



POLICY BRIEF

INNOVATIVE FINANCING MECHANISMS AND SOLUTIONS

CONTEXT, DEFINITION, LANDSCAPE, AND DEVELOPMENTS

Shortly after the UN Millennium Summit¹, which saw the introduction of the MDGs, several development partners agreed to explore alternative sources of finance to Official Development Assistance (ODA) for financing development. In 2002, at the Monterrey Conference², the concept of innovative finance was borne and in the years leading up to the Paris Conference on Innovative Development Financing Mechanisms there was a growing realisation that achieving the MDGs was unlikely unless access to finance became more equitable. In 2006, 93

BOX 1

Selected examples of Innovative Financing

- Specific examples of popular innovative financing mechanisms used over this period include:
- Solidarity Levies applied to airline travel with a small tax added to airline tickets.
- International Finance Facility for Immunization utilises the long-term borrowing capacity of States - UK, France, Norway, Italy, Sweden, South Africa, and Spain – to collect funds on the markets and finance immunization programmes in 70 countries within the framework of the GAVI Alliance.
- Advance Market Commitments (AMC) are where donors commit to guarantee the price of vaccines once developed and so reducing the uncertainty and prospects for creating a sustainable market.
- Debt2Health initiative (or deferred repayment schemes), which is a partnership between creditors and grant recipient countries under which creditors forgo repayment of a portion of their claims on the condition that the beneficiary country invests an agreed-upon counterpart amount in health through Global Fund approved programmes.
- (PRODUCT)RED, is a brand licensed to companies to raise money for the Global Fund to fight AIDS, Tuberculosis and Malaria.
- Socially responsible investments (SRI) seek to maximize the financial return and social good by setting criteria to direct lending.
- Emissions and particulate trading (cap and trade) is used to cap the carbon emissions by developing a market for the sale of emissions licences.

KEY MESSAGES

- ▷ Innovative finance includes mechanisms and solutions, which increase the volume, efficiency, and effectiveness of financial flows.
- ▷ Innovative finance has taken many forms and continues to evolve by instrument as well as its application to development goals.
- ▷ With traditional – ODA – development finance falling far short of what is needed globally to finance the SDGs, particularly post-COVID-19, new financing mechanisms and solutions are essential if we are to succeed.
- ▷ Building forward better requires full use of the policy levers available to governments to best incentivise finance mobilisation. New partnerships, enhanced roles and institutional capacity will be required for governments, central banks, private finance, development actors and academia to succeed and sustain action.
- ▷ Identifying, developing new and strengthening existing linkages between SDGs outcomes to better target finance at multiple outcomes will be required to ensure the impact of every dollar of development finance is maximised.

States met in Paris to review new innovative development financing options and in 2009 the i-8 Group published Innovative Financing for Development, which described 8 innovative mechanisms for financing development³ that had been operationalised.

At the Third International Conference on Financing for Development in 2015, there were strong calls for greater inclusion in microfinance; lowering transaction costs on remittance flows; expanding philanthropic finance; developing long-term bond and insurance markets; carbon pricing and for new mechanisms and solutions to combine public and private resources such as green bonds⁴, vaccine bonds, triangular loans and pull mechanisms. Others were also invited to join the Leading Group on Innovative Financing for Development (LGIFD) to help advance the development and rollout of innovative financing solutions. With the introduction of the SDGs, the Group of Friends of SDG Financing was formed⁵ to supersede the LGIFD and in 2020, working groups were formally established to focus on financing selected areas across the SDGs.

With estimates on financing the SDGs globally, in the region of US\$3.3trn to US\$4.5trn per year and for developing countries alone facing an average annual financing gap of about \$2.5 trillion, the onus on innovative financing as a mean to bridge this gap is high, particularly at traditional (ODA) financing flows of US\$160 billion per annum. **Box 1** describes examples of early innovative finance mechanisms and solutions.

INNOVATIVE FINANCING DEFINITION, LANDSCAPE AND DEVELOPMENTS

While there is **no single agreed definition** of innovative financing, it is generally accepted to include financing mechanisms and solutions that mobilise, govern, or distribute funds beyond ODA. Examples of how this definition varies include:

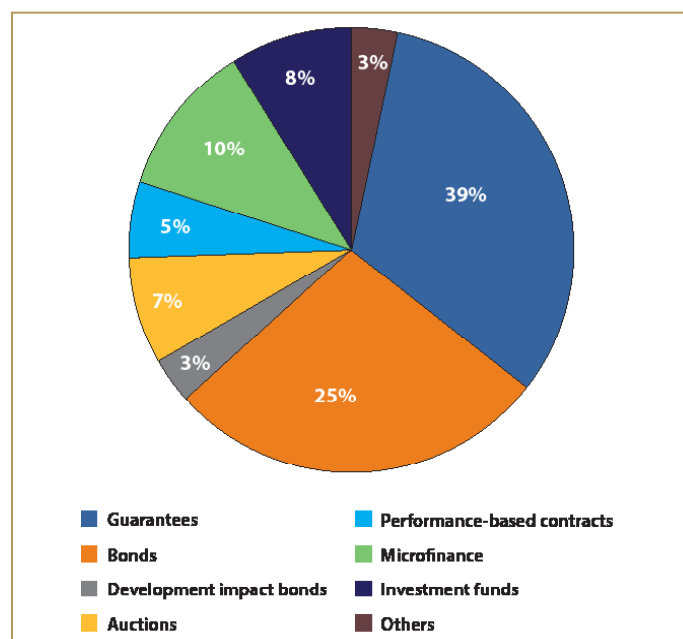
- Mechanisms to raise funds and stimulate action, by private, public, and philanthropic actors, in support of international sustainable development in new and more efficient and scalable ways to solve social, economic, and environmental problems globally (Canada).
- Involving non-traditional applications of solidarity, PPPs, and catalytic mechanisms to support fund-raising by tapping new sources and engaging investors beyond the financial dimension of transactions, as partners and stakeholders in development; or deliver financial solutions to development problems (World Bank).
- Mechanisms to raise funds or trigger initiatives in support of development that go beyond traditional spending, with the following characteristics: (i) **official sector involvement**; (ii) **transfer of resources from developed to developing countries**; (iii) **mobilise additional finance**; and (iv) are **operational** (OECD).

Under this latter definition, the motives for innovative financing are three-fold:

- To mobilise **additional development funds** through new sources or engaging new partners.
- Enhancing the **effectiveness** of development finance by making financial flows more results oriented
- Enhancing the **efficiency** of financial flows by reducing the delivery time and/or costs

The development of innovative financing solutions has tended to either combining existing financial instruments or applying existing financial instruments in new contexts – sectors, countries, or regions – and/or introduce new partners. In the past two decades, development financing has evolved both in the range of actors involved and financial instruments used. A stocktake of innovative finance mobilised between 2000 and 2013 showed that securities and derivatives⁶ were the most popular, accounting for 82% (US\$76.7bn) of the total financing (see **Chart 1**), with results-based solutions⁷ accounting for 8.3% (US\$7.8bn), voluntary contributions (auctions and consumer purchases) 7.1% (US\$6.7bn), and compulsory charges (taxes and levies) 2.6% (US\$2.4bn) of the total.

Chart 1: Market Size & Distribution of Innovative Finance, 2000-13



Source: Innovative Financing Database, Dalberg

Since this survey, other mechanisms and solutions have been developed that include **voluntary contributions, debt buy-down arrangements, blending arrangements, commodity linked repayments, inflation-indexed local currency lending and microfinance** to bridge the SDG financing gap.

COVID-19 has amplified the need for innovative financing both by burdening countries with debt that will ultimately need to be managed, but also to provide financing mechanisms that give COVID-19 vaccine developers financial certainty (through the GAVI COVAX advanced market commitment) to quickly develop an adequate vaccine supply to countries. Advanced market commitments enable funding to be frontloaded through the issuance of bonds, enabling Gavi to provide US\$150m financial support to COVAX⁸.

While definitional differences drive variations in measuring the amount of innovative finance that has been raised, using the OECD definition, it is estimated that about US\$37bn of new finance was raised between 2002 and 2011⁹. Under the broader World Bank definition this estimate increases to US\$73bn over the period from 2000 to 2008.

Dalberg and Citi Group calculate the amount of innovative finance raised between 2000 and 2013 was approximately US\$94bn¹⁰.

MACROECONOMIC RELEVANCE OF INNOVATIVE FINANCE

While innovative finance flows will have increased substantially since 2013, they remain below their potential. Given the size of the SDG funding gap of developing

countries, advancements in new mechanisms and solutions will need to take place quickly, and at scale and look to reach a range of SDG targets. Evidence shows that the potential of new innovative financing is high. For example:

- In the **United States**, socially responsible investing (SRI) is approximately 10% of total invested capital (US\$2.15trn) and rising.
- In **France**, the solidarity tax in 2006, which raised an estimated US\$600m until 2008, has been adopted by 17 other countries (with an additional 15 countries expected to follow).
- Globally, the sustainable debt market was valued at US\$1.7trn at the end of 2020, with almost 10,000 instruments issued since 2006^{11,12}. This has spurred the development of a wide range of funds and portfolios linking investments to environment, social and governance criteria, climate change and to the SDGs more broadly¹³.

Measuring the importance of innovative finance should not just consider the amount of investment in absolute terms, but also cover the leveraging potential to crowd-in additional finance. For example, the World Bank estimate that the \$7.7bn in guarantees issued to support investments in developing countries between 2000 and 2008, levered addition investment financing of US\$20bn (2.6x). With COVID-19 adding further distance to SDG financing-gaps in developing

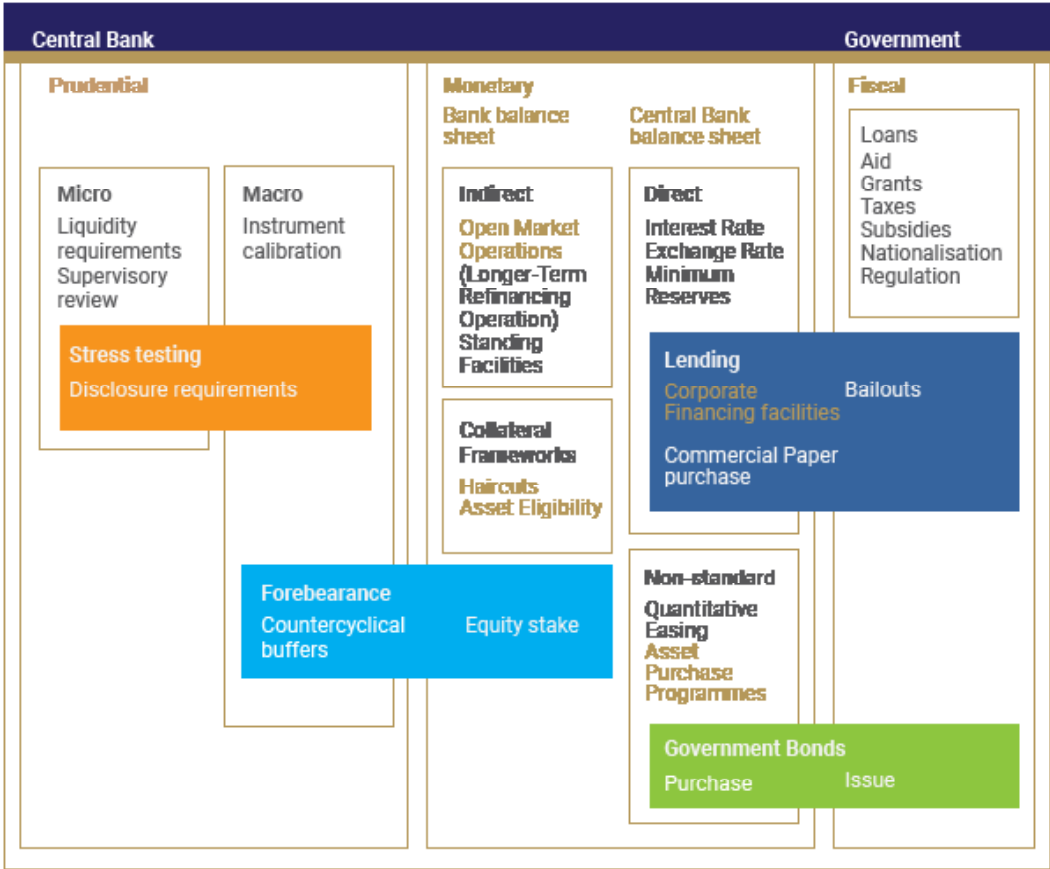
countries, how new financing mechanisms and solutions designed to maximise their leveraging potential will be an important consideration.

GOVERNMENT AND CENTRAL BANK’S ROLE IN ADVANCING INNOVATIVE FINANCE

With a renewed commitment under the Addis Ababa Action Agenda to advance innovative financing mechanisms and solutions, governments, and central banks through regulatory, fiscal, monetary, and prudential policy, can influence the growth and shape the development of innovative finance.

Traditional roles of government - maintaining legal and social frameworks; promoting competition; providing public goods and services; income redistribution; addressing externalities; and stabilizing the economy – can be supported by the central bank in the case of innovative financing. Both can, through a suite of policy measures (see Chart 2), increase information and awareness of innovative finance, develop standards and regulations that facilitate the development of innovative finance and coordinate fiscal, monetary, and macro-prudential policy to incentivise new finance. The central bank can itself develop new innovative financing platforms for lending to priority sectors.

Chart 2: Government and Central Bank Policy Instruments



Source: <https://www.climatebonds.net/2021/08/banking-climate-action-central-banks-hot-seat-systemic-sustainability>.

GOVERNMENT'S ROLE TO PROMOTE AND DEVELOP INNOVATE FINANCING MECHANISMS AND SOLUTIONS.

Since the beginning governments have played a strong role in developing innovative finance, either directly or through policies that have supported and enabled an environment for innovative financing to flourish. Whether by introducing solidarity levies or surcharges to mobilise revenues earmarked for health initiatives; through licencing to raise funding for finance development projects; publishing information on new mechanisms and financing solutions, public private partnerships; export credits insurance and guarantees, bond issuance, capital platforms; or by supporting digital or other innovations to increase access, efficacy and efficiency of innovative finance; governments' influence on innovative financing has been substantial.

Through a broad suite of policy tools at their disposal – taxes and subsidies, licencing and fees, regulations and standards, insurance and guarantees; soft tools such as information products; awareness campaigns and fairs that fill evidence gaps and reduce uncertainty, and their convening power to build networks that foster the development of innovative financing – governments can directly and indirectly influence the design of new financing mechanisms and solutions.

By pooling risk, governments can enter new investment partnerships (with the private sector through public/private partnerships) or develop capital platforms that support investment in priority sectors. Through innovation funds governments can support new financing mechanisms, using digital and FinTech, to increase efficiency by reducing transaction costs – time and financial – and allowing finance to be timelier and more effective.

CENTRAL BANK'S ROLE TO PROMOTE AND DEVELOP INNOVATIVE FINANCING MECHANISMS AND SOLUTIONS.

The core purpose of central banks is to deliver price and financial stability, by managing the money supply to set interest and exchange rates. Sustainability mandates for central banks that promote innovative financing are less common. Monetary operations typically apply a market neutrality principle, that can potentially undermine wider sustainability objectives with consequences felt in the longer term¹⁴. A survey of 133 central banks found that only 15 (12%) operated sustainability mandates¹⁵ and a further 39 (29%) mandated to support government's policy goals, which in some cases encompassed sustainability goals. For the remaining 59%, insofar as sustainability risks affected price stability, their mandate was not sufficient to cover sustainability. Principally, three reasons exist for why central banks should respond to environmental and sustainability challenges:

- **Financial and macroeconomic risk:** Sustainability risks, like climate change and environmental hazards, can affect monetary and financial stability via two channels. One, by directly imposing physical risks, arising from damage to property, infrastructure, and land, as well as the associated disruption caused, inflicting losses, and increasing default risk of banks' loan portfolios. Also, monetary policy may be affected directly by slower productivity growth and greater uncertainty on inflation¹⁶ as well as indirectly as transition risks that arise from changes in climate policy, technology, and market sentiment as countries adjust to a more sustainable equilibrium.
- **Market failure:** Without rules directing credit to socially desirable activities, current lending practices can promote carbon-intensive/polluting businesses by default¹⁷. Where externalities exist, credit allocations of commercial banks will be suboptimal from a societal perspective giving cause for central banks to correct this. Another failure is the existence of missing credit markets caused by the high set-up costs or small consumer bases that limit scale economies of financial institution being reached. Under certain conditions, central banks can support the development of new (e.g., securities) markets by enforcing procedures that promote the disclosure of information or support the development of new secondary markets for finance.
- **The role of central banks as credible and powerful actors:** In developing countries, central banks typically possess strong institutional standing in policy frameworks. While there is already a case to include sustainability in central banks and financial regulators' mandates, the case is stronger in developing countries, where regulations on sustainability may not exist or are not enforced due to weak institutional capacities.

POLICY TOOLS TO IMPACT ON INNOVATIVE FINANCING MECHANISMS AND SOLUTIONS

Central banks have a suite of policy tools to promote innovative financing for sustainable development. They can vary monetary levers (e.g., differentiated rediscount rates and capital reserve requirements) to incentivize sustainable lending; and/or use their convening power/moral suasion to incentivise financial institutions to adopt sustainability criteria into their operations as well as develop capacities to tackle them; and/or widen disclosure rules to ensure sustainability risks are stress tested and mitigated against by financial institutions.

Expanding on each of these:

- **Macroprudential regulation and stress testing:** Macroprudential supervision needs to cover externalities and identify imbalances that can give rise to financial instability. Credit ceilings can be put in place to limit sustainably undesirable activities of certain financial institutions complemented by exemptions to incentivise finance towards priority sectors. Other macroprudential instruments that can be used to address sustainability risks include countercyclical capital buffers; higher risk weights for socially undesirable and dependent sectors;

BOX 2

Selected country examples of public sector initiatives of innovative financing mechanisms and solutions for sustainable development.

With examples mainly on green financing, taking each in turn:

BANGLADESH

- Green Credit Allocation Policies: Commercial banks and non-bank financial institutions (NBFI) are required to allocate 5% of their loan portfolio to green sectors. Green re-financing lines subsidising green lending exist, notably for renewable energy and energy-efficiency projects. Green Prudential and Macro-Prudential Policies: Lower equity margin requirements for Environmental & Social (E&S) projects.
- Other Green Financial Interventions: Issuance of E&S risk management guidelines for credit risk assessment on banks' lending. Banks and NBFIs are required to issue 10% of CSR budgets to a Climate Risk Fund. Banks are also required to educate borrowers on environmental regulations. Banks' green management practices are part of assessment of supervisory evaluations.

BRAZIL

- Green Credit Allocation Policies: Restrictions exist on lending in environmentally sensitive areas in the Amazon. National Development Bank is a major investor in green sectors.
- Green Prudential and Macro-Prudential Policies: Banks are required to engage in E&S stress testing and incorporate E&S risk into capital requirements. BCB sets a general framework for types of risk that should be included. Banks must submit an annual report to BCB for validation.
- Other Green Financial Interventions: Detailed guidelines for the implementation of the E&S Responsibility Policy provided by the central bank for banks to incorporate into their governance structure and collect data on losses resulting from environmental damages for a period of 5-years.

CHINA

- Green Credit Allocation Policies: The Chinese Development bank is a major global lender for green energy. The China Green Finance taskforce recommends establishment of a China Ecological Development Bank partially funded by PBC. Preferential interest rates are provided on green loans in Fujian Province. The central bank is considering green refinancing lines for commercial banks.
- Green Prudential and Macro-Prudential Policies: E&S risk management is assessed on prudential, individual bank- and loan-based levels. The China Banking Regulatory Commission (CBRC) has issued guidelines to repress credit to carbon- and energy- intensive industries and encourage lending to green projects.
- Other Green Financial Interventions: Chinese green credit policy has been adopted by all relevant agencies, including the central bank, the banking regulator, the securities regulator, the insurance regulator, and the Ministry of Environmental Protection (MEP). PBC in collaboration with the MEP is creating a database on credit, administrative penalties, and information on environmental compliance of non-financial firms. Banks are required to restrict loans to firms that violate environmental compliance rules. Voluntary green credit guidelines have been issued by the CBRC to encourage banks to build E&S risk governance standards and to identify areas for green credit. PBC is also working on the development of green bond markets and has issued criteria for qualifying projects.

INDIA

- Green Credit Allocation Policies: Loans to renewable energy companies have been included in the RBI's Priority Sector Loans scheme; 40% of net commercial bank credit must support priority sectors.
- Green Prudential and Macro-Prudential Policies: RBI is considering including environmental risks in the assessment of agricultural price developments when assessing financial and monetary stability.
- Other Green Financial Interventions: Industry-led voluntary green lending guidelines mainly used. Green bonds have been issued to support green energy since 2015.

Box 2 shows how selected governments and central banks have supported the development of innovative finance.

- restrictions on exposure concentration to socially undesirable assets; as well as stress testing.
- Disclosure requirements: In the absence of effective disclosure of sustainability risks, sustainability impacts will not be fully priced into financial instruments leading to capital being misallocated to socially undesirable uses.
- Directed credit policy instruments: Subsidised loan rates are a common means to incentivise lending to priority sectors.¹⁸ Central banks can differentiate rediscount rates (e.g., rediscount bills at lower rates on sustainability related investments) to favour the lending practices of existing ones or promote new behaviours of others.
- Differentiated reserve requirements: The allocation of credit can be influenced by differentiating reserve requirements linked to the sustainability composition of commercial bank loan portfolios or

by the geographical location of credit.¹⁹ By lowering the reserve requirement of certain banks – those who operate sustainable lending practices – a central bank can increase lending relative to other banks who face higher reserve requirements.

- Differentiated capital requirements: Capital requirements too can be differentiated according to the type of bank and their lending. Consistent with Basel III, adjusting a bank's capital adequacy ratio²⁰ minimum requirements or the risk weightings of different assets will influence lending to priority /sustainable sectors.
- Accepting **sustainability/carbon certificates as part of commercial banks' legal reserves**: By distributing certificates to sustainability/low-carbon projects, and to make them exchangeable for concessional loans, can reduce the capital costs of these projects, for more attractive investments.
- Quantitative **easing and reserve management**: Undertaking large-scale asset purchases from commercial banks and other financial institutions via open market operations of sustainability promoting financial assets (green, sustainable development bonds), central banks can increase liquidity to socially desirable sectors.
- Financing **guidelines and frameworks**: Publishing and promoting sustainable finance credit guidelines aimed at guiding banks towards socially desirable lending, can support the development of environmental and social risk management of financial institutions.
- Soft **Power**: Central banks' convening role and moral suasion can also support the development of sustainability. By sharing expertise, central banks can influence governments, developmental agencies, and the wider financial community to catalyse social and environmentally responsible financial development.

CHALLENGES FACED BY GOVERNMENT AND CENTRAL BANKS TO PROMOTE AND REGULATE INNOVATIVE FINANCING

While it is generally accepted that innovative finance refers to a range of non-ODA solutions that raise funds for development, a key challenge to regulating innovative finance is definitional. Also, within innovative financing the criteria upon which innovative financing instruments – e.g., labelled bonds (see box 3) – are designed, may vary by product, giving rise to uncertainty over their developmental impact.

Prudential policies that allow financial institutions to hold less capital against debt, if their debt is labelled green, could backfire if the underlying risks or objectives remain. When the development objective of innovative financing is unclear, either over a long-time horizon or when data and measurement methods are still being developed; or uncertainty over the advent of new technologies; targeting policy and regulations can be challenged. There is a role for governments and central banks to develop minimum standards to ensure that sustainable innovative finance best achieves threshold levels for developmental impact to uphold investor confidence.

BOX 3 Labelled Bonds

The issuance of bonds for development purposes previously defined (labelled bonds) by sovereigns and corporates has taken off in recent years. Green bonds raise funds for environmental goals. Sustainability bonds or ESG bonds (environmental, social, governance) are a broader category that envisage the use of receipts for a variety of sustainability purposes. Social bonds provide funds for projects with positive social outcomes. Interest payments can be pre-defined or, in some cases, linked to the achievement of specific targets or outcomes. Unlike traditional green bonds, where the proceeds are tied to projects, sustainability-linked bonds aim to raise funds to meet broader sustainability targets. In addition, these bonds attract higher interest payments if performance criteria are missed within a pre-determined period. Sustainability-linked bonds can be used for "transition finance" provided to sectors that are emissions intensive but are important and have not meaningful alternative, as they seek to reduce their environmental impact and meet specific performance criteria.

While corporates are engaged mainly in the issuance of green bonds, public actors are also active in other segments, although green bonds dominate so far labelled bond offerings. Overall, sovereign green bond issuance has exceeded USD 130 billion in the last four years, with 40% of the total being accounted for debut issuance in 2020. While the stock of green bonds issued is dominated by euro area countries, accounting for around three quarters of the total, the share of emerging markets issuers has increased rapidly, representing 23% of total issuance in 2020.

In the absence of clear regulation, market perceptions have been driven by the principles and guidelines established by the International Capital Market Association (ICMA). Issuers need to put in place suitable frameworks that help potential investors to understand how proceeds will be used and to assess the strength of the commitments by issuers to meet environmental goals. For example, Chile has issued its green bonds under a Sustainable Bond Framework, that encompasses other sustainability considerations besides environmental issues. This framework, which was developed in cooperation with international institutions, served to provide legitimacy to the instruments and the reporting process. Companies in emerging markets have also made placements under green bond frameworks, for example the Georgian Railway Green Bond Framework published in May 2021.

Labelled bonds are issued with the expectation of lowering financial costs and extending maturities. By having access to a broader investors' base, they can also reduce price volatility. Labelled bonds can also serve to develop "green" credentials in a dialogue with investors, with a positive impact on financing options. The issuance of green and sustainable bonds can be embedded in a strategy for domestic capital development that includes regulatory and institution-building elements. Launching these instruments requires a coordination effort across government areas to identify and prioritise suitable projects, which may contribute to increase the quality of policymaking.

However, labelled bonds add to the overall debt burden and, if issued in foreign currency as it is most often the case, increase foreign exchange risk. Due attention should be paid to their impact on debt sustainability and the consistency with overall debt management strategies.

Unfamiliarity with innovative financing mechanisms and solutions, and where to find them, can also slow their advent. Creating greater awareness of innovative finance will reduce the search costs between financial innovators and project developer, and enhance risk perceptions. Information asymmetries can slow innovative financing market development if uncertainty exists on both sides concerning the availability of investment products for project developers and a ready pipeline of investible projects for financiers. In cases where the development need is clear – vaccines for COVID-19 – governments can promote and facilitate the development of AMC to overcome this information asymmetry.

For Public Private Partnerships or other risk-sharing capital platforms, public approval of innovative financing solutions may wane over time if taxpayers see public resources lost, or if evidence shows little or no developmental value. Managing taxpayers' perceptions on the development impact of innovative financing will be important to maintaining support for the continued use and development of new mechanisms and solutions.

SYNERGIES BETWEEN INNOVATIVE FINANCE AND THE OTHER NESD CONCEPTS AND THE SDGS

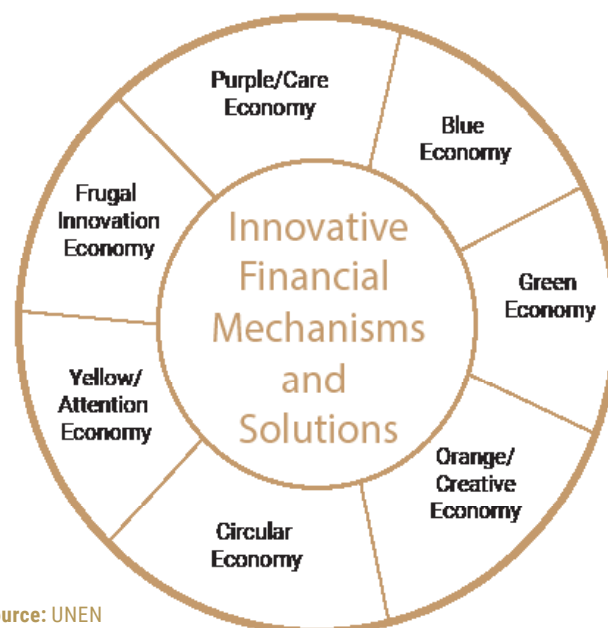
Innovative financial mechanisms and solutions have the potential to interact with all NESD concepts, either by the increased finance they bring to NESD themes, or through the greater effectiveness or efficiency achieved in existing financing mechanisms and solutions directed by NESD themes.

Innovative financing mechanism and solutions are a conduit through which new and/or existing finance can be better directed to achieve greater development outcomes in each of the economic themes shown in Chart 3. For example, the IFFIm contract minimized the costs related to the Purple or Care Economy. On a smaller scale, bottle deposit schemes represent a financial contract that incentivizes end-users of various bottles to ensure their appropriate disposal and symbolize the benefits that arise from clear policy actions that align incentives of all stakeholders – in this case producers and end-users of plastic bottles. As such, the potential of innovative finance to policymakers, financial institutions, and other stakeholders, as well as partnerships that can evolve, is huge to tackle specific issues within the NESD concepts.

For the SDGs, innovative finance mechanisms and solutions can have a wide application across the SDGs. By affecting the volume, effectiveness and efficiency of new and existing non-traditional financing instruments, innovative finance has the potential to support a wide development footprint more impactfully.

In the case of the blue and green economies, innovative finance has supported sustainable

Chart 3: How innovative finance can complement other NESD concepts



Source: UNEN

development through the creation of new financing platforms – climate resilience finance and the coral reef fund – as well as instruments – blue and green bonds and debt swaps – to release new finance.

Also, the development of environmental, social and governance standards for investment and their extension to COP26 Paris Climate Objectives through responsible banking initiatives, have enhanced the effectiveness and sustainability of investments and investor behaviours.

Finally, with the development of new digital platforms and currencies, both accessible to new innovative finance, improve individuals' physical access to financial services and the time taken for financing procedures, while lowering transactions costs that can be prohibitive for some.

DEVELOPING INNOVATIVE FINANCING MECHANISMS AND SOLUTIONS POST COVID-19

The severity of the economic recession and narrower fiscal space resulting from COVID-19, has delayed SDG implementation and widened its financial gap. Post crisis, the damage and disruption caused will likely have lowered investment multipliers, and taking more resources to achieve the pre-COVID-19 development outcomes. The need for new innovative financing mechanisms and solutions, therefore, is paramount, especially if countries are to recover sustainably from the crisis and deliver the SDGs.

Several innovative financing initiatives are already being used or under development from extending debt relief initiatives; trading special drawing rights; development of social development bonds; securitising future donor contributions through vaccine bonds; new

advance-market commitments; solidarity taxes on the financial sector; deepening SDG and ESG integration into investment financing; and developing mechanisms to trade sustainable innovative instruments (e.g. the UN Sustainable Stock Exchange initiative). All these measures increase the volume of finance and/or increase the effectiveness of finance and/or increase the efficiency of finance to aid recovery. However, country context is important in the development of new financing instruments to recognise that recovery will not be uniform – it will take some countries longer to recover than others – and innovative financing will need to adapt to this.

Public policy will be crucial in terms of fostering new innovative financing solutions or incentivising private domestic banks to allocate finance in new ways that promote sustainability. Of course, access to greater volumes of financing is just one-half of the story as there also needs to be a ready investible pipeline of development projects, but how and the extent to which innovative financing develops in this decade for action, will be crucial for the success of the SDGs and beyond, as countries adapt to the adverse consequences of climate change.



Endnotes:

- ¹ 6th to 8th September 2000
- ² 18th to 22nd March 2002
- ³ UNITAID, IFFIm–GAVI, Advance Market Commitments, the Voluntary Solidarity Contribution for UNITAID, (product) RED, Global Fund Debt2Health, Carbon Market and Socially Responsible Investments.
- ⁴ Annex 3 presents more details on green and other labelled bonds.
- ⁵ Spearheaded by The Permanent Mission of Jamaica with Canada
- ⁶ Bonds, guarantees, development impact bonds, investment funds, microfinance and other derivative products.
- ⁷ Performance-based contracts, debt-swaps and buy-downs, advanced market commitments and awards and prizes.
- ⁸ This has taken the form of planning, technical assistance, and cold chain equipment.
- ⁹ US\$5.5bn for health, US\$31.4bn for climate and environment and the remainder for education and rural development
- ¹⁰ https://www.ilo.org/wcmsp5/groups/public/---ed_emp/documents/publication/wcms_654680.pdf
- ¹¹ <https://www.climatebonds.net/resources/press-releases/2021/04/sustainable-debt-global-state-market-2020-scale-and-depth-17tn>

[es/2021/04/sustainable-debt-global-state-market-2020-scale-and-depth-17tn](https://www.climatebonds.net/resources/press-releases/2021/04/sustainable-debt-global-state-market-2020-scale-and-depth-17tn)

- ¹² Cumulative green bonds stood at US\$1.1tn, with sustainability bonds a cumulative US\$316.8bn, followed by social bonds at US\$315.6bn.
- ¹³ <https://www.forcegood.org/case-studies>
- ¹⁴ For example, market neutrality limits the extent to which monetary operations can be greened, as the high capex and longevity of fossil fuel companies leads them to dominate the market.
- ¹⁵ Czech Republic, Fiji, Gambia, Georgia, Hungary, Iraq, Malaysia, Nepal, Philippines, Russian Federation, Singapore, South Africa, Tanzania, Ukraine, Zimbabwe and on monetary union (West African Monetary Union).
- ¹⁶ Price instability may rise as food and energy prices are affected.
- ¹⁷ This credit market failure reflects the misalignment between the legitimate pursuit of private interests by commercial banks – which create much of the money supply – and the development objectives that a society sets to itself.
- ¹⁸ Subsidized loan rates for priority sectors, differential re-discount rates, direct budgetary subsidies, credit floors, etc.
- ¹⁹ The reserve requirement ratio is the share of deposits that depository institutions must hold in reserve and not lend out.
- ²⁰ The ratio of a bank's capital over its risk-weighted credit exposures required by the regulator.

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