



Leading Group's side event in partnership with the United Nations:

“Innovative financing: a solution to diversify the financial toolbox for sustainable development and climate”

SAVE THE DATE

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United Nations Conference Building, New York

1. The Leading group's mission: showing how innovative financing can bring solutions to implement the post-2015 agenda on sustainable development and climate

The **Leading group** on innovative financing is an informal international platform committed to the search for new and innovative sources and mechanisms of financing for development and dedicated to **promoting innovative solutions to fund the agenda on sustainable development and climate** change based on the idea that not only do we need more sources but also new types of resources in favour of a world that is just, equitable and inclusive. According to the UNGA resolution 65/146 and the final declaration of the Rio+20 UN Conference, “innovative financing can make a positive contribution is assisting developing countries in mobilizing additional resources for development on a stable, predictable and voluntary basis that are complementary to the Official Development Assistance”. Since 2006, the Leading group has been **studying the potential of many promising financial options** to finance different areas of development such as global health, education, food security, agriculture and nutrition, biodiversity and, more recently, climate.

Chile has been chairing the Leading Group since July 1, 2014. One of the priorities of its mandate will be to **make sure that the existing and successful innovative financing instruments are taken into account in the global strategy to implement to new agenda** on sustainable development and climate and to eliminate poverty, promote social inclusion, raise living standards and protect the environment. Promoting collective actions to support the efforts of the international community, including the civil society, to

respond to the challenges of globalization, create a more equitable economic and social environment at the national and international scale and contribute to ending poverty in all its forms everywhere is central for the Chilean Presidency.

In this context, innovative financing is at the core of our collective action to promote financing for development – sustainable, gender-sensitive, and people centered – in all part of the world. We should build on the work done since the Monterrey Conference on Financing for Development (2002) to move ahead towards the Post-2015 Agenda, the next Conference on Financing for Development that will take place in July 2015 in Addis Ababa, as well as the commemoration of the 20th Anniversary of the World Social Summit in 2015.

Innovative financing was first referred to in the Monterrey Consensus and is usually designed in order to **bring financial solutions to development challenges that remain insufficiently addressed by traditional aid flows**. According to the Leading group, it can be seen as **means to expand the traditional financing toolbox** used by development stakeholders. **Two main categories** can be distinguished: on the one hand, **innovative financing sources** enabling new resources for development to be generated (solidarity taxes, private micro-donations, etc.) and, on the other hand, **innovative financing mechanisms** offering the possibility of channeling existing resources (public, private or under the form of a public-private partnerships) in order to improve their impact and/or efficiency via a leverage effect. These two main categories of instruments give an initial idea of the field covered by innovative financing.

An expert workshop took place in Paris on June 19th and 20th 2014 to discuss how innovative financing could fit into the post 2015 framework. The group recognized the importance and relevance of innovative sources and mechanisms, the need to scale up existing initiatives and the benefits associated with an improved coordination between existing instruments.

2. The tremendous challenge of sustainable development and climate change require a global financing strategy relying on multiple sources

According to the outcome document of the Open Working group for Sustainable Development Goals (July 2014), “the implementation of sustainable development goals will depend on a **global partnership** for sustainable development with the **active engagement of governments, as well as civil society, the private sector, and the United Nations system.**”

As they often rely on **multi-stakeholder approaches** involving public entities from the North and the South, private and local actors, innovative financing instruments fit into the idea of a global financial partnership for sustainable development. Innovative financing 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. Therefore, innovative financing aims at better distributing the world’s wealth and reducing inequalities which is another important aspect of the post-2015 development agenda.

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).

Many other innovative initiatives have been implemented to raise more resources for sustainable development. Since its inception in 2006, the air ticket levy 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 10% percent is allocated to development purposes with no or marginal adverse effects on markets. 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 or the very concessional countercyclical loans offered the Agence Française de Développement¹.

3. Financial innovation, one way to respond to the 100 billion commitment for climate change adaptation and mitigation

As concentrations of greenhouse gases (GHG) in the atmosphere continue to grow to ever more worrying levels, and adaptation appears more and more challenging, large scale action on climate change is desperately needed. The urgent development and implementation of climate-friendly policies, regulatory frameworks and investments are fundamental to reorient all economies on a sustainable path. To achieve this objective, **mobilizing massive amounts of climate finance, within countries but also between developed and developing countries, will be key.**

In 2009, developed countries committed themselves to a goal of **jointly mobilizing US\$100 billion a year by 2020 from a wide variety of sources** to address the needs of developing countries. Beyond this commitment, the amounts of financing to be reoriented

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.

towards **green investments** are enormous. In light of the magnitude of this challenge, and without neglecting the central role of traditional public finance, it is widely recognized that the **mobilization of private finance flows and of various innovative sources will be essential.**

Many different categories of potential innovative climate finance instruments have already been explored, including **carbon pricing instruments**, related and essential **fossil fuel subsidy reforms**, **carbon market** including offsetting mechanisms such as the **Clean Development Mechanism** and **green bonds**. The workshop organized by the Leading group in Paris in June allowed to showcase the ways in which innovative financing mechanisms can be used to anticipate and reduce the impact of climate change. Through its work on **climate risk modelling and mutualisation**, the African Risk Capacity (ARC), a specialized agency of the African Union, demonstrated how to mobilize financial instruments such as insurance to boost resilience at a regional level. UNICEF also presented its **disaster risk reduction strategy** with a child-focused **multi-sectorial approach**. The World Bank (IFC) highlighted the use of **blended finance** instruments to catalyze private investment that would not otherwise happen due to market barriers. IUCN also demonstrated the interest of investing in **green infrastructures** to adapt to climate change. Private investments, backed by a public stakeholder, in projects that generate carbon credits were also presented by Althélia Ecosphere and the Livelihoods Fund as a promising option. In addition to these climate-specific avenues, many other innovative instruments and sources developed for general development purposes can also participate in climate finance efforts (performance-based instruments, policy and enabling environment support, guarantees, insurances, innovative sources such as financial transaction tax, etc.).

This event takes place in the context of the **process started in Rio + 20** and with the back-drop of the different processes initiated to reach a consensus, in a common effort, on the Post-2015 Agenda on sustainable development consistent with the overall interest of developed and developing countries. The Leading group wishes to take the **opportunity of the opening of the 69th United Nations General Assembly to gather high profile development actors and raise awareness on the huge potential of innovative financing initiatives to respond to the important question of “how” to achieve our development goals.** Many success stories need to be told in order to **scale up the innovative and performant financial tools** that have been designed and tested over the past few years. Political will and choices will be essential to move forward. These choices can only be made wisely if all the relevant stakeholders get together and share best practices and solutions to our global challenges.