››› An overview of innovative financial instruments used to raise funds for international development

11th Plenary Session of the Leading Group on Innovative Financing

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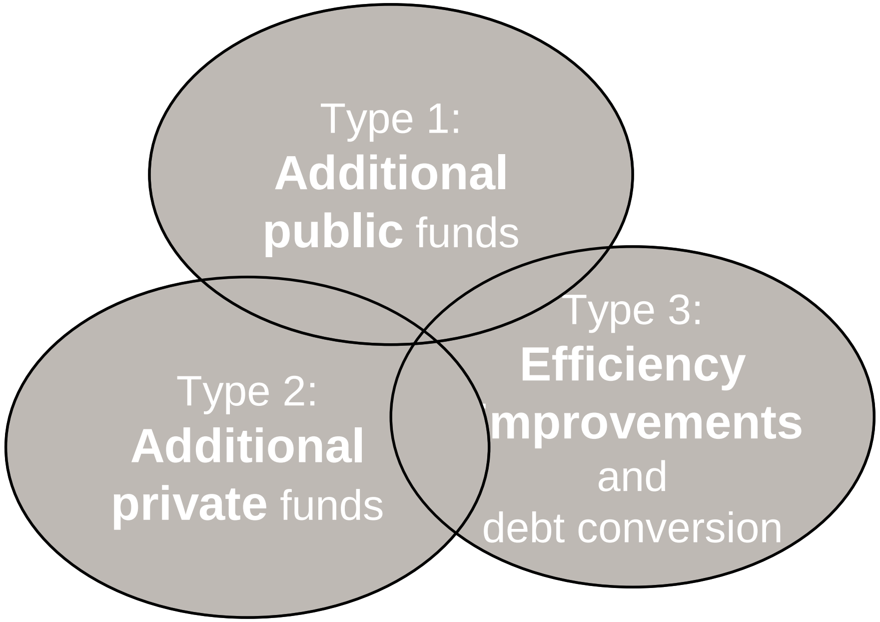
››› Introduction

- MDG requirements still challenge DAC members in suitable policies, strategies **AND** financial resources
- Controversy not just over the level of funds needed to finance development, **BUT** also with regard to the sources („Will innovative financing replace ODA?“, *The Development Newswire, 28.12.2012*)
- Maintaining the 0.7 % goal **AND/OR** usage of local sources (taxation, reduction of capital flight) first, and use funds more efficiently
- Do countries have sufficient capacity to absorb the funds **AND/OR** does development finance „poison“ or weaken the local efforts for development?

- Possible solution: combination of **policies strongly orientated toward development, increasing local revenues, strengthening the focus on results, increasing efficiency** and **mobilising additional international funding**

››› What are innovative financial instruments?

› Given the sources of financing, we classify the instruments in



››› Type 1: Mobilizing additional **public** funding

- **New taxes and levies** on specific activities, generally of a global nature (Financial transaction, airline tickets, CO_2 emission)
- **Government sale/auction** of rights of use (Certified emission rights, UMTS licences)
- Allocating **IMF special drawing rights** (specifically to developing countries)

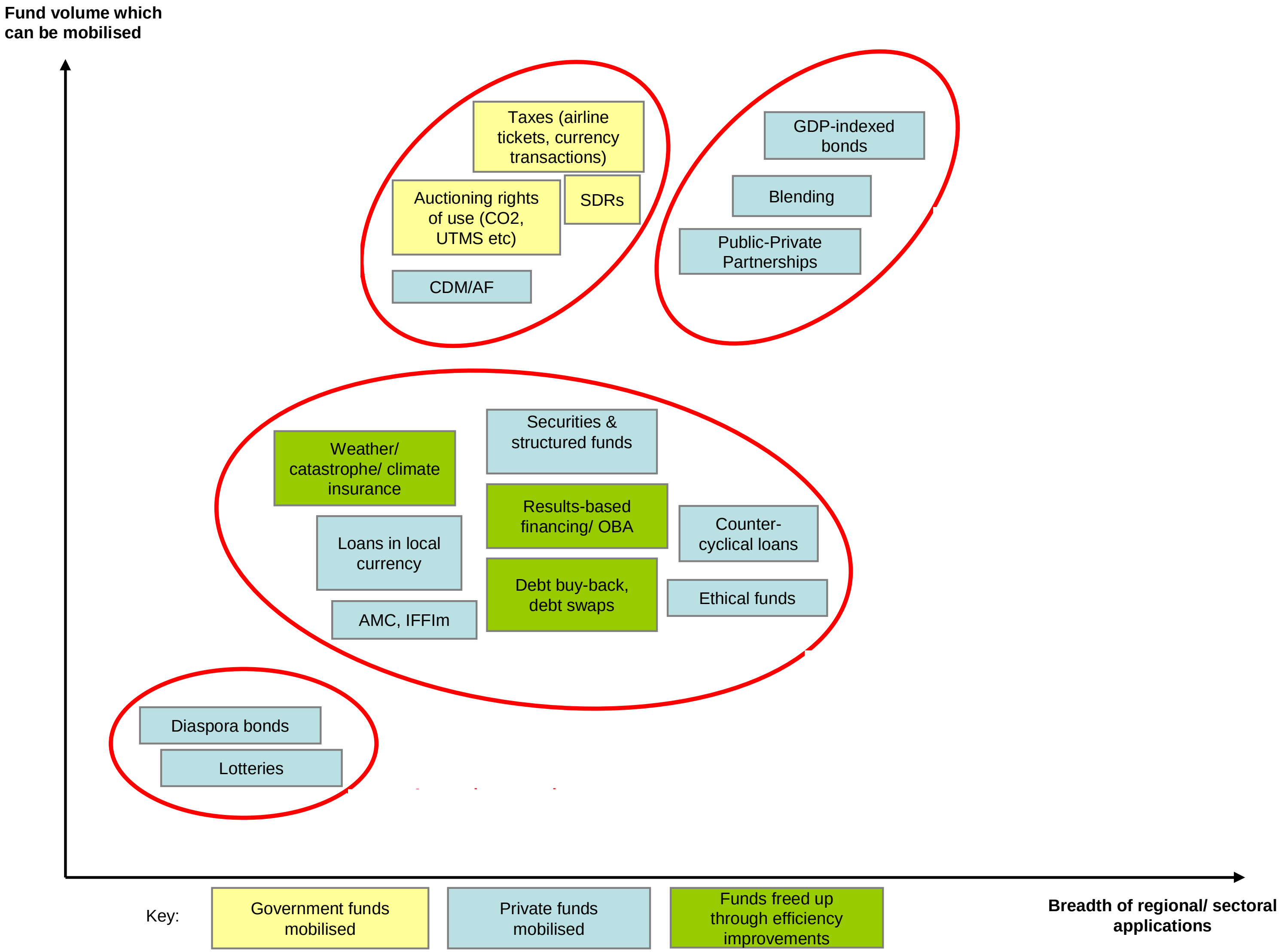
››› Type 2: Mobilizing additional **private** funding

- **Public Private Partnerships** (PPP)
- Government **guarantees/assumptions of risk** (IFFIm, AMC, GAVI)
- Concessionary loans **combining public and private funding (**Blending)
- Loans/bonds with **performance-dependent repayment** terms (Counter-cyclical loans, GDP-indexed bonds)
- Securities and **structured funds**
- **Ethical funds/bonds** and diaspora funds
- **Local currency** loans
- The **Clean Development Mechanism** and the **Adaptation Fund**
- Lotteries

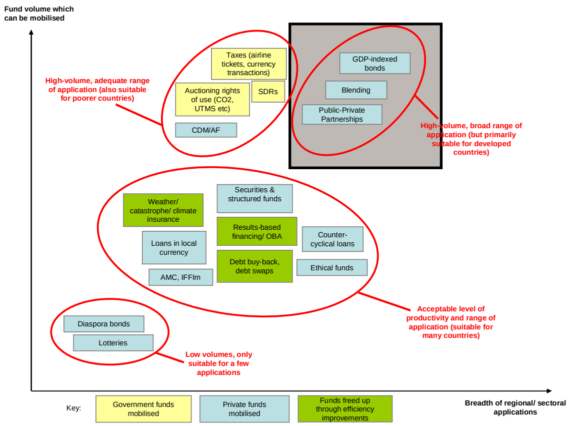
››› Type 3: **Efficiency** improvements or debt conversion

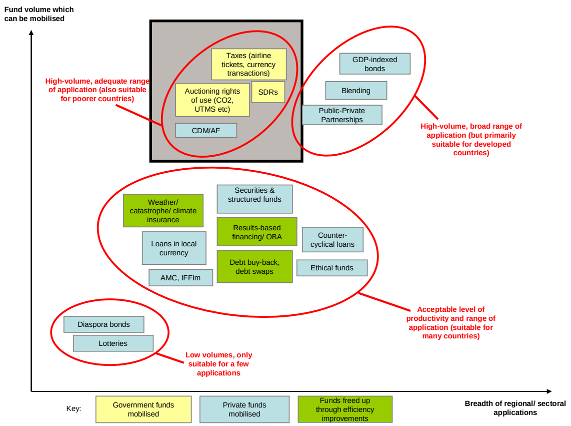
- **Result-based** Financing, **Output-based** Aid, Health Impact Fund
- Weather **insurance**, catastrophy **insurance**
- Conditional **debt forgiveness**, debt buy-back and debt-for-development swaps

››› Identification of four cluster



››› Instruments that **should be pursued with vigour**

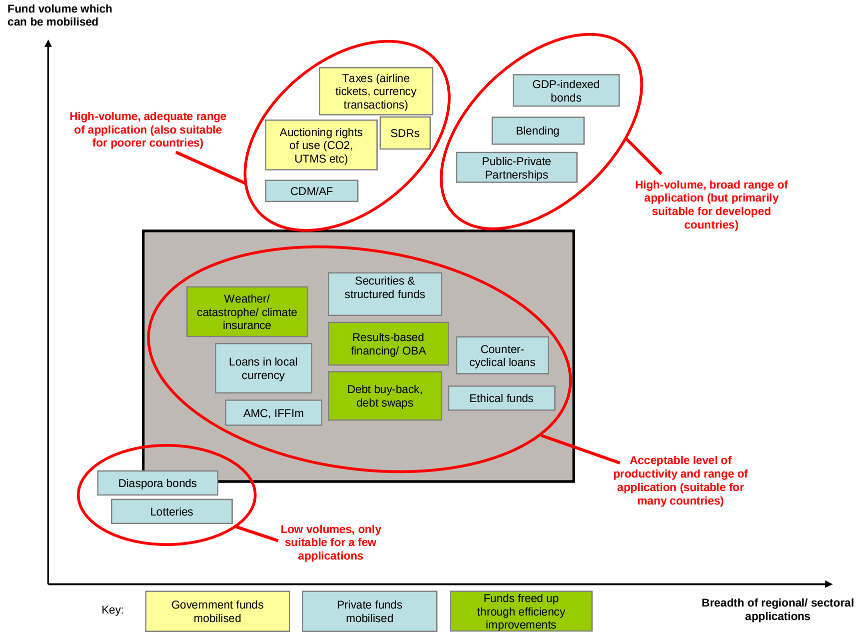




› **High-volume, broad range of application**,
BUT primarily suitable for advanced/middle income countries
→ the driver is the **private capital**
→ not all ideas are practically verified yet (GDP-indexed bonds)

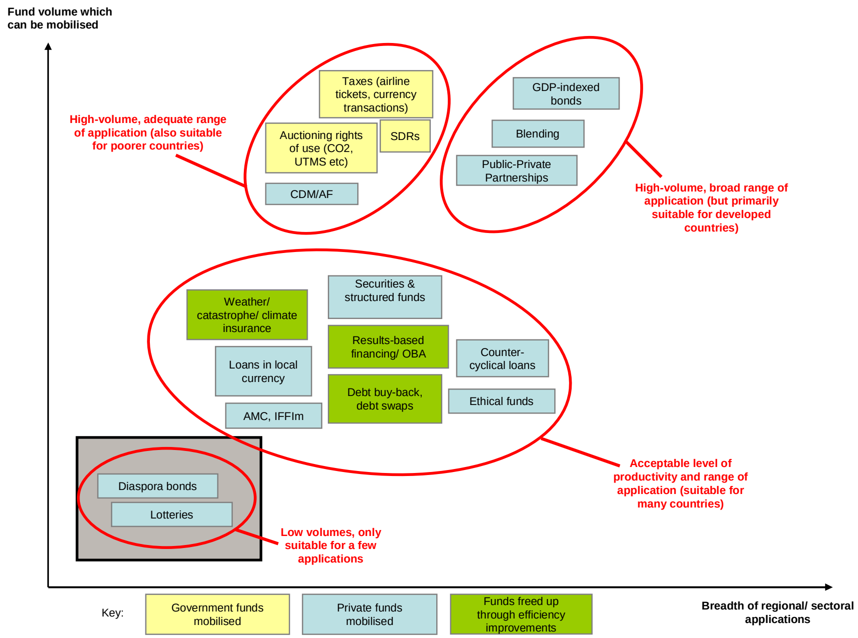
› **High-volume, adequate range of application**,
ALSO suitable for poorer countries
→ the aim is to mobilize more **public funds**
→ problems arise from unfavourable prevailing market conditions (CDM) and from the uniqueness of some events (auction rights)

››› Instruments that **could be considered more often**



› **Fair level of volume and range of application**,
THEREFORE suitable for many countries
→ mixture of **efficiency improvements** and mobilising **private capital**
→ **potential** for successful applications and increasing importance (local currency loans, structured funds)

››› Instruments that **complete** the former instruments **in specific contexts**



› Low volume and only suitable for a few, **but for that context reasonable**, applications

››› Conclusion: What do we learn for the future?

- **Focusing** on the fair and high volume instruments/ideas with a broad range of applications (Blending, GDP-indexed bonds, PPP, local currency loans)
- **BUT** all instruments/ideas with high or small volume are reasonable to **motivate financing**, which is needed for the development

- In the future
  - **Developing countries** have to be supported in their **own efforts** towards attracting financing for development beside the known problems (corruption, capital flight aso.)
    → How can perhaps **Remittances** be used for financing development?
  - **Misguiding incentives for traditional donors** should be mitigated
    → Not only invest in instruments that produce ODA, instead of developing new instruments that are not ODA.
  - **Think outside the box** to acquire new sources of financing.
  - **More private capital** should be motivated to speed up closing of the gap in financing for development.