i>104,300</i>
<b>Results, output, and performance based mechanisms</b>					
Advanced Market Commitments	6	4	1,100	1%	1,100
Awards and prizes	18	10	300	0%	300
Debt-swaps and buy-downs	4	4	1,400	1%	1,400
Development Impact Bonds	5	0	-	0%	-
Performance-based contracts	16	13	5,000	5%	5,000
<i>Subtotal</i>	<i>49</i>	<i>31</i>	<i>7,800</i>	<i>8%</i>	<i>7,800</i>
<b>Voluntary contributions</b>					
Auctions	2	2	6,500	7%	6,500
Donations as part of consumer purchases	6	4	200	0%	200
<i>Subtotal</i>	<i>8</i>	<i>6</i>	<i>6,700</i>	<i>7%</i>	<i>6,700</i>
<b>Compulsory Charges</b>					
Taxes	6	4	2,400	3%	2,400
<i>Subtotal</i>	<i>6</i>	<i>4</i>	<i>2,400</i>	<i>3%</i>	<i>2,400</i>
	<b>347</b>	<b>278</b>	<b>93,600</b>	<b>100%</b>	<b>121,200</b>

\* Of the 347 mechanisms in the database, only 278 mobilized resources between 2000 and 2013. This reflects the emergence of new asset classes such as Development Impact Bonds, which did not mobilize any resources during that period, and new products, such as the DFID Innovation Prizes for Environment and Development which was launched in 2013 and has not been implemented yet.

\*\* We defined the universe of impact investing and microfinance funds based on the decision of managers to register with ImpactBase, a leading database of impact investing funds. Many fund managers elect not to register with ImpactBase, which makes this a conservative estimate of the market size.

Source: Innovative Financing Initiative Database; Dalberg analysis

# The innovative finance market is still evolving, with some proven models, some ripe for scaling, and some newer ideas still being tested

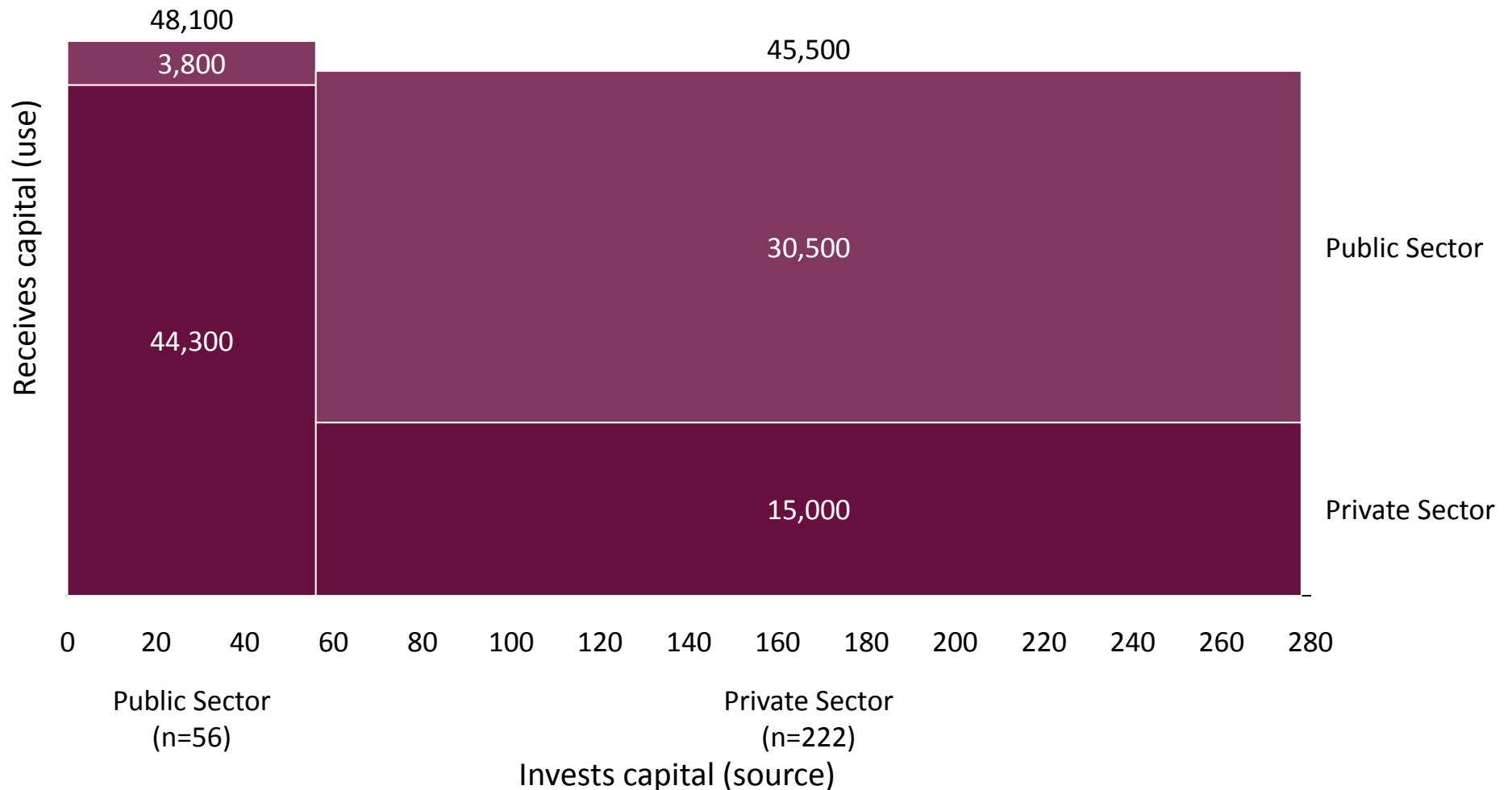
	Newer Ideas	Opportunities for Replication	Proven Models
Funds mobilized to date	<100 million	(100 million to a billion)	(> 1 billion)
Track record	Little or none	One or more clear success stories since 2006	In use before 2006
Complexity	Technically difficult to structure	Structure may be complex, but there are existing templates	Simpler structures or many pre-existing templates
R&D cost	High R&D cost and lengthy development runway	Moderate R&D cost and development runway	Relatively low R&D cost and quick to launch
Stakeholder coordination	Multiple stakeholders required for success, across public/private/civil sectors	Multiple stakeholders required for success	Coordination needed for a few stakeholders or stakeholders within only one group
Applicability to multiple sectors, asset classes	Potentially limited to only certain applications	Many applications but still limited number demonstrated so far	Has been applied to many sectors and asset classes
Examples	<ul style="list-style-type: none"> <li>• Product Linked Savings Accounts</li> <li>• DIBs (Malaria in Mozambique Performance Note)</li> </ul>	<ul style="list-style-type: none"> <li>• AMC (AMC for Pneumococcal)</li> <li>• Impact Investing Funds (The Global Health Investment Fund)</li> <li>• Performance-Based Contracts (Mexico PES)</li> </ul>	<ul style="list-style-type: none"> <li>• Microfinance</li> <li>• Bonds (WB Green Bond)</li> <li>• Guarantees (DCA Guarantees)</li> </ul>

# Public and Private Collaboration

Most mechanisms support transfers between the public and private sectors

## Private sector participation in innovative financing mechanisms, 2000-2013

Number of mechanisms (x-axis) and amount mobilized, USD million (y-axis) (n=278)





## About the Innovative Financing Initiative

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Working with the Global Development Incubator, the Innovative Finance Initiative aims to enable the growth of bankable investments that mobilize resources for development and increase the efficiency and effectiveness of financial flows. The initiative would be held accountable for specific measures of success, including increasing information and transparency on innovative finance successes and failures, demonstrating scalable models to enable innovative finance (such as guarantee mechanisms or new fund structures), and building a global network of investors and entrepreneurs to expand the sector. By combining private sector approaches to achieving risk-adjusted returns with a philanthropic orientation to producing social impact, the initiative will create and popularize new financial instruments as well as new financial technologies, institutions and markets.

As an initial step, Dalberg ([www.dalberg.com](http://www.dalberg.com)), in partnership with Citi Group ([www.citi.com](http://www.citi.com)) and l'Agence Française de Développement ([www.afd.fr](http://www.afd.fr)), is writing a report that examines ways that private and public sector funders can accelerate the development of innovative finance. The report will be the cornerstone of the larger initiative that mobilizes leading international development organizations to promote and develop specific initiatives. Building on past efforts to describe innovative finance schemes, we will identify common characteristics of different initiatives, assess the market demand for new models, and propose three to five mechanisms that can unlock the sector's potential.

Identifying new opportunities requires a dialog that uncovers common perspectives and understands the incentives of different actors, especially investors, entrepreneurs, and policy-makers from outside of Europe and the United States. We want to talk with donors who want to create more development effects through their investments, corporations open for new business models in new markets, and financial institutions looking for new opportunities

**If you are interested in being part of the conversation, please contact us at [innovativefinance@dalberg.com](mailto:innovativefinance@dalberg.com).**

**We look forward to talking with you.**

# Innovative Finance Initiative



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Serena is a Partner in Dalberg's Geneva office and a leading expert in Dalberg's global Access to Finance practice, with a focus on impact investing, innovative finance and inclusive business models. She advises investors and donors on strategies and vehicles for investing in emerging markets across agriculture, education, energy, health, and SME finance. She supports companies with the design of inclusive business models and strategies, most recently in insurance, energy and water. Serena also advises investors and development finance institutions on impact assessments at the investment and portfolio levels, and has conducted multiple strategic evaluations of private sector development investments and funds in Africa, Asia and Europe. Prior to Dalberg, Serena was a senior manager at McKinsey & Company. Serena has also worked with Mercy Corps in Darfur, where she built an operational office providing public health and education support to 15,000 internally displaced people. Serena holds a PhD in Social Sciences from Caltech, with a specialization in Mathematics for Finance and Behavioral Economics, and a Laurea in International Economics from Bocconi University.



**SAM LAMPERT, GENEVA PROJECT MANAGER**

Sam is a Project Manager in Dalberg's Geneva office. He advises governments and international organizations on aligning business operations with long-term strategy and conducts strategic evaluations of how investments in the private sector support development objectives. Sam advised a leading development bank on how to evaluate tradeoffs within its investment strategy and increase the impact of its investments in financial services, agriculture, and energy while maintaining the bank's profitability. Sam has also assessed market demand for innovative finance mechanisms and developed a social impact bond for malaria control and prevention. Prior to joining Dalberg, Sam was a manager in the Emerging Markets practice of Deloitte Consulting. His professional experience also includes work as a social science researcher for Harvard University and as a finance associate with Doctors of the World – USA. Sam holds an MBA from INSEAD and a BA with Highest Honors from Emory University. He is fluent in French.