Side-event in the margins of the Financing for Development Forum
16 April 2019 ~ 1:15pm – 2:30pm
UN Conference Room 11

Innovative financing for sustainable development: Scale and impact

Co-Organizers: Leading Group on Innovative Financing for Development (FRA, JPN), GER, UNDP

Objectives: Analyze progress and potential of different innovative mechanisms to finance the 2030 Agenda and discuss future challenges and opportunities.

Abstract:

The Leading Group on Innovative Financing for Development – represented by its President country (Japan), its Secretariat (France) in partnership with a member country (Germany) – invite you to discuss the main developments in the field of innovative financing for sustainable development, especially its scale and impact, with stakeholders from governments, academics, the private sector and civil society.

Full description

The international community faces a critical challenge in funding the Sustainable Development Goals (SDGs) with each year accumulating an estimated 2.5 trillion USD of funding gap. To fill this funding gap, the global community has committed to promoting innovative financing mechanisms for development through the Monterrey Consensus, Doha Declaration and Addis-Ababa Action Agenda. Work on this issue continues through the Leading Group on Innovative Financing for Development.

Innovative financing refers both to innovative sources of financing – which allows for raising new and additional resources of development finance as a complement to traditional aid – and innovative mechanisms of financing – which help to create incentives and increase the impact of existing resources (e.g. through partnerships with the private sector). Among the new models, channels and mechanisms that are emerging within development finance are tax levies, green bonds, social impact investments, loan conversions, blended finance instruments, debt swaps, crowdfunding instruments and many others.

It is increasingly clear that innovative financing can serve as a major catalyst of funding for the SDGs. At the same time, however, there are still open questions about how to scale innovative financing mechanisms, as pointed out by UNDP, DESA and Ferdi[1], and ensure their impact on sustainable development. Therefore, the Leading Group on Innovative Financing for Development (represented by its Chair Japan, its permanent Secretariat France, and its member country Germany) invite you to the side event "Innovative financing for sustainable development: Scale and impact."

The side event will bring together different stakeholders from governments, international organizations, the private sector, academia, and civil society, and will present already implemented and emerging innovative financing mechanisms and discuss their progress and potential as well as challenges they are facing to finance the SDGs. Among others, participants will especially shed light on solidarity taxes,

[1] See United Nations Development Programme, (2012). Innovative financing for development: a new model for development finance? Discussion paper. New York, United Nations, *World Economic and Social Survey 2012, In Search of New Development Finance*, Sales No. E.12.II.C.1 and Boussichas, M., and Nossek, V. (2018) "What's new in Innovative Financing?" Ferdi, working paper P227, May 2018.

blended finance initiatives, as well as new developments and opportunities in the Impact Investing market.

Solidarity taxes (such as the air ticket levy and the financial transaction tax (FTT)) are good earlier examples of innovative sources to top-up public development finance. They contribute to a better distribution of wealth by collecting thinly spread tax from economic activities that benefit from globalization and respond to the necessity of addressing global challenges with global players. The air ticket levy has mobilized important capital in a sustainable and predictable way and its revenues have enhanced UNITAID's negotiating power with drug companies. It demonstrates the feasibility of channelling microdonations from citizens around the world into a central agancy set up specifically to recieve and deploy the proceeds. The oroginal FTT has been discussed as a revenue-raising instrument to finance global public goods since the 1990's. France introduced the FTT in 2012 and 10 European countries are negotiating EU-wide FTT since 2011. These two examples have proven to be very effective, especially in France where both have been implemented, raising more than €3.715 billions[2] since 2006. While it provides a replicable template which can be applied to different development and humanitarian sectors either individually or collectively, it requires further clarification of its potential resource mobilization and technical feasibility and further invigoration of political will to take it to scale.

In addition to solidarity taxes and other innovative instruments that primarily aim at the mobilization of additional public sector financing for sustainable development, there has been a broader shift of paradigm where public development finance increasingly aims at catalyzing more private investments for sustainable development. Thus, new innovative tools known as "blended finance mechanisms" have been emerging in recent years to incentivize private investments and to use leverage effects, e.g. matching funds and structured funds, guarantee mechanisms, syndicated loans, etc.. However, more work is needed to better assess and understand the contribution and impact of blended finance in achieving the SDGs. As a step into this direction, the OECD has recently released a working paper on "Blended Finance Evaluation: Governance and Methodological Challenges" which was co-authored by the German Institute for Development Evaluation (DEval).[3]

Simultaneously, a growing number of investors express interest in taking social and environmental issues into account in their investment decisions. Therefore, Iimpact investing (investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return)[4] is a promising avenue towards achieving the SDGs. It is one of the fastest growing markets in the finance industry (+17% in 2017) and can be an important instrument to "shift the trillions" towards financing the SDGs. The international community should capitalize on this growing interest in and promote sustainable investing at a local level, while ensuring that a better understanding and agreement at the international level is reached on how to measure the impacts of investments. This will help to avoid "impact washing" where the term "impact investing" is only used as a marketing tool. Important

[2] Actions financed with solidarity taxes (the FTT and the tax on air tickets) are targeted on two priorities: the environment and the fight against climate change on one hand (Green Fund), and health, in particular the fight against major pandemics, on the other hand (UNITAID, Gavi, Global Fund to Fight AIDS, Tuberculosis and Malaria, IFFIm).

[3] The recently published OECD working paper "Blended Finance Evaluation: Governance and Methodological Challenges" was authored by a team of experts from the Danish Institute for International Studies (DIIS), the German Institute for Development Evaluation (DEval), the Ministry of Foreign Affairs of the Netherlands and with the support by the Ministry of Foreign Affairs of Denmark.

[4] Definition of the Global Impact Investing Network, see https://thegiin.org/impact-investing/need-to-know/#what-is-impact-investing.

work in this regard is already on the way, as demonstrated for example by the recent OECD report ‘’Social Impact Investment 2019: the impact imperative for sustainable development”.

In addition, Development Impact Bonds and other outcomes-based instruments offer development agencies and Governments new and powerful tools for increasing the impact of their resources and for mobilizing private capital and know-how for progress on the SDGs.

Discussing the abovementioned different mechanisms available to the respective stakeholders, participants will seek how promote innovative financing toward the High-level Dialogue on Financing for Development, which will take place in September 2019, back to back with the HLPF at summit level.