

Experts' workshop of the Leading Group on Innovative Financing for Development

Paris, 19-20 June 2014

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

The Permanent Secretariat of the Leading Group on Innovative Financing for Development gathered a group of international experts for a day and a half of discussions on the role of innovative financing in the sustainable development and climate agenda. The aim of this workshop was to bring together a panel of various development stakeholders (government representatives, international organizations, NGOs, private sector representatives) to discuss and draw up possible recommendations on the added value of innovative finance in the means of implementation of the post-2015 agenda and in climate finance as well as on the most promising options to promote.

Belgium, Brazil, Chile, the Republic of the Congo, Denmark, Finland, France (Ministry of Foreign Affairs and International Development, Directorate-General of the Treasury, *Agence Française de Développement*, Interministerial Delegation for the Mediterranean, Ministry for Ecology, Sustainable Development and Energy), Germany, Japan, the Republic of Korea, Madagascar, Morocco, the Netherlands and Spain were represented. Many international and civil society organizations also participated in the debate: OECD, UNICEF, IUCN, FAO, World Bank (IFC), Commonwealth, OIF, UNITAID, African Risk Capacity, *Action contre la Faim*, Dalberg strategic advisory firm, Livelihoods Fund, Brazilian Biodiversity Fund (Funbio), GRET, Althélia Ecosphere, *Epargne sans Frontière*, the company Heoh, etc.

The French Secretary of State for Development and Francophonie, Ms Annick Girardin, brought the workshop to a close, alongside Mr Philippe Douste-Blazy, Chair of the Executive Board of UNITAID and Special Advisor to the United Nations Secretary-General on Innovative Finance for Development, with the rank of Under-Secretary-General.

General session of innovative financing:

This session was an opportunity to underline a fundamental issue: the absence of a shared and accepted understanding of the concept of innovative financing on an international scale. This lack of a commonly agreed definition is perceived as a hindrance to strengthening political and technical mobilization with regard to instruments that have proved successful on the ground and to measuring their contribution towards implementing the development agenda. Although many initiatives have proved effective, they remain too isolated and would benefit from improved coordination allowing them to be replicated in other countries and/or sectors. By **establishing a definition broad enough to include a large number of actors and initiatives** and **classifying existing instruments more rigorously**, it would also be possible to **measure the flows generated by innovative financing with greater precision** and thus to **facilitate accountability and evaluation of the impact** of innovative financing.

The panel agreed that it was important to determine, thanks to such a classification, **the respective inputs of public and private flows** and distinguish the **different sub-categories corresponding to the types of services provided through innovative financing**. It was deemed necessary to differentiate between, on the one hand, **innovative financing sources** enabling new resources for development to be generated (for example, solidarity taxes, private micro-donations, etc) and, on the other hand, **innovative financing mechanisms** offering the possibility of channelling existing resources (public, private or under the form of a public-private partnerships) in order to improve their impact and/or efficiency via the leverage effect. These two main families of innovative finance give an initial idea of the field that it covers.

The purpose of innovative financing is another element that brings us closer to a definition. The panel concluded that innovative financing aims to **provide solutions to challenges that are specific to sustainable development** in cases where traditional assistance is inadequate in terms of volume and instruments: protection of Global Public Goods, addressing market failure, access to financial market liquidity, risk reduction, private investment incentives, etc. It sometimes involves existing instruments (taxes, bonds, loans) used in a new context, with a new objective or according to new modalities of implementation. The aim of innovative financing is to **diversify the tool box used to implement sustainable development objectives**. According to the Leading Group experts, a **common language is necessary** to bring public and private stakeholders together to focus on shared financial instruments.

Several panellists also pointed out that **innovative financing should not be defined in comparison with Official Development Assistance (ODA)**. Firstly, the actors involved in the design and implementation of innovative financing are not necessarily members of the Development Assistance Committee (DAC) of the OECD: some developing countries benefitting from ODA and/or not declaring any ODA have introduced innovative financing instruments, so have private actors. Secondly, while the reflexion on financing for development within the UN and other spheres is increasingly exploring instruments “beyond ODA”, the concept of ODA is itself being redefined by the DAC. Moreover, most countries that practise innovative financing count the sums raised and/or invested as part of their ODA, which renders the distinction between ODA and innovative financing irrelevant. The panellists agreed that it was wiser to **consider the instruments as additional to one another that to consider the financial flows involved as additional to ODA**. However, the importance to **keep aiming, in parallel, to increase donors' assistance budgets**, in addition to the adoption of innovative instruments, was highlighted.

The **Commonwealth Secretariat** presented its **draft handbook on innovative finance**, which aims to make the range of existing options more readable and accessible by listing them by criteria, types of stakeholder involved and services provided. This initiative also seeks to present the strengths and weaknesses of existing instruments, as well as their potential in terms of replicability and resource mobilization. Ultimately, this handbook should help to identify fundamental principles to ensure that innovative financing is used more effectively and with optimum impact. The OECD, which takes a very active part in the process of classifying the mechanisms, emphasised the importance of expanding the tool box as much as possible by including in it any initiative that helps to better resolve a development problem through innovation. The panellists also said that, in addition to a review of existing instruments, a **map of mobilized stakeholders** and the extent of their mobilization would be useful for promoting innovative financing.

Although the experts affirmed the importance of working towards a definition and a stricter categorization of innovative financing solutions, they warned against the **risk of focusing too much on the theoretical and conceptual aspect of innovative instruments**, at the expense of an analysis based on experiences in the field. For some panellists, the “innovative” nature of the instruments was less important than their effectiveness and operationalization. It is therefore important to find a happy medium between formalizing the notion of innovative financing – which is necessary in order to promote it – and creating local environments that enable the initiatives to be implemented.

A concrete example of a new innovative financing initiative was presented during the opening session by the **recently-established private company Heoh**. Its model consists of facilitating the process of private donations to NGOs through specific credit cards or payment terminals. In this case the innovation is local, as this financial solution for NGOs is still very limited in France, and global, as the modalities of fundraising and donation are both simple to implement and more flexible than the other similar experiences abroad. This model sets an example in terms of mobilizing technological innovation, financial innovation (management of the funds collected and distribution to NGOs) and organizational innovation (bringing together stakeholders: donors, NGOs, shops, tax authorities).

Strengthening synergies between government stakeholders was also identified as a priority objective by the group. Creating a map of mobilized stakeholders (mentioned above) is the first step in this direction. The **political feasibility of the instruments** listed was a key aspect of the analysis of innovative financing implementation.

During this workshop, the members of the Leading Group came to an agreement regarding the creation of a **small working group charged with drafting a definition of innovative financing to be presented to the international community**. The group’s participants will be identified and will set to work under the supervision of Chile, which will take over the rotating presidency of the Leading Group on 1 July 2014. **Close collaboration between the Permanent Secretariat and the Commonwealth** in order to finalize the handbook on innovative financing is another objective for the coming weeks. The members of the Leading Group will also be requested to contribute towards improving this handbook.

Themed session on climate:

This session was an opportunity 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, mobilizes financial instruments such as **insurance** to boost resilience at a regional level. UNICEF has also adopted a disaster risk reduction strategy with a child-focused **multi-sectoral approach**. The World Bank (IFC) highlighted the use of **blended finance instruments** that combine funds from the World Bank with concessional donor funds to catalyse private investment that would not otherwise happen due to market barriers. An important aspect is that the public sector must provide incentives and guarantees in order to increase the flows of sustainable and climate-smart private investments. **Green bonds** were also mentioned as having significant potential to mobilize resources. Lastly, the Interministerial Delegation for the Mediterranean (a service attached to the French Prime Minister) presented the **AREAS Foundation project**, which speeds up the development of sustainable local infrastructure projects in the Mediterranean region. This innovative approach allows reducing their costs during the stages of development, financial structuration and

management via a network of stakeholders using innovative financing tools (financial resources mobilised through partners of the Foundation and crowdfunding).

The \$100 billion objective requires the mobilization of large-scale financial instruments. Nevertheless, some smaller-scale mechanisms have significant added value, particularly in terms of their effects in the long term. The Leading Group should therefore also focus on identifying operational tools at the local level and coordinating them to optimize their impact.

Themed session on biodiversity and climate:

Although biodiversity plays a decisive role in human economic activities, the budgets allocated to preserving ecosystems and species are small. This session was an opportunity to highlight the different aspects of the value of biodiversity (intrinsic, economic, cultural and social), to discuss ways of preserving this value while using it to address the climate challenge and to determine which financial options had the best potential.

The International Union for Conservation of Nature (IUCN) demonstrated the value of **ecosystem-based adaptation to climate change**. **Green infrastructure** (such as mangrove restoration, replanting riparian buffer zones, use of “climate-smart” species) provides defences that are natural, effective and much cheaper than grey infrastructure protecting against risks linked to climate change. The **role of biodiversity in climate change mitigation** (mainly through the capture of atmospheric carbon) was also emphasized. GRET presented the findings of a study on innovative initiatives for biodiversity financing monitored by France¹. The study selected three groups of initiatives worthy of particular interest: **green markets** and placing biodiversity at the heart of global value chains as a catalyst in the transition towards sustainable patterns of production and consumption; the **conversion of harmful subsidies**, which has significant fundraising potential and contributes to the process of making public policies coherent, and **superoffsetting**. The Brazilian Biodiversity Fund (Funbio) presented the **Latin American and Caribbean Network of Environmental Funds (RedLAC)** initiative seeking to promote innovative financing solutions and diversification of funding sources for biodiversity conservation throughout Latin America (bilateral and multilateral aid, CSR, private sector offsetting, payments for environmental services and REDD+, taxes). Lastly, **Althelia Ecosphere** reported, on the basis of findings by the Carbon Tracker Initiative in particular, that the risks associated with conventional investments in high-carbon sectors are underestimated. It also highlighted opportunities for lower-risk investment in conservation projects via a mechanism involving several stakeholders: the Althelia Climate Fund, a guarantor (USAID), a partner that generates carbon credits, and the carbon market. This initiative seems to be an effective way of attracting existing private funds on capital markets towards investments that combine sustainability and profitability.

Themed session on agriculture and climate:

During this themed session, the group discussed the **links between the parallel challenges of an increasing world population and related changes in diets and climate; the development of agricultural production; and the fight against hunger and malnutrition**. The debate focused on the need to **re-think agricultural public policies and development models as well as the financial instruments that can serve them**.

¹*Innovative initiatives for biodiversity financing*, June 2014: <http://www.diplomatie.gouv.fr/en/photos-publications-and-graphics/publications/article/innovative-initiatives-for>

The concept of **climate-smart agriculture (CSA)** was discussed. *Action contre la Faim (ACF)* warned that a precise, accepted definition of this concept has not yet been established (the current definition is vague regarding use of GMOs, agro-fuels and inputs). FAO, meanwhile, clarified that CSA was **an approach aiming to resolve problems but not a form of labelling** or a policy to promote a particular technology.

The panel agreed that it was necessary to use innovative finance to fund the transition to sustainable production patterns. Sources of innovative financing and **mechanisms enabling innovative use of resources** should be relied upon in equal measure. The approach of the **Livelihoods Fund**, which receives contributions from the group Danone, among others, was presented as a solution with high potential for **boosting private investment in sustainable, profitable projects with a tangible impact**. The **insurance systems proposed by ARC** were also highlighted as one of the most promising solutions, as was the spreading of the practice of financing guaranteed by the storage of agricultural products in general stores ("**warrantage**") mentioned by AFD, which is worth developing and making accessible to small-scale farmers. The panel also emphasised the need to **narrow the divide that separates small-scale farmers from the world of finance and its investment tools**. Currently, overcoming poverty remains the priority for most farmers, for whom investments in green production methods are out of reach.

The panel concluded that **progress in this regard would depend firstly on policy choices** regarding the models of development and production to be promoted. These models should be based on several pillars: **sustainability, adaptation, mitigation and biodiversity**. Public policy choices regarding the migration of rural populations and the progression towards commercial farming were also deemed fundamental.

The French Minister of State for Development and Francophonie, **Ms Annick Girardin**, and the Chair of the Executive Board of UNITAID, **Mr Philippe Douste-Blazy**, agreed that it was urgently necessary to continue technical work on the innovative financing instruments to be highlighted in the sustainable development agenda. Aware of the budget constraints faced by public authorities in many countries, they underlined the importance of collective mobilization to find financial and technical solutions to the challenges posed by sustainable development and the climate. Mr Douste-Blazy recalled the considerable positive impact of the air ticket levy on access to healthcare worldwide and emphasized the importance of pursuing international efforts to ensure the entry into force of a financial transaction tax for development at European level. He also highlighted, in addition to solidarity taxes, the immense range of existing innovative mechanisms, in particular the Medicines Patent Pool (MPP) run by UNITAID to facilitate the production of generic medicines and lower their cost. Ms Girardin recalled the progress that was being made by France in this area, both in terms of legislation and regulations (with the entry into force of a national law on development and international solidarity policy planning and implementation) and in terms of concrete action (organization of the Leading Group and establishment of an air-ticket levy to support UNITAID and a financial transaction tax to support global health and climate projects).

Next steps:

- ➔ **Establishment of a sub-group charged with drafting a precise and inclusive definition of innovative financing that could be commonly agreed at the international level.**

- ➔ **Contribution of the Permanent Secretariat to finalizing the Commonwealth handbook on innovative finance, which will constitute a reference amongst the classification tools.**

- ➔ **Joint organization by the Permanent Secretariat, the Chilean Presidency and UNITAID of a high-level side event alongside the opening of the 69th Session of the United Nations General Assembly, in order to promote a better inclusion of innovative financing within the means of implementation of the agenda on the sustainable development and climate.**

- ➔ **Continuation of discussions, in the context of preparations for COP 20 in Lima and COP 21 in Paris, on introducing instruments with high potential as regards climate on a larger scale:**
 - **Eco-system based adaptation and mitigation**
 - **Environmental funds (e.g. RedLAC)**
 - **Insurance and risk management mechanisms (ARC)**
 - **Blended finance**
 - **Private investments, backed by a public stakeholder, in projects that generate carbon credits (Althélia, Livelihoods)**
 - **Green bonds**
 - **Solidarity taxes**
 - **Crowdfunding/micro-donations by citizens (e.g. Heoh)**