“Innovative Financing Mechanisms: Public-Private Partnerships as Multilateral Agents Between Aspiration and Ambiguity”

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Innovative Financing Mechanisms for Development

1. What are IFMs and What are they good for?
2. Historical Flashback
3. Major examples of IFMs and what they do
4. Challenges and open questions
5. Conclusions
1. What are IFMs and what are they good for?

- Financing other than ODA; additional to ODA to help finance MDGs and IADGs;
- Raised more than US$3 billion in additional resources;
- More and more attention because:
  - ODA under pressure because of financial crisis (core funding down – benchmarking up;
  - MDGs but also food supply and drinking water, sanitation, climate change or sustainable energies implies more need for funding
2. IFMs- Historical Flashback

1. Independent Commission on International Development Issues: “North-South: A Program for Survival (1980)” – levy on trade, durable luxury goods, internationally traded crude oil, international air travel and freight transport, radio and telecommunication frequencies and channels to finance “international commons”, and elimination of poverty and Development

  solidarity and common social responsibility perspective
2. IFMs- Historical Flashback

continued

2. James Tobin: suggested a tax on foreign exchange transactions, known as the "Tobin tax" to finance international development (1972)

3. Independent Commission on Population and Quality of Life (1995): Innovative Financing to fill financing gaps resulting from the end of the Cold War, IFMs for multilateral purposes, proposed to the General Assembly at its 50th session in 1995

Global solidarity & international development perspective
4. Landau Report (2004): sectors that benefited economically most from globalization (internet, finance, tourism) should redistribute some of the wealth of globalization towards the provision of global public goods.

Commission concluded: innovative financing mechanisms are appropriate means to supplement ODA to help finance the MDGs and GPGs

Global solidarity & international development perspective
2. IFMs- Historical Flashback

continued

4. Leading Group created during the 2006 Paris Conference on Innovative Sources of Financing for Development:

- 44 countries – today 63 member countries, international organizations, private foundations, NGOs and representatives of the civil society;

- informal multi-stakeholder forum where members share their experience on operating innovative financing mechanisms and discuss their extension to other sectors.

5. Declaration on IFM of 22 September 2010 before 65th session of GA, signed by 189 Member States
3. Major examples of IFMs and what they do

- **HEALTH SECTOR**: financing medicine & vaccination, **UNITAID** (2006-2009: $800 million)

Source: UNITAID
3. Major examples of IFMs and what they do

**IFFIm** (2006-2010: $5.9 billion donor commitment; by Sept 2010 - $2 billion approved + $1.2 billion disbursed to recipients)

**Debt2Health** (debt swap): creditors give up % of refunding part to be invested in health sector of country

Source: Global Fund
3. Major examples of IFMs and what they do

(PRODUCT)RED is a licensed label raising funds for the Global Fund to Fight AIDS, Tuberculosis and Malaria (Feb 2011: $160 million)

GAP, Starbucks, IPod, Armani, American Express….
3. Major examples of IFMs and what they do

- ENVIRONMENT:
  1. **Emissions trading** (states set a limit to their emissions causing global warming)
  3. **Auctioning/Sales of Emissions** (2008): under EU Emissions Trading System, govts can auction and/or sell emission allowances to emitters or allocate them for free (GE raised $\approx$ EUR 1.5 billion during 2008-2009)
3. Major examples of IFMs and what they do

- **FINANCIAL LEVIES (G20 agenda):**


  - A financial sector activities tax (FAT);
  - A Value Added Tax (VAT) on financial services;
  - A **broad financial transaction tax (FTT)**;
  - A nationally collected single-currency transaction tax;
  - A centrally collected multi-currency transaction tax
3. Major examples of IFMs and what they do

- **FINANCIAL LEVIES (G20 agenda):**
  EU pushing for financial transaction tax (FTT) to contribute to financing climate change adaptation

What: A small tax on each trade of stocks, derivatives, currency, and other financial instruments

How much: €200 billion a year at EU level; $650 billion at global level (EU Parliament estimations)

Feasibility: IMF to G20 confirmed the administrative feasibility of FTTs (June 2010)

EU Parliament: 8 March 2011, voted 360-299 in favour of introduction of FTT at the EU level

G20 in 2011: ?
4. Questions

- **From Gap-Filler to Financial Solutions**
  Current IFMs were conceptualized as gap fillers; but given their financial volume, they are viewed as means to finance global development priorities (MDG Declaration)
  Q: How can gap fillers become the solution to finance global concerns?

- **While environmental IFMs are trade related;**
  Health related IFMs are product-based and market oriented;
  Q: Can these IFMs simply be copied to meet financing problems of other sectors (food supply, fresh water, education or renewable energies…) – sector/financial analysis; case by case?
5. Challenges

1. Concept of IFMs remains unclear; it differs from WB, OECD, Leading Group and UN World Bank views IFMs from a financial engineering perspective and classifies IFMs as follows:

   **Private mechanisms:** private-to-private flows in the market and in civil society;

   **Solidarity mechanisms:** support public-to-public or sovereign-to-sovereign transfers, form the backbone of multilateral and bilateral ODA

   **PPP mechanisms:** use public funds to leverage or mobilize private finance in support of public service delivery and other public functions, such as risk management

   **Catalytic mechanisms** involve public support for creating and developing private markets
5. Challenges

**OECD** maps IFMs as follows:

*New public revenue streams*: mechanisms that generate concessional funds such as taxes or dues allocated to intern. development, and obligatory charges raised by one or more govts. or supranational revenue generating authorities;

*Debt-based instruments and frontloading*: incl. mechanisms that make public funds (existing or innovative) available for development; other mechanisms reduce debt and debt service burden of developing countries allowing availability of funding for e.g. investment in public health care;

*Private-Public incentives, guarantees and insurances*: mechanisms that use public funds to create investment incentives for private sector actors, e.g. offering advanced commitments or subsidies; new insurance – types to manage e.g. catastrophic and weather risks.
5. Challenges

United Nations membership considers IFMs as follows:

“...voluntary mechanisms should be effective and should aim to mobilize resources that are stable and predictable, they should supplement and not be a substitute for traditional sources of finance and should be disbursed in accordance with the priorities of developing countries and not unduly burden them... »

Final Declaration, §78 (h)
22 September 2010
5. Challenges

Leading Group on Innovative Financing for Development considers:

“the notion of innovative development financing mechanisms designates resources that are provided in addition to Official Development Assistance (ODA) and are more predictable. These dual characteristics of additionality and predictability have been enshrined in the policy declarations made in 2004, 2005, 2006 and 2008.”

www.leadinggroup.org
Categories of IFMs: major distinctions between Leading Group and OECD

The Leading Group distinguishes six major categories of innovative financing for development according to the nature of their activities:

- **Taxes based on globalized activities**: set up & coordinated by a group of countries which jointly manage allocation of funds (air-ticket levy – UNITAID, FTT, CTT).
- **Guarantee mechanisms**: influence the way resources are allocated over time (IFFim) or create economic incentives (AMCs, GAVI).
- **Market mechanisms** (auctioning of resources with quotas & a fraction of such resources used for development: e.g. CO2 auctioning – see Germany).
- **Voluntary contributions**: from individuals, companies or consumers (Millennium Foundation, (PRODUCT)RED).
- **Debt-management mechanisms (debt swaps)**: with ‘debt to health’ and ‘debt to nature’ (e.g. Debt2Healt).
- **International lottery mechanisms**: (internationally coordinated private lotteries, lotteries organized by States themselves, States contributing a fraction of tax revenue, etc.). – still in progress.

OECD distinguishes three major categories of innovative financing for development according to financial characteristics:

- **New Public Revenue Streams**: new taxes, dues, obligatory charges raised by one or more governments or supranational revenue generating authorities (UNITAID, FTT, CTT), fall under ODA as collected on national territory.
- **Debt-based instruments and frontloading**: reduce the debt and debt service burden of developing countries to allow higher availability of funding (Debt2Healt).
- **Public-Private Incentives, Guarantees and Insurances**: mechanisms that use public funds to create investment incentives for private sector actors (AMCs, GAVI, IFFIm); new insurance types, facilities to manage e.g. catastrophic and weather risks.
- **Voluntary mechanisms**: (PRODUCT)RED, Millennium Foundation/Massivegood) fall under ODA as collected on national territory.
- **Emission trading**: fall under ODA.
5. Challenges

2. Monitoring of IFMs:
According to its mandate, the OECD (DAC) tracks and monitors ODA and other financial flows. If raised under national legislation, all funds count as ODA if the Gvt allocates and spends them on activities satisfying ODA criteria.

Consequently, UNITAID, emission trading, Debth2Health, IFFIm, …… Count as ODA but not additional and voluntary funding for development.

Q: - approach ≠ to UN MS Declaration during 2010 MDG Summit, which emphasized the IF should be additional and voluntary (risk for political tension between North/South);
- Transparency in reporting lines: who is reporting to whom?
- Accountability: who is accountable to whom?
5. Challenges

3. What impact have IFM at the country level: Until today? No data exist.

Q: how measure and what would the indicators look like?

Need for better documentation; statistics to measure impact and performance (need for quantitative assessments and qualitative indicators)

Need to feed those data into existing national and international aid statistics, but show separately from ODA to be able to distinct between ODA and IFMs
5. Challenges

FTT: Spending and Governance Arrangements:

FTT to nourish the Green Climate Fund to finance CC projects, new technologies, etc. (Cancun 2010) – $100bn a year in funding from 2020

Q: Since implementation of FTT means “redistribution” of funds, how and according to which criteria would those funds be allocated and who decides about allocation? What are the condition to benefit…?

Currently the Green Climate Fund is administrated by the WB under 3 years sunset clause.

Board 40 Board members (15 developed countries; 25 from developing countries: 7 Africa; 7 Asia; 7 Group of Latin American and Caribbean States; 2 small island developing States; and 2 least developed countries.

UNITAID’s governance concept = democratic governance model:

EXB: Member States, NGOs, foundations and patient communities living with HIV/AIDS: all have equal voting rights due to clear division of labor, share of responsibility and reporting lines.

- Climate Change is multi-dimensional problem - addresses governments, civil society and the private sector like wise. Should the Governing Board of the Green Climate Fund not also include representatives of the private sector and civil society?
Conclusions

1. Need for a clear and jointly shared “Definition” on IFMs

2. Empirical research on IFMs
   - consider that the IFMs were conceptualized in the 80s from an international development perspective (Brandt 80), Monterrey (2002) and Doha (2008)
   - categories: IFMs for global development & IFMs for national economic development?

3. OECD need adjusted job description: track ODA and Non-ODA flows separately (Gates Foundation at the OECD)

4. Fundraising - funding – spending (what, how, who, whom, who decides) – need for comprehensive global governance arrangements (global multi-stakeholder constellations?)
THANK YOU
Selected Bibliography

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• UNITAID. www.unitaid.eu. viewed 22 May 2011


• World Bank Project Appraisal Document, Report N° 22597-CHA