Informal Summary of the Panel discussion on
“Innovative Mechanisms of Financing for Development”,
12 July 2012, 10:00 a.m. – 1:00 p.m. ECOSOC Chamber

In its resolution 66/191 of 22 December 2011, the General Assembly “requests the President of the Economic and Social Council to organize a special event on innovative mechanisms of financing for development with the participation of relevant stakeholders during the substantive session of 2012 of the Council” (para 22).

Accordingly, the Financing for Development Office organized a Panel discussion on “Innovative Mechanisms of Financing for Development” on 12 July 2012, as part of ECOSOC Substantive session of 2012 Coordination segment. The objective of the panel discussion was to explore how present and new mechanisms for innovative development finance can 1) increase the scale of development financing available and 2) provide stable and predictable financing to enhance sustainable development.

This informal summary by the Secretariat highlights the main points of the discussions and specific proposals and ideas leading to action-oriented results. It is expected to provide an important informal input into the Financing for Development process, including FfD–related issues on the agenda of Second Committee of the General Assembly during its 67th session.

The Panel discussion was chaired by H.E. Mr. Mootaz Ahmadein Khalil, Vice-President of the Economic and Social Council and Permanent Representative of Egypt to the United Nations and moderated by Mr. Alexander Trepelkov, Director, Financing for Development Office, Department of Economic and Social Affairs, United Nations.

In his opening remarks, the Chair stressed that Innovative Development Finance (IDF) is assuming greater importance in the current conditions of declining ODA and fiscal difficulties in donor countries. As stated in the Outcome document of the Rio+20 United Nations Conference on Sustainable Development “The future we want”, IDF can make an important contribution to mobilizing additional resources in support of inclusive and sustainable development. He outlined some of the questions the panel could address, as follows:

1. How can the United Nations help reach an international agreement on the precise definition and scope of innovative sources of finance?
2. How can countries and institutions providing innovative development financing assure that these are stable and additional resources that can be aligned to recipient countries priorities and strategies?
3. How can innovative finance be mobilized for the effective implementation of the Rio+20 outcome document?
4. How can innovative finance leverage resources from the private sector for sustainable investment policies and how can national institutions be assisted to effectively utilize these resources?
5. How can the delivery and monitoring mechanisms streamlined and parallel systems and complicated structures for innovative financing be reduced or eliminated?
(6) Who should provide independent monitoring and evaluation at the international level to assess delivery, allocation and impact of innovative financing on development outcomes?
(7) How can vertical funds be encouraged to incorporate more flexibility into their strategies and financing modalities to ensure country ownership?
(8) What modalities should ECOSOC or the General Assembly utilize for the follow-up deliberations on innovative mechanisms of financing for development, with the participation of all relevant stakeholders, to examine the potential of existing and proposed mechanisms and make recommendations for increasing their scale and predictability?

In turn, the **Moderator** also emphasized the expected role of IDF in contributing to the achievement of the UN Development Agenda, including the MDGs, as well as realizing UN’s Rio+20 and post-2015 development visions. He recalled that since the Monterrey Consensus in 2002, all United Nations major conferences and Summits in the Economic, Social and related fields have recognized that IDF can make a positive contribution in assisting developing countries to mobilize additional resources for development on a voluntary basis. He mentioned that the UN General Assembly, in a series of resolutions on Financing for Development reiterated that such voluntary mechanisms should aid to mobilize resources that are stable and predictable, should supplement and not substitute for traditional sources of financing and should be disbursed according to the priorities of developing countries. The Assembly stressed the importance of scaling up present initiatives and develop new IDF mechanisms.

Panel presentations:

**HE Dr. Syed. A. Samad**, Board of Investments Executive, Prime Minister’s Office, Government of Bangladesh, highlighted existing innovative mechanisms and their role in support of the Least Developed Countries (LDCs) and pointed out to some of the constraints in development financing in Bangladesh. He said that LDCs were in acute need of substantial additional, predictable and stable funding to cope with current and emerging challenges, such as climate change and youth unemployment. Long-standing innovative ideas like Tobin’s currency transactions tax (CTT), financial transactions tax (FTT), use of IMF Special Drawing Rights (SDRs) for development, among others, need to be implemented, as suggested by the Leading Group on innovative financing.

He recalled that, given the shallow domestic capital markets, unable to provide long-term development financing, Bangladesh was actively promoting the effective use of remittances and public private partnerships (PPP) to meet the financing gap, including $40 million annual budgeting for social needs. Accordingly, it has set up a PPP framework, supported by a specialized unit in the Ministry of Finance. Bangladesh has also created infrastructure investment and technical assistance funds, now implementing 8 projects under 5 ministries, with estimated investments of $375 million. It has established 5 special economic zones to attract foreign direct investment, which has risen to a record level. It also licensed 2 non-resident banking institutions to raise financing for mega-projects and is actively facilitating the use of Diaspora bonds and remittances for development financing. Still, IDF use was
embryonic and under-developed in Bangladesh and the country was eagerly looking forward to learn from the experience of other countries, as shared during this debate.

Mr. Denis Broun, Executive Director, UNITAID, spoke about the IDF practitioner’s experience of UNITAID, known as a laboratory for IDF. He underscored how innovative financing has allowed UNITAID to transform commodity markets and access for patients with HIV, TB and malaria. He stated that most of UNITAID resources depended on IDF sources, such as air ticket levies and carbon emission taxes, complementing specially designated ODA flows, amounting to $1.2 billion so far, 86 per cent of which have been devoted to low income countries needs. These resources have allowed UNITAID to have predictable multi-year and flexible funding to negotiate decreasing prices, adapt drugs to specific needs in developing countries, facilitate prequalification of drugs for low income countries and working with local NGOs to implement projects. He highlighted the role of UNITAID in remedying certain intractable market failures, such as the lack of production of certain medicines due to the absence of a critical mass of patients in need for it in developed countries, by effectively creating a global market for them that reflected the needs in developing countries.

As an example, he mentioned the provision of paediatric anti-retroviral drugs for children with HIV in developing countries, by pooling demand and negotiating with Indian pharmaceutical companies, which resulted in reducing the price from around $400 to $120 per person per year, and helped over half a million children through 9 new drugs. Another, second-line HIV drug developed with the help of advanced market commitment (AMC) reduced the required annual expense per person from $1500 to $450 and the affordable medicine facility for malaria allowed provision of previously expensive medicines without resistance, at the affordable cost of $0.5 cost by local drugstores in 7 endemic countries. He underscored that UNITAID was working to expand the multiplier effect of its projects by preparing ‘market landscape’ reports, updated every 6 months, and setting up an advisory group for investors.

Mr. David O’Connor, Chief, Policy Analysis and Network Branch, Division for Sustainable Development, Department of Economic and Social Affairs, United Nations focused on the Rio+20 outcome and the elements of a financing framework for sustainable development. He underscored that innovative instruments can help match available funds to end users, strengthening the weakest link of the financial supply chain for sustainable development, as financial sectors are usually underdeveloped in low income countries. He highlighted the role that IDF is expected to play in the drafting of a report proposing options on an Sustainable Development Financing Strategy to facilitate the mobilization of resources and their effective use in achieving sustainable development objectives, to be developed by the United Nations General Assembly by 2014, as established in Para 255 of Rio+20 Outcome Document “The Future We Want”, in parallel to the design of new Sustainable Development goals. As available public resources are insufficient, and private capital predominates in most international financing flows, IDF mechanisms and instruments can act as catalysts to multiply such funds, in a process perhaps analogous to fractional reserve banking, as well as lowering risks and the cost of capital.

One of the main issues that existing instruments in sustainable development finance face, such as the Clean Development Mechanism (CDM), is their limited scale. To
foster such mechanisms it is fundamental to address the uncertainty of the future of the Kyoto Protocol and the associated future price of carbon. Bond markets can also leverage green investments through instruments such as securitization of small projects. Payments for ecosystem services, such as REDD carbon sequestration in forests, have mobilized resources but many issues need to be resolved, including property rights of indigenous communities. Advanced Market Commitments are being discussed as possible options to enhance existing mechanisms such as CDM and REDD, reducing uncertainties related to carbon pricing. Regulatory framework changes being considered could also foster the participation of sovereign funds and institutional investors such as pension funds in sustainable financing. Corporate sustainability and integrated reporting could also play an important role as incentive to financing sustainable development.

Ms. Shari Spiegel, Senior Economic Affairs Officer, Development Strategy and Policy Analysis Unit, Development Policy and Analysis Division, Department of Economic and Social Affairs, United Nations, presented the main findings and policy messages from the World Economic and Social Survey 2012: In Search of New Development Finance. She highlighted the need for additional, stable and predictable international public financing as a complement to ODA. The Survey suggests that internationally coordinated taxes, such as a financial transaction tax or a marginal currency transaction tax, among others, together with the use of SDRs for development can raise 400 billion dollars per year. These new IDF mechanisms could have the potential double dividend of taxing public “bads”, such as carbon emissions and volatility in financial markets, and raising urgently needed resources. She highlighted that, while IDF flows can still be volatile, as would be the case of the proceedings of a financial transaction tax where a crisis to occur, they are free from the political budgeting cycle and can also be innovatively intermediated to make them as stable as possible, by using them as reserves for payments in the future. A political agreement is necessary to launch international taxes and especially to devote part of the funds raised for development purposes and global priorities.

As the Survey shows, the current landscape of innovative finance, understood in a manner that is consistent with the Leading Group on Innovative Finance for Development views, is complex, composed of innovative sources, intermediation and distribution mechanisms, most of which are not designed to raise new or additional resources but to better meet available resources with existing needs. As a consequence, of the $5.8 and $2.6 billion dollars administered through innovative mechanisms, in health and climate financing respectively, only several hundred million are additional to ODA. To foster the participation of the private sector in sustainable development, as public funds are not likely to be sufficient to cover the pressing and copious needs, governments could create incentives that reduce the risks the private sector face. For example, governments could finance start-ups grouped as pools so that winners can cover potential loses from the projects that fail, in a mechanism similar to the one used by venture capital in diversifying risk, capturing the up sights to cover potential loses. Additionally, as most private investors have a short term bias, institutional investors and sovereign funds could become key partners in leveraging private sector resources for long-term investment in sustainable infrastructure.
Interactive discussion:

The panel presentations were followed by questions and comments from the floor. Some of the highlights of the interactive discussion include:

- Several delegations noted that, despite the importance of alternative sources of development financing such as IDF and South-South cooperation, traditional ODA and its opportune delivery according to international commitments are critically important, especially for LDCs and SIDS.
- Building upon the political momentum that seems to be emerging, new substantial sources of innovative financing could be developed. In particular new international CTT, FTT, carbon tax, among others, need to be implemented and part of the proceeds used for financing for development, including climate finance, health and global public goods, as well as productive capacity development.
- A delegation called for considering IDF in the context of other financial flows such as trade, FDI and remittances, which can already be or become more relevant for developing countries than international cooperation and IDF. ODA should be used more effectively and for leveraging productive resources. Aid effectiveness augments ODA and should be pursued vigorously as agreed in Rome, Accra and Busan.
- It was reiterated that the Leading Group on Innovative Finance for Development is the main advocacy group on IDF and has been participating in the discussions on IDF at the UN, fostering synergies and contributing to a consistent international debate.
- A clearer definition of IDF, that would permit gauging its scope and distinction from ODA, was deemed necessary, especially given that a substantial part of IDF is currently being counted as ODA. In turn, it was pointed out that IDF is an important source of funds, irrespective of their classification as ODA. A definition could help better assess its potential.
- The need to coordinate activities with national authorities to avoid fragmentation, enhance effectiveness and promote ownership in the programs, as well as allow proper monitoring and accountability at the local level was highlighted. Eligibility criteria and allocation mechanisms should also be transparent and ensure that the use will be aligned to the priorities of each country.
- Accompanied by efforts to raise new resources through innovative financing, efforts have to be made to streamline the allocation and delivery of these resources with appropriate governance structures, in line with the development needs of developing countries and streamline the architecture for development financing.
- It was recalled that national responsibility in development strategies, domestic resource mobilization, private investment and effective tax collection in particular, as well as international tax cooperation and fight against tax evasion, are of prime importance.
- The intergovernmental process called for by the Rio+20 Outcome Document should integrate IDF in the financing of sustainable development in all its three dimensions: social, economic and environmental. The UN is the more
appropriate forum for debating development cooperation, and ECOSOC has a vital coordinating role in these debates.

- A delegation pointed out that some innovative mechanisms of financing climate change can have unintended negative consequences in terms of national sovereignty and potential local conflicts in developing countries that should be considered carefully.
- Several delegations expressed their support to UNITAID efforts in fighting diseases in developing countries.
- A delegation expressed support to the use of SDR emissions for sustainable development and to promote international liquidity, as suggested in the discussions at the Conference on the World Financial and Economic Crisis and Its Impact on Development in 2009.

**Concluding remarks**

In his concluding remarks, the moderator provided an overview of the issues discussed. He stated that there was a general view that innovative sources of finance can play an important complementary role to official development assistance (ODA). However, commitments to reaching the UN targets on ODA, including the ones for LDCs, should not be weakened in the current economic environment characterized by fiscal tightening in donor countries. He highlighted the important lessons coming from existing innovative mechanisms of financing for development. In this context, consideration should be given to consolidating global funds to reduce fragmentation and transaction costs, improving the governance structure to ensure adequate representation of the interests and priorities of recipient countries. He highlighted the great potential for increasing the scale of existing initiatives, as well as introducing new mechanisms, such as market mechanisms, investment guarantees, taxation of international transactions, and green bonds, among others. He called the wide range of stakeholders involved with innovative finance to continue to explore new mechanisms and exchange best practices within the UN system, and particularly the FfD follow-up process.