

**Ministerial Meeting of the Leading Group on Solidarity Levies to Fund
Development: Financing Development in Times of Crisis:
New Resources, New Sectors, New Instruments**

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***“Innovating Development Finance: From Financing
Sources to Financial Solutions”***

Speech by

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Honorable Ministers, Distinguished Speakers and Participants, Ladies and
Gentlemen,

1. It is a pleasure and a privilege to address this Plenary Session of the Ministerial Meeting of the Leading Group on Solidarity Levies to Fund Development. I would like to begin by thanking Minister Kouchner for his kind invitation to this important meeting, which focuses on a topic that is both crucial and timely. I would also like to thank the AFD for pulling the World Bank into organizing this session on “innovative development finance instruments”.
2. In the current global environment, innovative development finance approaches have assumed ever greater significance. With growing constraints on ODA, donors and developing countries are searching for new modalities that can complement official aid and bring maximum impact to development spending. Innovative finance approaches can help to generate additional development finance by tapping new sources – beyond traditional sources like budget outlays from established donors or traditional IFI bonds -- and by engaging new partners, like emerging donors and the private sector. More importantly, innovative finance can

help provide development solutions to specific development problems and deliver better results on the ground. Over time, efforts to innovate development finance can change the way in which we work with Middle- and Low-income countries.

3. In response to growing demands from within the World Bank, and from our development partners, such as AFD, we recently undertook a comprehensive stocktaking of innovative development finance (copies of the paper are available here). Our focus was to document and quantify -- for the first time -- the actual innovations that make up the international landscape. Three important lessons from our study are worth highlighting:
 4. First, innovative approaches to fund-raising can, at best, complement traditional sources of development finance. They are not a substitute for traditional fund-raising. Since these innovative fund-raising approaches have been able to generate only a modest amount of concessional resources, their implications for low-income countries have so far been limited.
 - Over the period 2000-2008, efforts to mobilize official development flows from non-traditional sources yielded an estimated US\$57.1 billion, or about 4.5% of total gross official flows. The World Bank Group accounted for about a quarter of the financing mobilized through innovative fund-raising efforts.

- However, only a small proportion (US\$11.7 billion, or about 20% of total innovative fund-raising) was in the form of concessional flows that were able to serve low-income countries. The main sources of concessional innovative funds were budget outlays from emerging sovereign donors and revenues generated by global solidarity levies, for example, on airline tickets, which are being used to expand access to drugs and diagnostics for the treatment of HIV/AIDS, malaria and tuberculosis. Such funds accounted for just 1.3% of gross ODA over the period 2000-08.
- The bulk of innovative fund-raising came from new types of bonds issued by IFIs to leverage capital markets. These served mostly middle-income countries. Nearly three quarters of innovative fund-raising over the period 2000-08 was generated from the proceeds of local currency bonds issued in developing countries. Another source was bonds targeting sustainable investors. The World Bank issued a variety of innovative bonds focused on climate-related goals, for example, the “Cool Bond”, “Eco Bond”, and “Green Bond”.
- Carbon financing has so far generated only modest financial flows to developing countries, accounting for about 3% of total innovative fund-raising.
- While efforts to tap new sources must continue, budget outlays from established sovereign donors are likely to remain the key source of development financing in the foreseeable future, particularly for low-income countries.

5. A second lesson offered by our stocktaking review is that innovative finance offers a real potential for designing development solutions to address specific development problems on the ground. There are now many examples of how financial engineering has provided ways to transform development flows so that they correspond better to the timing of specific development needs, help address various types of risks and market failures, or alter incentives for better results, in both low- and middle-income countries. Some of these examples have been discussed in previous sessions, and some will be presented and discussed at the Round Tables later in this session. Let me highlight a few.

- In the health sector, as you know, one major development challenge for low-income countries has been the availability of up-front, predictable financing for investments to support immunization over the longer term. An innovative response to this challenge is the International Facility for Immunisation (known as IFFIm), pioneered by the UK, and for which The World Bank is Treasury Manager. By frontloading long-term ODA grants for immediate use, IFFIm provides the much-needed funds for up-front investments and it has increased the predictability of funding for immunization.
- Financial engineering has also been used in different ways to help countries address various types of risks and provide the necessary flexibility to manage shocks. One such example is Malawi's weather derivative. Designed and intermediated by the World Bank with concessional funding from DFID, the weather derivative instrument has helped to insure farmers against the risk of drought. Similarly, to better

manage natural disaster risks, a number of countries have piloted innovative catastrophic risk insurance programs. To help manage macroeconomic shocks, a variety of development finance solutions involving innovative finance have been piloted, mainly in middle-income countries. These include GDP, commodity price or inflation-indexed bonds, countercyclical loans that adjust terms and conditions in response to shocks, local currency bonds, and currency swaps.

- A range of innovative financing initiatives involving Public-Private Partnerships (PPPs), Output-based Aid, and Results-Based Financing schemes, some of which will be showcased at the round table this morning, have been very effective. They have not only leveraged much-needed resources from the private sector to meet key financing gaps on the ground, but also altered incentives for better results and improving service delivery. Our data indicate that PPPs accounted for 50% of innovative finance flows to African countries and helped improve the efficiency of service delivery in critical infrastructure and social sectors.
- Recently approved by the World Bank's Board, the pilot Advance Market Commitment (AMC) for vaccines – to be launched on June 12 -- is an example of how financial engineering can help to transform development finance flows to meet country needs and strengthen results. The AMC pilot aims to accelerate the creation of a viable market for pneumococcal vaccines for developing countries, mostly in Africa, by providing a financial commitment to subsidize the future purchase (up to a predetermined price) of vaccines needed in developing countries, when and if developed and demanded. The sources of funds for the AMC

subsidy are ODA and foundation grants (totaling US\$1.5 billion), provided under unusually long-term payment agreements. The pledge flows are enhanced by an IBRD “guarantee”. The AMC encompasses financial transformation; it is “results-based”, since it is used only for vaccines that meet the needs of developing countries; and it is “country-owned”, since funds are only used for vaccines demanded by developing countries.

6. A third lesson worth emphasizing is that the wide-ranging innovative solutions I have just listed -- particularly those targeted at low-income countries -- have relied largely on concessional flows. For instance, Malawi’s innovative approach to managing food security risks that I highlighted earlier, would not have been possible without grant funding from DFID. So also, IFFIm's financial base consists of long-term, legally binding grant obligations from its sovereign donors. Similarly, the sources of funds for the AMC subsidy are ODA and foundation grants.
7. Looking ahead, a key challenge facing the development community is to ensure that the wide array of available innovative instruments, channels and sources are used systematically, strategically and effectively to bring additionality to ODA and deliver development results. This is particularly important in the poorer countries that have the greatest needs and are now beginning to feel the impact of the global financial crisis. I believe development agencies can play a very important role. We have several tasks before us:

- First, to identify which approaches have the greatest potential for scalability and replication in the most cost-effective way and then to scale up pilots with potential. This will require us to step up efforts to monitor and evaluate the many innovations piloted over the past decade, and to draw out the lessons learned. At the same time, we must strive to mainstream the use of innovative finance in our institutions. As innovations prove their effectiveness, they should become a more integral part of the core operational toolkit of development agencies. We are working towards this at the World Bank.

 - A second task is to integrate global efforts -- such as the High Level Taskforce on Health Systems Strengthening and the large number of initiatives linked to Climate Change – with country-level work programs and priorities.

 - Third, we must continue to expand outreach to clients and partners. And in all our efforts, we must keep an eye on ensuring that innovative finance is able to serve the needs of low-income countries.
8. At the World Bank, we have accumulated a wealth of experience through our role in designing and managing global-level innovative financing initiatives, as well as through our work on piloting innovative approaches at the regional and country levels. We are now preparing a strategy on innovative financing, which we expect to unveil in 2010 at a high-level conference and market place on which we are partnering with AFD, the Gates Foundation, and others. The 2010 conference will also

provide an excellent venue for South-South learning /knowledge sharing on innovative finance initiatives, and for showcasing concrete proposals on specific initiatives or projects that the Bank, and other development partners, can support. We very much hope you can join us for that event – and we will be in touch with you on this in the coming weeks and months.

9. We look forward to working together on this important and challenging agenda of using innovative finance strategically, systematically and effectively, to achieve real results on the ground in support of our common goal of fighting poverty. Thank you very much.