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INNOVATING DEVELOPMENT FINANCE

From Financing Sources to Financial Solutions

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ABBREVIATIONS AND ACRONYMS

AAA	Analytical and Advisory Activities
ACP	Group of African, Caribbean, and Pacific Countries
ADA	Austrian Development Agency
AfDB	African Development Bank
ADB	Asian Development Bank
AF	Adaptation Fund
AFD	Agence Francaise de Developpement
AMC	Advance Market Commitment
ARD	Agriculture and Rural Development
BDM	Banking and Debt Management
BETF	Bank-Executed Trust Fund
BSF	Belgian Survival Fund
BTC	Belgian Technical Cooperation
CAS	Country Assistance Strategy
CAT DDO	Catastrophic Deferred Drawdown Option
CDM	Clean Development Mechanism
CER	Certified Emission Reductions
CFP	Concessional Finance and Global Partnership Vice Presidency
CIADR	IFC Infrastructure Advisory Department
CFPMI	Multilateral Trusteeship and Innovative Financing Department
CINUT	IFC Infrastructure Department, Water and Utilities Sector
CIS	Center for International Studies
CMD	Capital Markets Department
CMEA	Council for Mutual Economic Assistance
COSDR	IFC Operational Strategy Department Office of the Director
CRED	Centre for Research on the Epidemiology of Disasters
CSO	Civil Society Organization
CSPDR	Structured and Securitized Products Department
DAC	Development Assistance Committee
DDO	Deferred Drawdown Option
DEC	Development Economics Vice Presidency
DFID	Department for International Development
DGF	Development Grand Facility
DGIS	Netherlands Directorate General of Development Cooperation
DPO	Development Policy Operation
EAP	East Asia and Pacific Vice Presidency
EBRD	European Bank of Reconstruction and Development
EIB	European Investment Bank
EMEA	Europe, the Middle East, and Africa
ENV	Environment Department
EXT	External Affairs Vice Presidency
FDI	Foreign Direct Investment
FEU	Finance, Economics, and Urban Development Department
FIFs	Financial Intermediary Fund
FINCF	Corporate Finance and Risk
FMO	Nederlandse Financierings-Maatschappij
FPDVP	Financial and Private Sector Development Vice Presidency
FRM	Financial Risk Management
GAAP	Generally Accepted Accounting Principals

GAVI	The Global Alliance for Vaccines and Immunization
GDF	Global Development Finance
GDP	Gross Domestic Product
GFDRR	Global Facility for Disaster Reduction and Recovery
GHG	Greenhouse Gas
GNI	Gross National Income
GPOBA	Global Partnership on Output-Based Aid
GPPs	Global Programs and Partnerships
HDNHE	Human Development Network Health, Nutrition and Population Team
HFC	Hydroflourocarbon
HMO	Health Maintenance Organization
IAD	Internal Auditing Department
IBRD	International Bank for Reconstruction and Development
ICSID	International Center for the Settlement of Investment Disputes
IDA	International Development Association
IDB	Inter-American Development Bank
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IFI	International Financial Institution
IFFIm	International Financing Facility for Immunization
IIC	Inter-American Investment Corporation
IIF	Institute of International Finance
IISEC	IDA-IFC Secretariat
IMF	International Monetary Fund
IRM	Integrated Risk Management
ISG	Information Solution Group
ISR	Implementation Status and Results Report
KfW	Kreditanstalt fuer Wiederaufbau
LAC	Latin American and Caribbean
LICs	Lower-Income Countries
MDBs	Multilateral Development Banks
MDGs	Millennium Development Goals
MICs	Middle-Income Countries
MIGA	Multilateral Investment Guarantee Agency
MIGCO	Multilateral Investment Guarantee Agency Chief Financial Officer
NGO	Nongovernmental Organization
OBA	Output-Based Aid
OCHAs	Office of the Coordination of Human Affairs
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
OFDA	Office of Foreign Disaster Assistance
PBGI	Performance-Based Guarantee Initiative
PCG	Partial Credit Guarantee
PIDG	Private Infrastructure Development Group
PPI	Private Participation in Infrastructure
PPIAF	Public Private Infrastructure Advisory Facility
PPP	Public-Private Partnership
PREM	Poverty Reduction and Economic Management Network
PRG	Partial Risk Guarantee
PRI	Political Risk Insurance
PRMVP	Poverty Reduction and Economic Management Vice Presidency
SDNVP	Sustainable Development Network Vice Presidency

SECO	State Secretariat for Economic Affairs
SIDA	Swedish International Development Agency
SME	Small and Medium Enterprise
SSA	Sub-Saharan Africa
SWF	Sovereign Wealth Funds
TA	Technical Assistance
TF	Trust Funds
TFMF	Trust Fund Management Framework
TTL	Task Team Leader
UCF	Umbrella Carbon Fund
UN	United Nations
UNFCCC	United Nations Framework Convention on Climate Change
UNHCR	United Nations High Commission for Refugees
UNICEF	United Nations Children's Fund
UNITAID	Joint Declaration on the International Drug Purchase Facility
UNODC	United Nations Office of Drug and Crime
UPE	Universal Primary Education
WBG	World Bank Group

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EXECUTIVE SUMMARY

Why Innovative Development Finance and Why Now?

1. As early as 2000, development partners embarked on a decade-long search for “innovative” or alternative sources of Official Development Assistance (ODA) to help finance achievement of the Millennium Development Goals (MDGs). In response, sovereign and private donors championed an array of initiatives: global solidarity levies proposed by France, frontloading future aid commitments by the United Kingdom, and results-based financing by various actors, including private foundations. Development banks also started issuing new types of bonds that link resource mobilization and development objectives, for example, debt offerings for sustainable investments with climate change-related themes. For their part, developing countries sought not only more financial flows but better financial solutions, for example, partnerships that mobilize private finance for public service delivery, risk mitigation efforts that promote private entry in the productive sectors, and support for carbon trading. This paper offers a framework to organize and understand this heterogeneous mix of innovations in fund-raising and financial solutions for development; seeks to provide, for the first time, a stocktaking of actual innovations that make up the international landscape; and highlights the World Bank Group’s role to date.

Rethinking Innovative Development Finance

2. Broadly, four types of innovative mechanisms make up the international landscape: *Private mechanisms* involve private-to-private flows in the market and in civil society. *Solidarity mechanisms* support sovereign-to-sovereign transfers and form the backbone of multilateral and bilateral ODA and other official flows (OOF). *Public-private partnership* (PPP) *mechanisms* leverage or mobilize private finance in support of public service delivery and other public functions, such as sovereign risk management. *Catalytic mechanisms* involve public support for creating and developing private markets (*inter alia* by reducing risks of private entry). Three of these mechanisms (solidarity, partnership, and catalytic) depend on official flows, which they either mobilize or deploy in support of country and global efforts through financial engineering efforts that employ an array of instruments (from grants and loans to contingent financing to risk mitigation). These are the focus of this paper.

3. Intrinsic financial novelty is not necessarily what makes these mechanisms and instruments innovative. Rather, innovations are those that depart from traditional approaches to mobilizing development finance—that is, through budget outlays from established sovereign donors or bonds issued by multilateral and national development banks exclusively to achieve funding objectives. They also are those that break from traditional approaches to delivering development finance—that is, through grants and loans. *Innovative development finance* therefore involves nontraditional applications of solidarity, PPP, and catalytic mechanisms that (i) support fund-raising by tapping new sources and engaging investors beyond the financial dimension of transactions, as partners and stakeholders in development; *or* (ii) deliver financial solutions to development problems on the ground.

The Evolving International Landscape

4. **Innovative fund-raising** generated an estimated US$57.1 billion in official flows or at least 4.5 percent of total gross ODA and IFI bond proceeds between 2000 and 2008. The bulk of these efforts involved new debt offerings by development banks (such as bonds issued in developing country currencies or those targeting sustainable investors). Alternative sources of concessional flows including solidarity levies and contributions from emerging donors totaled at least US$11.7

billion or 1.3 percent of gross ODA over 2000–8. Carbon finance and frontloading of ODA for global programs, while modest in volume terms, also grew. The World Bank Group accounted for more than a quarter of these innovative fund-raising efforts.

5. Efforts to support **innovative financial solutions on the ground** used an estimated US$52.7 billion in official flows or 5.7 percent of official flows to developing countries between 2000 and 2008. The lion's share involved catalytic mechanisms to promote private investment in the financial, private insurance, and productive sectors at the country level (using partial credit guarantees, local currency lending using derivatives, and insurance pools) and Advance Market Commitment (AMC) and copayment schemes to strengthen the market for vaccines and essential drugs at the global level. A second major component involved PPPs that leveraged private flows to support infrastructure and social service delivery using risk management instruments (such as partial risk and political risk guarantees) and Output-Based Aid (OBA) schemes. These also included sovereign catastrophe risk management and debt swaps funded by private donors. Innovative solidarity efforts comprised debt buy-downs by bilateral donors, and counter-cyclical loans that adjust terms and conditions in response to shocks. Overall, the Bank Group was responsible for supporting nearly half of these innovative financial solutions on the ground.

Lessons Learned

6. The experience to date offers some early lessons for developing countries and their partners.

7. **<u>Lesson 1</u>: To date, innovative finance mechanisms have played a more significant role in supporting financial solutions on the ground than in identifying and exploiting "alternative sources of ODA."** Efforts to achieve development results therefore can be strengthened through the use of a broader menu of innovative *financial solutions*:

- Aside from simply increasing official flows, financial solutions have helped governments and economic agents with risk management and risk reduction across sectors (for example, through use of insurance, derivative, and other risk management products). Given their limited knowledge of risk management instruments, developing countries could benefit from intermediation services offered by Multilateral Development Banks (MDBs) to help transform and customize development finance flows to their specific needs. These arrangements can help build local capacity for financial innovation over time.

- Development partners can do more with less by proactively channeling official flows through catalytic and PPP mechanisms that leverage private flows at the country level. To do this, governments have started to employ a richer menu of cash and derivative instruments. These instruments will be increasingly relevant, given the lowered risk tolerances of investors as a result of the financial crisis. Some catalytic efforts at the global level (for example, AMC) employed ODA, which could also be channeled through country-based solidarity.

- Whereas they already were the dominant form of innovative finance in middle income countries, catalytic efforts can be expanded in lower income countries *inter alia* through better packaging of risk mitigation with traditional loans and grants. Scaling up these efforts in the financial and productive sectors is essential to any robust response to the global crisis.

- Among the more innovative solutions in recent years were global market-making mechanisms, such as carbon trading and advance market commitments for vaccines. Success depends on robust regulatory regimes and clear agreement of roles and responsibilities respectively. International advocacy on these issues will likely be important.

8. **<u>Lesson 2</u>: Innovative fund-raising should be viewed as a complement to—rather than a substitute for—traditional efforts to mobilize official flows, in particular concessional flows.** Donors should be realistic about the potential of innovative schemes to generate additional flows:

- Budget outlays from emerging sovereign donors were the only significant source of additional concessional flows or ODA. Initiatives supporting global programs (such as the International Financing Facility for Immunization [IFFIm]) that also rely on ODA should be managed keeping in mind substitution risks.

- PPP mechanisms that support *global programs* (for example, through pooling sovereign and private donations or frontloading ODA) help broaden the base of support for development. They can also contribute to aid proliferation and associated transaction costs.

- New debt offerings by development banks (for example, those issued in local currencies or those targeting sustainable investors) have shown potential. But resources generated were relatively modest. Future prospects depend on varying regulations and market conditions.

9. **<u>Lesson 3</u>: Innovations need to be tested and evaluated to determine value-added.** While some innovations show promise, the jury is still out on others. For instance, the high start-up costs of certain schemes have been noted. Over time, more in-depth evaluation will be required to determine the value-added and *net* benefits of fund-raising efforts and financial solutions.

Pointers for the Way Forward for Development Partners

10. Developing countries, donors, and the private sector are eager to bring innovative finance into the mainstream of development practice. Leaders around the world are actively exploring the potential scalability of innovative schemes, for example, through the High Level Taskforce on Health System Strengthening or the Copenhagen meeting on climate change. Agencies like the Bank Group can help by using innovative finance more systematically and strategically to further funding and operational objectives. Building on existing efforts, they should:

- **Employ Innovative Fund-Raising More Selectively:** Innovative fund-raising for *country-based efforts* (for example, partnerships with investors and philanthropists) has mobilized modest resources to date, but can help broaden the base of support for development. Innovative fund-raising for *global priorities* is more critical to ensuring actual funding for international efforts on health and climate change.

- **Mainstream the Use of Innovative Finance across Countries and Sectors:** As they prove effective, innovations should become a more integral part of the core operational toolkit of development agencies. This can be done using *country-based platforms* to broaden the use of innovative finance to countries and sectors where they can add value (for example, mainstreaming OBA or finding new applications for AMCs). Doing so requires strengthening internal incentives for innovation by rationalizing financial and operational control processes, providing upstream advisory support on financial issues, and updating the financial skills of operational teams.

- **Monitor Trends and Results:** There is urgent need to monitor the impact of innovative fund-raising and financial solutions on development finance and to evaluate what works.

- **Expand Outreach to Partners:** Clients should also be better informed about what innovative finance can offer. Ongoing outreach to private investors and donors as well as DAC and emerging donors will also enhance prospects for mainstreaming innovating finance.

I. WHY INNOVATIVE DEVELOPMENT FINANCE AND WHY NOW?

1.1 **As early as 2000, development partners embarked on a decade-long search for "innovative" or alternative sources of Official Development Assistance (ODA) to help finance achievement of the Millennium Development Goals (MDGs).** In response, sovereign and private donors championed an array of initiatives: global solidarity levies proposed by France; frontloading future aid commitments under the International Finance Facility by the United Kingdom, and results-based financing initiatives by private foundations. Development banks began to issue new bonds in part to mobilize official flows, especially for middle-income countries (MICs). In addition to more resources, developing countries sought a broader menu of financial solutions to enduring and emerging problems. Examples included *inter alia* partnerships to leverage private finance for public service delivery, risk mitigation to promote private entry in the financial and productive sectors, and facilitation of carbon trading.

1.2 **Encouraged by early progress on a few high-profile innovative schemes, proponents of innovative development finance have developed a significant literature highlighting numerous potential applications of these tools.** With more than 50 new proposals in the literature, there is no paucity of ideas on innovative finance. The growing literature is replete with proposals for tapping new sources through innovative fund-raising (for example, private philanthropy or emerging donors) or developing new mechanisms to channel those resources (for example, public-private partnerships (PPPs) in service delivery). They also include a range of suggested uses for financial instruments to solve economic management and sector-specific problems at the country and global levels, for example counter-cyclical lending that allows adjustment in terms and maturities in response to exogenous shocks or results-based financing in the health sector.[1]

A. Taking Stock of Innovations in Practice

1.3 **To some observers, these proposals point to an important shift in the way development partners do business. However, until now, it has not been clear how dramatically they have impacted the development finance landscape.**[2] Donors, international agencies, and representatives from developing countries have, in various fora, such as the Leading Group on Solidarity Levies to Fund Development, expressed strong interest in looking beyond the proposals to take stock of actual innovations in practice. In response, the World Bank Group launched an effort to assess the state of play in innovative development finance. This paper proposes an emerging framework to think about innovative fund-raising and innovative financial solutions on the ground; provides a snapshot of the actual innovations that make up the international landscape, including the World Bank's role to date; and discusses lessons learned and implications going forward.

1.4 **The paper is organized into five remaining sections.** The remainder of this section offers a simple framework for categorizing innovative mechanisms and instruments. Section II provides an overview of innovative finance landscape as a component of development finance overall. Sections III, IV, and V describe innovations within each of the three main mechanisms of development finance that are the subject of this paper—solidarity, PPPs, and catalytic mechanisms. Section VI considers lessons learned from the international experience and implications for the World Bank Group.

[1] De Ferranti et al., 2008; Labatt and White, 2007.
[2] Doha Communique, 2008; Kaul, 2005.

B. Rethinking Innovative Development Finance

1.5 **Since the term "innovative finance" made its way into the development lexicon in the early 2000s, it has come to mean many things to many people.** It has been used to describe a wide array of advancements in how economic development is supported by external actors—from financing technological and scientific advancements in a particular sector and improving the business processes of development agencies to actual financial innovations in the way development funds are raised and deployed. As the international community seeks more concrete financial solutions to operational challenges on the ground, there is a need to clearly bound the term "innovative finance."

An Emerging Framework

1.6 **The primary interest for the international community is not financial innovation for its own sake, but the achievement of development objectives and results.** To understand the ways in which innovative finance can further development objectives, it is important to look at the uses and sources of development finance and also at how the resources mobilized can be transformed—through mechanisms employing financial engineering—to meet the needs of developing countries.

1.7 **Uses: Development finance supports both public and private uses—that is, core public functions of government as well as private initiatives in markets and civil society.**[3] The traditional economic rationale for government action is to *correct market failures* through the provision of public goods (for example, basic social and infrastructure services) and regulation of markets. In carrying out these public functions, governments are also responsible for mitigating *governance failures* or weaknesses in policymaking, resource allocation, program implementation, and enforcement of rules and regulations governing economic production and exchange. Private uses of development finance relate to private investment and related initiatives between economic agents. In pursuing private initiatives in the market and civil society, economic agents have to manage myriad risks and costs associated with information asymmetries, agency problems, and arbitrary state actions.

1.8 **Sources: Over the past 60 years, the sources of development finance have continued to expand in number and diversity.** *Public sources* originate from the national tax bases of donor countries that contribute to development assistance through budget outlays. These countries include traditional sovereign donors whose contributions are monitored by the Organization for Economic Cooperation and Development-Development Assistance Committee (OECD-DAC) as well as emerging, non-DAC donors. In recent years, countries have identified global or regional taxes as a new source of public finance. Ultimately, domestic revenue in lower- and middle-income countries themselves should be the most stable, long-term source of development finance. Private sources include private firms that enter into development country markets, for example, to make investment decisions, after assessing profit-making opportunities. They also include private giving by individuals and organizations involved in philanthropy, as well as extended family and community networks that provide remittances.

[3] World Bank, *World Development Reports* 1997, 2004, and 2005.

1.9 **Mechanisms**: **Based on the sources they tap and the uses they support, four types of innovative mechanisms are identified** (Figure 1.1). *Private mechanisms* involve private-to-private flows in the market and in civil society. *Solidarity mechanisms* support public-to-public or sovereign-to-sovereign transfers and form the backbone of multilateral and bilateral ODA and other official flows (OOF). *Public-private partnership 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 (*inter alia* by reducing risks of private entry). It is important to note that three of these mechanisms—solidarity, PPP, and catalytic—*depend on official flows (primarily ODA),* which they either mobilize or deploy in support of country and global efforts using a wide range of financial instruments.

Figure 1.1: Innovative Mechanisms of Development Finance

SOURCES	USES: ***Public***	USES: ***Private***
Leverage Private	**Public-Private Partnerships** *Private finance for public service delivery and other public functions*	**Pure Private** *Private initiative in the market and in civil society*
Mobilize Public	**Solidarity** *Public-to-public transfers using concessional flows (Official Development Assistance)*	**Catalytic** *Public support for market creation and development or for promoting private entry into existing markets*

Source: Author.

1.10 **Instruments: Innovations take place within each of these mechanisms through "financial engineering" efforts that employ a range of financial instruments, products, and services.** The instrument array used by development financiers includes cash instruments (such as grants, loans, and securities), contingent financing, risk mitigation instruments (such as guarantees, swaps, hedging products, derivatives, and insurance pools), and advisory services.

1.11 **Intrinsic financial novelty is not necessarily what makes these mechanisms and instruments innovative.** Rather, innovative mechanisms and instruments are those that depart from traditional approaches to mobilizing development finance—that is, through budget outlays from established sovereign donors or bonds issued by multilateral and national development banks exclusively to achieve funding objectives. They are also those that break from traditional approaches to delivering development finance—that is, through grants and loans.[4]

1.12 ***Innovative development finance*** **therefore involves nontraditional applications of solidarity, PPP, and catalytic mechanisms that (i) support fund-raising by tapping new sources and engaging investors beyond the financial dimension of transactions, as partners**

[4] Innovations in development policy and practice—independent of financial design—are not the subject of this paper. These technical innovations may result from advances in science and technology, improvements in governance arrangements, or new knowledge about what works in a particular sector.

and stakeholders in development; *or* (ii) deliver financial solutions to development problems on the ground. Accordingly, the paper identifies the following innovative mechanisms and instruments that are already in existence: (i) partnership and catalytic mechanisms (and supporting instruments), by virtue of their focus on leveraging of private flows; and (ii) new instruments and new applications of existing instruments (other than traditional lending and granting) under solidarity, partnership, and catalytic mechanisms. These initiatives involve varying degrees of financial engineering and complexity.

1.13 **Using the framework previously discussed, Table 1.1 identifies innovative mechanisms and instruments that made up the international landscape over the 2000–8 period.** These were organized as either innovative fund-raising efforts or financial solutions on the ground. For instance, examples of innovative fund-raising that generate additional concessional resources in support of global and country initiatives include contributions from emerging sovereign donors, the airline ticket tax, and contributions from national lotteries. They also include PPP mechanisms such as IFFIm, which borrows on the capital markets against long-term aid commitments. Examples of financial solutions on the ground include catalytic efforts to help create private catastrophe insurance markets for households and farmers, or solidarity efforts to improve performance through debt conversions conditioned on output performance.

Table 1.1: A Snapshot of the International Innovative Finance Landscape

	Fund-Raising	**Financial Solutions**
Traditional	▪ ODA financed by budget outlays from developed countries ▪ Some private flows	▪ Transfers (cash or contingent) to public entities
Innovative	*Solidarity mechanisms* ▪ ODA financed by budget outlays from emerging sovereign donors ▪ Global solidarity levies (such as airline ticket tax, Adaptation Fund) ▪ National lotteries ▪ Stolen Asset Recovery *Public-private partnership mechanisms* ▪ Joint financing with private donors ▪ New bonds (those in local currencies or those targeting sustainable investors) ▪ Sovereign catastrophe risk (incl. derivatives, currency swaps) ▪ Frontloading ODA *Catalytic mechanisms* ▪ Carbon funds	*Solidarity mechanisms* ▪ Counter-cyclical lending ▪ Debt swaps for results *Public-private partnership mechanisms* ▪ Private participation in social sectors and infrastructure (incl. through guarantees, OBA) ▪ Sovereign catastrophe risk finance (through derivative and hedging, deferred drawdown options or DDOs) *Catalytic mechanisms* ▪ Leveraging private investment in the financial and productive sectors (through local currency lending, guarantees, risk-sharing facilities) ▪ Creating private insurance markets (through insurance pools and DDOs) ▪ Advance market commitments ▪ Copayment schemes

Evaluating the Value Added of Innovation

1.14 **Innovations need to be tested and evaluated to determine their value-added and therefore *net* benefits.** While some innovations show promise, the jury is still out on others. For instance, the high costs of complex financial engineering in support of fund-raising or financial solutions have been noted. While preliminary analysis of these costs is available, more in-depth evaluation of the value-added and therefore, the net benefits is needed (Box 1.1). Innovative fund-raising mechanisms should be evaluated in terms of their ability to mobilize *adequate and predictable resources* from a given source *at the minimum cost and risk*. In particular, global solidarity levies and taxes should be evaluated in terms of the incentives they provide to achieve policy goals, their revenue potential, and their distributive impact. Financial solutions on the ground should be reviewed in terms of their ability to efficiently and effectively *deliver* development results or maximize net development benefits. It is important to note that, unlike fund-raising efforts, solutions on the ground often take time to materialize.

Box 1.1: The Role of Financial Engineering in Enhancing Value Added

Innovative finance can enhance the value added of development finance at various points, from the initial mobilization of concessional funds to their deployment. Typically, this involves new approaches that perform financial transformation of development flows—through "financial engineering"—and then disburse to implementing entities, such as development institutions, governments, civil society organizations (CSOs), or private sector actors. Financial engineering approaches can be used to:

- Transform the flow of ODA or investor funds to better correspond to the *timing* of actual development needs (e.g., through frontloading long-term ODA grants for immediate use (IFFIm)) and to help countries address various types of *risks* (e.g., through gross domestic product (GDP), commodity price or inflation-indexed bonds; MDG contracts providing countercyclical loan flows; indexed/parametric or catastrophic risk insurance; local currency bonds and currency swaps).
- Increase the concessionality of flows through approaches that facilitate funding—whether from private investors (e.g., impact investments), governments or foundations (e.g., blending arrangements transforming loans to grants)—at costs lower than market rates.

Recently approved by the World Bank's Board, the pilot Advance Market Commitment (AMC) is an example of how financial engineering can help to transform development finance flows to meet country needs and strengthen results. 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 targets private sector engagement via a unilateral offer to industry designed to spur development of manufacturing capacity to make needed vaccines. The funds flow to The Global Alliance for Vaccines and Immunization (GAVI) (which is itself portrayed as an innovative public-private partnership) and, with GAVI copayments, are used by the United Nations Children's Fund (UNICEF) to procure vaccines. The AMC thus comprises financial transformation (long-term contributions, the World Bank's backing), is "results-based" since it is used only for vaccines that meet the needs of developing countries, and is "country-owned" since funds are only used for vaccines demanded by developing countries. Financial engineering approaches can help make better use of ODA, while involving the private sector in supporting development. As such, they are likely to assume greater significance.

Source: Multilateral Trusteeship and Innovative Financing Department, World Bank.

1.15 **In addition to the costs of financial engineering, the risk profile of fund-raising schemes and financial solutions should be considered.** Financial risks affecting *funding sources* include currency, market, donor nonpayment, and commercial credit risks, and those affecting *uses* can include currency, liquidity, and over-commitment risks, as well as sovereign and portfolio or project risks.[5] Managing these risks involves financial and administrative costs; they can also affect the likely impact of both fund-raising schemes and financial solutions on the ground. While this stocktaking does not cover the impact of innovations on development outcomes, these evaluative criteria should be considered going forward.

[5] World Bank. *Trust Fund Financial Compendium,* 2008.

II. THE INNOVATIVE DEVELOPMENT FINANCE LANDSCAPE

A. How We Got Here—Development Finance in Transition

2.1 **The evolution in external financing in development countries over the 2000s provided the context within which innovative development finance evolved.** The scale and composition of private and official flows to developing countries will continue to influence prospects for innovative approaches to mobilizing official flows and innovative financial solutions to development problems on the ground.

Private Flows and Market-Based Innovations

2.2 **In the years preceding the current global financial crisis, external financing to developing countries grew rapidly, driven primarily by private flows.**[6] For middle income countries (MICs), external flows grew from US$264 billion in 2000 to US$757 billion in 2007, and in lower-income countries (LICs), from US$24 billion to US$68 billion over the same period. Much of the growth in external financing to developing countries was driven by private flows. For MICs, these private capital flows—in particular, foreign direct investment (FDI), and private equity and debt—recorded considerable growth and were critical to relieving financing constraints. While steadily increasing in MICs, remittance flows became the largest source of external funding for LICs in 2007. Even though private flows to LICs increased through 2007, these countries relied more heavily on ODA.

2.3 **Buoyed by higher risk tolerance and the promise of high returns, market actors developed <u>innovative strategies and instruments</u> to increase private flows.** Privately-provided export credit insurance and political risk insurance schemes supported investments in the financial sector and productive sectors. For instance, in 2007 alone, export credit insurance—a highly concentrated market and dominated by private sector players—insured just more than US$2 trillion of world trade, 11 percent of which went to developing countries. Similarly, in 2005, the smaller political risk insurance market had a total potential exposure of US$122–172 billion. Over the mid-2000s, developing countries looked to other market-based innovations, such as diaspora bonds, securitization of future remittances and other future receivables, and reductions in the cost of remittances. Precrisis estimates indicated that these innovations could generate up to US$30 billion in private flows to Africa.[7]

2.4 **Closely associated with these trends was the emergence of new sources of flows to market actors, such as <u>sovereign wealth funds</u>.** Sovereign wealth funds (SWFs) are technically and legally sovereign entities; however, they have been empowered with broader and more aggressive market-oriented investment mandates. Estimates by market participants suggest that assets under management of SWFs range from US$2 trillion to $3 trillion and account for about one-fourth to one-third of foreign assets held by sovereigns. Notwithstanding the likely impact of the crisis on SWFs, their potential as a source of investment in developing countries is worth noting.

2.5 **<u>Private giving</u> by civil society to lower- and middle-income countries also grew in volume and visibility.** In 2006 alone, roughly US$40 billion in private donations and nongovernmental program funding flowed from OECD countries to developing countries. This

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[6] *Developing countries* are defined as those countries that received ODA from OECD countries in 2006.
[7] Ketkar and Ratha, 2009.

compares to a total of US$80 billion in ODA for core development and emergency programs in the same year. Recent estimates of various segments of private giving suggest that the rapid growth in private giving for development activities was largely driven by foundations.[8]

2.6 **With the onset of the global economic crisis and the virtual seizure of capital markets in 2008, prospects for increasing private flows purely through market-based innovations have been severely dampened.** Private flows to developing countries were halved from US$929 billion in 2007 to US$466 billion in 2008, and fell further to US$200 billion in 2009. Middle income countries with large financing needs and highly levered financial systems have been hit most directly. Lower income countries also were impacted by sharp declines in private flows. The indirect impact is expected to be even more severe including reductions in export volumes, commodity prices, remittances, tourism, and possibly aid.[9] Given the prevailing financial environment, market-based innovations alone may not be able to counter reversals in capital flows to developing countries. Any robust response to the global crisis necessarily requires *increased official flows* to developing countries and their better use. Described in subsequent sections, innovative uses of official flows can help developing countries respond to the crisis.

Official Development Assistance and Innovative Finance

2.7 **Over the 2000s, official flows and in particular ODA underwent considerable evolution as well.** ODA, the other major component of external financing to developing countries (in particular, to lower-income countries), relies entirely on budgetary outlays from donor countries to mobilize concessional flows. Net ODA disbursements grew steadily between 1997 and 2005, reaching a peak of US$107 billion in 2005. Much of the increase in ODA over this period was due to debt relief and, to a lesser extent, to emergency assistance and administrative costs of donors. Even though official flows increased during this period, it was clear that achieving the MDGs required a significant acceleration in the growth of ODA. As they contended with this large and looming financing gap, developing countries also had to manage the transaction costs associated with the proliferation of aid channels and ODA fragmentation.

2.8 **In response to the MDG financing gap in 2000, development partners embarked on a decade-long search for "innovative" or alternative sources of ODA.** Soon after the declaration of the MDGs, noting likely shortfalls in achieving ODA levels of $50 billion per annum, the 2002 Zedillo report strongly advocated searching for innovative financing solutions. Over the 2000s, sovereign and private donors championed an array of *innovative fund-raising initiatives,* from solidarity levies to frontloading of ODA commitments. Some of these have been implemented, including the airline ticket levy and the IFFIm pilot.

2.9 **Over this period, developing countries also started to demand not only increased financing but more effective *financial solutions* to development problems.** The solutions sought to utilize a broader menu of financial instruments than traditional development loans and grants. For instance, new performance-based solutions, such as the credit buy-downs, aim to sharpen the results- and poverty-focus of traditional development lending in the health sector. Similarly, countries are seeking to reduce their fiscal exposure to weather-related and commodity price shocks and natural disasters through catastrophe risk finance.[10]

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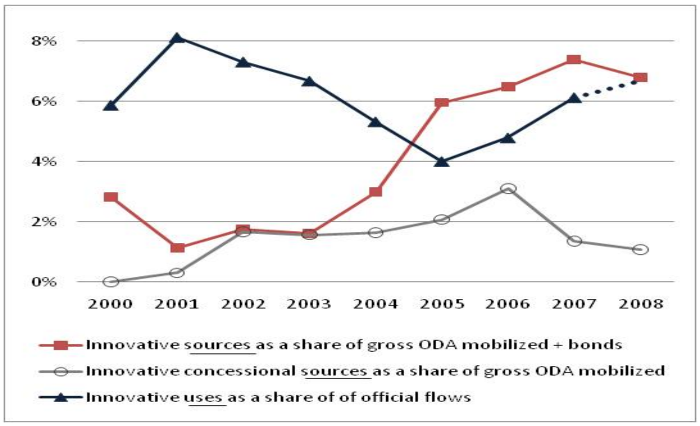
[8] *Hudson Index of Global Philanthropy 2008.*
[9] World Bank. Global Monitoring Report 2009.
[10] Cummins and Mahul, 2009.

B. The International Innovative Finance Landscape

Innovative Fund-Raising

2.10 **International efforts in innovative fund-raising generated an estimated US$57.1 billion**[11] **or at least 4.5 percent of total gross ODA and IFI bond proceeds between 2000 and 2008** (Figure 2.1)**.**[12] This represented an average annual growth of 5 percent**.** The lion's share of innovative fund-raising involved new types of bonds by multilateral and national developments to leverage the capital markets. Nearly three quarters of funds raised over this period were generated as local currency bond proceeds. Twenty percent came in the form of concessional flows through budget outlays from emerging sovereign donors and revenues generated by global solidarity levies, accounting for US$11.7 billion or 1.3 percent of gross ODA. Resources generated for *global programs* accounted for US$1.9 billion or 16 percent of concessional funds raised through innovative schemes. Carbon finance accounted for 3 percent of total innovative financing.[13]

Figure 2.1: Innovative Fund-Raising and Financial Solutions as an Estimated Share of Development Finance, 2000–8



2.11 **The World Bank Group was responsible for US$15.6 billion or more than a quarter of total official resources mobilized through *innovative* schemes over the 2000–8 period** (Annex 2.2a)**.** While the composition of Bank Group efforts largely mirrored international ones, some specific Bank Group innovations can be highlighted. These include partnership efforts between the Bank and private investors through International Bank for Reconstruction and Development (IBRD) debt offerings for sustainable investments, IBRD-managed IFFIm bond issues, and the pooling of contributions from private and sovereign donors under International Development Association (IDA) and World Bank trust funds (TFs). Through carbon funds, the Bank is playing an early catalytic role in mobilizing additional flows to developing countries.

[11] Data on contributions from emerging donors for 2007–8 are likely to be underestimated.
[12] This is a *ratio* between official flows mobilized through innovative fundraising efforts and the sum of ODA budget outlays from established sovereign donors and the bonds issued by IFIs in a given year. Bond issues are gross of refinancing of maturing bonds both in the numerator and in the denominator, while ODA refers to gross disbursements. This ratio does not capture the full complexity of the innovative finance landscape but provides an aggregate measure of resources mobilized through innovative means.
[13] Administered through a market-based mechanism, carbon funds generate additional flows between economic agents in developed and developing countries. As such, it is considered an innovative source.

Financial Solutions on the Ground

2.12 **International efforts to support innovative financial solutions on the ground employed at least an estimated US$52.7 billion in official flows or 5.7 percent of total official flows to developing countries between 2000 and 2008** (Figure 2.1). These innovations, which were more heavily focused in middle-income countries, grew an average of 10 percent annually in volume terms over this period. The World Bank Group was responsible for nearly half of these international efforts (or US$23.7 billion over the 2000–8 period). As such, the Bank Group's catalytic efforts at the country and global levels as well as its PPP efforts to promote private finance for public service delivery both have influenced international trends, highlighted below:

- **Over the 2000–8 period, US$39.4 billion (or three-quarters of all innovative uses) supported *catalytic* country-level efforts in the financial and productive sectors.** These efforts typically used risk-mitigation instruments, primarily partial credit guarantees and local currency lending using derivatives. Even though developing country efforts to catalyze private catastrophe insurance markets, for example, property catastrophe insurance for householders and crop insurance for farmers, totaled only US$181 million to date, it remains a cutting-edge area with initiatives in the pipeline. Also in the pipeline is the US$1.5 billion pilot AMC, which aims to correct market failures in the global market for vaccines.

- ***Public-private partnership mechanisms* employed a range of available multilateral and bilateral risk management instruments, totaling US$8.6 billion in guarantee amounts, to leverage private finance for public services in infrastructure and the social sectors.** Of these, most were carried out using partial risk and political risk guarantees. OBA schemes accounted for US$3.7 billion or a third of international PPP efforts. Multilaterals, such as the Bank Group, have helped countries access global insurance markets to cover sovereign catastrophe risks. To date, US$451 million in support and intermediation services supported such efforts. Debt conversions, totaling US$87 million, were financed by private donors.

- **Innovative solutions using *solidarity mechanisms* totaled only US$481 million.** These comprised debt buy-downs financed with bilateral aid, as well as counter-cyclical lending, which allow countries to adjust terms and conditions in response to shocks.

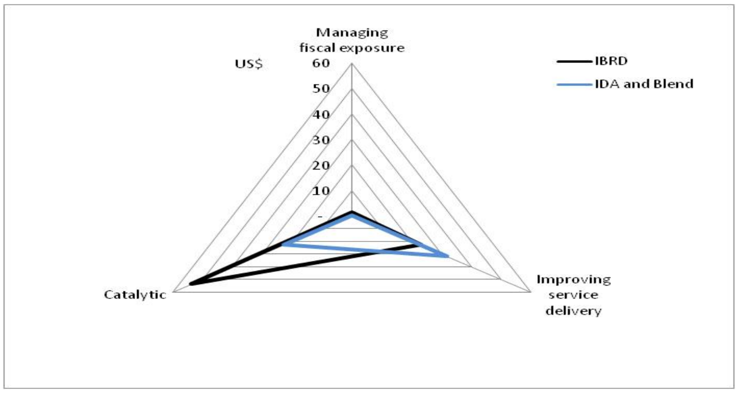
2.13 **PPPs, and to a lesser extent, catalytic mechanisms, leveraged additional resources on the ground** (Annex 3.3). While complete estimates of international efforts were not available, Bank Group-supported *PPP mechanisms* registered leveraging ratios of 6.7 through Bank Group partial risk guarantees and insurance schemes, 7.5 through partial credit guarantees, and 5.6 on debt buy-downs using private donations. The leverage from OBA schemes was conservatively estimated to be 1.8. Similarly, leverage estimates for *catalytic mechanisms* were 2.8 using Bank Group partial risk guarantees and 2.2 using partial credit guarantees.

2.14 **Middle-income countries tended to benefit in terms of official flows deployed through innovative mechanisms.** Annual per capita official flows supporting innovative financial solutions in IBRD countries averaged US$78 over the 2000–7 period. [14] IDA and blend countries together averaged US$54 per capita official flows (by definition, ODA).

[14] As noted earlier, the data on IBRD-eligible middle-income countries may be underestimated. A significant portion of these funds flows were uncategorized in part because IFC local currency lending was not classified by country. Another US$1.5 billion of commitments went to the AMC global program.

2.15 **More could be done to extend catalytic efforts in IDA-eligible countries, and to promote PPPs in both IDA and IBRD-eligible countries. There is also considerable potential to expand sovereign risk management portfolios across the board.** IBRD-eligible countries deployed an average of US$54 per capita of official flows through catalytic mechanisms to promote private sector development compared to an average of only US$23 per capita by IDA-eligible and blend countries (Figure 2.2). By contrast, IDA-eligible and blend countries deployed an annual average of US$32 per capita of official flows through PPPs, compared to only US$23 per capita per annum by IBRD countries.

Figure 2.2: Average Annual Official Flows by Objective and Country Type, FY2000–7



Note: *Not including IFC local currency loans, WB local currency bonds, carbon finance, AMCs, and a few IFC PCGs without countries specified.*

2.16 **Geographically, Latin American and the Caribbean benefitted most from innovative financial solutions, followed by Africa, and Europe and Central Asia** (Annex 3.2a-b).[15] Countries in Latin America enjoyed the lion's share (32 percent) of innovative finance-based support, followed by Africa (17 percent) and then Europe and Central Asia (9 percent). Public-private partnerships accounted for two thirds of innovative finance flows to Latin American countries, and half of innovative finance flows to African countries. Of the various regions, Europe and Central Asia was relatively more ambitious in its use of catalytic schemes, which accounted for 88 percent of flows to countries in the region.

2.17 **The financial and extractive sectors, followed by traditional infrastructure sectors benefitted most from Bank-supported catalytic and PPP efforts.** Efforts to promote private entry into the financial and extractive sectors totaled US$8.6 billion or 37 percent of the total portfolio in volume terms over 2000–08. These were followed by PPP efforts to leverage private finance for service delivery, which generated US$6 billion in flows to the transport, health, and water sectors or 25 percent of the total portfolio in volume terms.

World Bank Corporate Units and Business Processes

2.18 **In supporting innovative finance, the Bank Group has used all its corporate units, such as IBRD, IDA, Multilateral Investment Guarantee Agency (MIGA), and International Finance Corporation (IFC) and a variety of business processes and instruments, for**

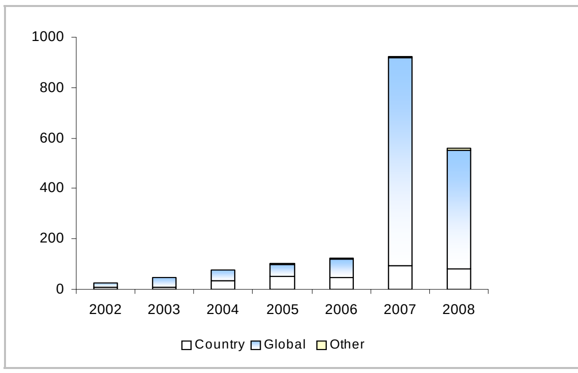
[15] The percentages may underestimate actual flows since the sectoral, geographic, or temporal breakdown for a large portion of initiatives was unspecified.

instance, lending/grant-making, risk management, and advisory and intermediation services. In volume terms, IFC and MIGA each supported more than a third each of innovative finance solutions on the ground by the World Bank Group, followed by IBRD (17 percent), trust funds (8 percent), and finally IDA (7 percent) over the 2001–8 period. IBRD and IFC drove much of the growth in the Bank's innovative finance efforts with average annual growth rates of 187 percent and 66 percent, respectively, over the same period.

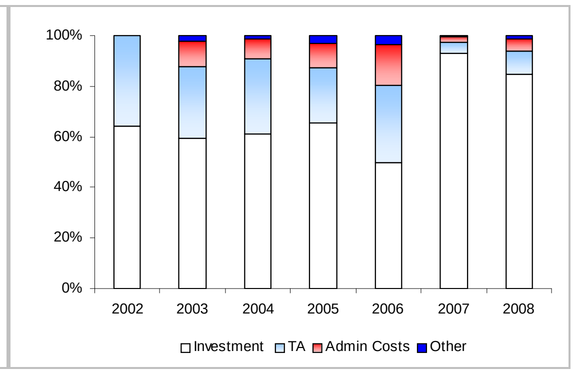
2.19 **As far as concessional and grant resources were concerned, trust funds—particularly those relating to *global programs and partnerships* (GPPs)—were a rapidly growing component of the Bank's business.** As Figure 2.3a illustrates, 82 percent of the US$1.86 billion in innovative finance-related TF grant disbursements between 2002 and 2008 were channeled through 28 (out of a total of 193) global programs. Eighty-one percent of disbursements for innovative schemes under GPPs were focused on health and the environment, and were concentrated in the Concessional Finance and Global Partnerships, Sustainable Development, and Human Development Vice Presidencies.[16]

Figure 2.3a-b: Disbursements from World Bank-Administered Trust Funds Supporting Innovative Finance Applications, 2002-8

2.3a: Volume of TF Disbursements to Global Versus Country Programs



2.3b: Composition of TF Disbursements by Expenditure Categories



2.20 **Trust-funded innovative finance schemes also demand more intensive inputs in terms of specialized sectoral or financial expertise.** While the costs of managing complexity and risk are hard to quantify, a review of the components of *trust-funded* innovative finance schemes highlights the cost and knowledge dimensions of innovative finance applications or uses (Figure 2.3b). Over the 2002–8 period, on average, investment flows accounted for 84 percent of grant disbursements, technical assistance (for example, supporting design and supervision) accounted for 11 percent, and administration costs accounted for 5 percent.[17]

2.21 **Trust-funded innovative finance schemes, in particular those supported by Financial Intermediary Trust Funds (FIFs), carry both generic as well as specialized risks.** Standard risks relate to weaknesses in financial management and accounting, upstream

[16] Data reflect disbursements at the fund level. At the grant level, Africa accounts for the third-largest volume of disbursements under GPPs supported by innovative finance schemes.
[17] These costs are likely to be underestimated. There are difficulties in estimating the average administrative cost of innovative initiatives because the full administrative costs of implementing agencies are not available.

assessment and ongoing risk monitoring, cost-efficiency, data quality, results orientation, and donor relations. Specialized risks associated with FIFs include potential impact on the Bank's strategy, its country-based model, start-up costs, and management of partnerships and conflicts of interest. According to the 2007 *Trust Fund Management Framework*, core operational and trust fund controls should capture generic risks. Distinct financial review processes are being applied for trust-funded innovations involving financial engineering components. Innovative initiatives that support regional or global programs are subjected to an upstream Senior Management Review instituted since 2006.[18] Efforts are ongoing to rationalize these various controls.

[18] World Bank. *Trust Fund Management Framework,* 2007.

III. STRENGTHENING INTERNATIONAL SOLIDARITY: NEW SOURCES, MORE PRODUCTIVE USES

3.1 **This section discusses innovative efforts to strengthen international solidarity *inter alia* by increasing the scale and effectiveness of ODA.** An overarching priority for the development community is to augment aggregate official flows by expanding solidarity mechanisms and simultaneously improving their effectiveness.

A. New Sources of Solidarity

Support from Emerging Donors for Country-Based Aid

3.2 **Since the publication of the 2002 Zedillo report, the only substantial alternative source of concessional finance was aid from emerging *non-DAC sovereign donors*. Estimates indicated that annual ODA commitments from these donors reached US$3 billion by 2006.** While data on emerging sovereign donors are not collected systematically by DAC, their role is becoming increasingly visible. Chinese ODA in particular has grown rapidly in recent years. Estimates for the current level of Chinese ODA vary from US$1.1 to $2.5 billion annually.

3.3 **The World Bank Group has helped broaden the base of support for country-based solidarity efforts. Cash and promissory note contributions from non-DAC sovereign donors through the Bank Group, to IDA and trust funds, totaled US$2.1 billion over the 2001–8 period** (Table 3.1)**.** The number of non-DAC donors has steadily grown since IDA12. Even though non-DAC donors have participated in a number of IDA replenishments, the support of several first-time non-DAC donors during the most recent IDA15 replenishment is particular noteworthy. These included China, Cyprus, Egypt, Estonia, Latvia, Singapore, and Slovenia. Contributions in cash and notes to IDA from all non-DAC donors totaled US$1.32 billion over the fiscal 2001–8 period. Non-DAC donors have also contributed a total of US$780 million over the 2001–8 period to Bank-administered trust funds to lower and middle income countries.[19]

Table 3.1: Emerging Sovereign Donor Contributions through World Bank Group, FY2001–8

(US$ million)	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**Total**
Non-DAC Sovereign Donors	**186**	**136**	**205**	**189**	**166**	**253**	**679**	**283**	**2,097**
IDA	159	104	119	124	113	189	377	131	1,316
Trust Fund	27	31	86	65	53	64	302	152	780

National Lotteries

3.4 **In addition to bringing in new donors, international solidarity efforts have also benefitted by tapping *national lotteries*. To date, Belgium and the United Kingdom have financed aid programs through their national lottery funds.** Since 1987, Belgium has mobilized nearly €330 million in ODA from its national lottery fund for the Belgian Survival Fund (BSF). BSF funds long-term projects carried out by Belgian Technical Cooperation (BTC), NGOs, and international organizations to improve food security in Sub-Saharan African (SSA) countries. Similarly, in the United Kingdom, for every £1 that the public spends on Lottery

[19] This figure includes contributions to Financial Intermediary Funds (FIFs), which *inter alia* support pass through arrangements for global funds. The World Bank often does not play an operational role in these funds.

tickets, 28 pence goes to the Lottery "good causes." Lottery funders are the organizations that distribute the "good causes" money. The largest of the UK's Lottery funders, the Big Lottery Fund, has contributed £213 million (US$310 million) for projects in developing countries since 1995, of which £15 million was contributed in 2007 alone.

Recovery of Stolen Assets

3.5 ***Recovery of stolen public assets* from developing countries is a first step in reclaiming considerable resources that could have supported poverty reduction. Luxembourg is channeling resources recovered from illicit activities to bilateral ODA.** The cross-border flow of the global proceeds from criminal activities, corruption, and tax evasion is estimated at US$1–1.6 trillion per year. Since its establishment in 1993, Luxembourg's Anti-Drug Trafficking Fund has approved projects worth more than €11 million in developing countries. The Stolen Assert Recovery (StAR) initiative, supported by the World Bank and the United Nations Office of Drugs and Crime (UNODC), also shows promise but is in its early days. While there are no formal estimates of resources channeled back as a result of the initiative, anecdotal evidence suggests up to US$134 million was returned to Mexico and Zambia in 2008.

Global Solidarity Levies for Global Priorities

3.6 **In addition to new national revenues that support country-based aid, new global taxes have been instituted to support global priorities.** The levy on airline tickets and a share of proceeds on Certified Emission Reductions (CER) sales constitute noteworthy efforts to tap new revenue sources. In both cases, revenues are "ring-fenced" for specified global programs in health and the environment.

3.7 **Revenues from the *solidarity levy on airline tickets*—which total US$600 million to date—are expanding access to drugs and diagnostics critical to treatment for HIV/AIDS, malaria, and tuberculosis.** France opted for a progressive mechanism based on destination and class and instituted the tax in July 2006. Ninety percent of the 2007 tax product of US$359 million was dedicated to UNITAID, which is responsible for implementing efforts to leverage quality drug- and diagnostic-price reductions and accelerating the pace at which these are made available. Prospects for broadening the base of support for programs funded by this tax are high. Several beneficiary countries, including Brazil, Chile, Mauritius, and Niger, have implemented the tax and raised modest sums for UNITAID.[20]

3.8 ***Proceeds of sales of a share of certified emission reductions* will shortly begin to finance the Adaptation Fund (AF), which has been launched to support climate change adaptation projects and programs.** The AF's primary funding comes from a 2 percent share of proceeds of certified emission reductions (CERs) issued by the Clean Development Mechanism (CDM) under the Kyoto Protocol. The CDM registry forwards 2 percent of CERs issued for each CDM project activity to the AF's registry account. The AF's financial base is thus a precedent-setting international "tax" with a global base arising from an international treaty.

3.9 **Considered a "developing country fund," the AF is expected to generate approximately US$68 million in its first year based on 3.73 million CERs collected to date at mid-December 2008 market prices.** Its growth will depend on CER volumes through 2012. The World Bank serves as the Fund's trustee and the GEF as its secretariat. Supporting the AF as trustee is consistent with the Bank's current work on climate change.

[20] Air ticket levy funds also support IFFIm.

B. Innovative Uses of Solidarity

3.10 **Sovereign donors have developed innovative financial solutions that improve the uses of official flows through solidarity mechanisms.** An emerging crop of financial instruments aim to provide developing countries greater flexibility, for example, by adjusting the terms and conditions of sovereign lending in response to external shocks or by sequencing of grants and loans based on achievement of sectoral performance targets.

Managing Vulnerability: Counter-Cyclical Lending

3.11 **Counter-cyclical loans allow adjustments in terms and maturities in response to export-related shocks.** In 2007, the Agence Francaise de Developpement (AFD) approved two such loans: one to Senegal for €30 million and another to Burkina Faso for €15 million. Prior to 2000, the European Commission had utilized similar instruments, such as the Stabex and Sysmin, which allowed flexibility in terms and maturities to smooth the fiscal impact of commodity shocks. Both were abolished in 2000 with the Cotonou Agreement. [21] The World Bank has offered flexibility to respond to shocks in IDA-eligible countries via the Deferred Drawdown Option (DDO) and grants.

Debt Swaps and Debt Conversions for Results

3.12 ***Debt swaps* have helped drive the results agenda by allocating a part of government-secured debt to achieve specific sectoral spending and performance targets.** For instance, the history of Poland's EcoFund dates back to 1991, when the Paris Club decided to reduce Polish debt by 50 percent provided that the remainder was paid off by 2010. Poland proposed that an additional 10 percent of the debt be allocated to environmental protection. Over the 1992–2006 period, debt swaps under EcoFund funded more than 1,300 projects, totaling US$450 million, in air protection, nature conservation, water protection, and waste management.

3.13 **Similarly, debt conversion agreements, such as those funded by Germany under Debt2Health, are helping increase and prioritize health sector spending.** Under Debt2Health, the Global Fund identifies and negotiates debt conversion opportunities and then facilitates a three-party agreement among creditors and the beneficiary country. Creditors forgo repayment of a portion of their sovereign debts on the condition that the country invests an agreed-upon amount in health through a Global Fund–approved program. Germany has made the first offer to forgo repayment of 50 million Euro provided that Indonesia invests Euro 25 million in health.

3.14 **World Bank debt-conversion efforts involve credit buy-downs, which convert credits into grants. IDA credit buy-downs were first piloted to support polio eradication in Nigeria and Pakistan, and IBRD buy-downs in support of a tuberculosis project in China.** Prior to Board approval of a credit, a donor pays the estimated cost of the future credit buy-down into a trust fund. Following an independent performance audit, trust fund resources are paid to IDA and the credit is "bought-down." To date, seven credit buy-downs have been approved totaling US$242 million, and two have completed the buy-down cycle. Similarly, IBRD buy-downs rely on third-party funds to reduce the effective interest rate of the loan by an agreed level. In the first IBRD buy-down in China, Department for International Development (DFID) grants were used to reduce the cost of borrowing from IBRD to 2 percent. Two more buy-downs in China's education and rural development sectors followed.

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[21] In 1998, an independent evaluation found that, even with large amounts of funds, Stabex did not significantly influence, or compensate for, the overall worldwide drop in producers' earnings at the time.

IV. PROMOTING PUBLIC-PRIVATE PARTNERSHIPS: PRIVATE FINANCE FOR PUBLIC SERVICES

4.1 **Public-private partnership mechanisms (PPPs) that leverage private sources to support public service delivery and other public functions play a critical role in development finance.** For decades, multilateral and national development banks have mobilized resources to global capital markets to support lending in middle income countries. Partnerships with private donors have also helped raise concessional flows for lower income countries, and for global programs. Fund-raising through partnerships helps broaden the base of support for development among private sector actors. On the ground, PPPs enable governments in developing countries to leverage private flows to fill funding gaps, transfer sovereign and service delivery risks, and improve the cost effectiveness of service delivery. They employ a range of financial instruments beyond loans and grants in leveraging private flows. By their very nature, PPPs break from traditional solidarity transfers and are therefore considered innovative.

A. Innovative Fund-Raising through Partnerships

Pooling of Private and Public Resources to Support Country and Global Programs

4.2 **Historically, multilateral agencies in the United Nations (UN) system have been leaders in leveraging private donations, and pooling these contributions with other aid resources in order to support development activities.** UNICEF receives approximately US$750 million in private donations—largely from individuals—net of fundraising expenses. The United Nations High Commission for Refugees (UNHCR) received US$47 million in 2007 largely from private individuals and is ramping up efforts. The World Food Program received more than US$100 million in private donations, a significant portion of which comes from in-kind donations, such as the logistics and supply chain services. In addition, the Global Fund for AIDS, Tuberculosis, and Malaria has engaged private corporations, high-net-worth individuals, and the mass market through its Product Red campaign.[22] Some multilateral agencies, such as the Islamic Development Bank, have benefited from unsolicited donations such as a US$130 million gift in 2008 from philanthropist Fael Khair for cyclone shelters in Bangladesh.[23]

4.3 **World Bank Group partnerships with private donors—primarily through trust funds, and to a much lesser extent IDA—have been modest** (Table 4.1)**.** Over the 2001–8 period, private contributions to Bank-administered trust funds totaled US$269 million. In volume terms, the bulk of these resources were provided by the Bill and Melinda Gates Foundation. To date, two private corporations have made contributions totaling US$1 million to IDA.

Table 4.1: Contributions by Nonsovereign Donors through World Bank Group, FY2001–8

(US$ million)	2001	2002	2003	2004	2005	2006	2007	2008	Total
Nonsovereign Donors	**9**	**18**	**47**	**19**	**31**	**25**	**55**	**64**	**269**
IDA - Corporation	-	-	-	-	-	-	-	1	1
Trust Fund - Corporation	0	1	0	2	2	3	5	17	31
Foundation	8	15	45	15	29	21	40	27	200
Civil Society/NGO	1	2	1	1	1	1	10	19	37

[22] Company Web sites.
[23] Islamic Development Bank Web site.

Innovative Debt Offerings by Development Banks to Support Country Programs

4.4 **Since their inception, multilateral and national development banks have leveraged private funds on the world's financial markets to help finance country level development efforts.** Between 1995 and 2008, these development banks raised a total of US$1.35 trillion in proceeds on the capital markets, of which IBRD and IFC accounted for approximately US$235.4 billion.[24] World Bank bonds and debt products, issued by IBRD, provide investors with the reassurance of an AAA credit rating, a wide choice of products, and strong secondary market performance for liquid World Bank benchmark bonds. It customizes its debt offerings to meet investors' specific asset and liability needs.

4.5 **Some donors, such as Germany and France, have raised funds on their domestic capital markets, through their national development banks, to fund bilateral aid programs.** Both countries make substantial use of loans as part of their ODA. For instance, Kreditanstalt fuer Wiederaufbau (KfW) Entwicklungsbank sought to "expand the scope of development cooperation by combining federal budget and capital market funds." In 2007 alone, contributions of KfW's bonds and own funds reached 20 percent of Germany's ODA commitments in 2007.

Box 4.1: World Bank Targets Sustainable Investing with Climate-Related Themes

World Bank Eco notes (total USDeq 390 million, in three transactions: September and December 2007, and February 2008) are six-year euro-denominated notes with a coupon of 3 percent, plus a potential additional return linked to an ABN-Amro index of "green" equities. The notes raised funds for IBRD at attractive rates, while raising awareness for funding "green" activities, at the same time that the hedging activities of IBRD's swap counterparties also supported capital available to companies in the index. ABN-Amro and Fortis Bank distributed the notes in the Netherlands, Switzerland, and Belgium, primarily to retail investors. Proceeds were used in the general operations of IBRD.

World Bank Cool bonds (total USDeq 31.5 million to-date in two transactions, June and September 2008) are five-year, USD-denominated notes paying a coupon of 3 percent for an initial period, and a variable coupon amount for the remaining maturity of the note tied CERs generated by specified greenhouse gas (GHG)-reducing projects in China and Malaysia. Hedging exposure to CERs by IBRD counterparties contributes to expansion of this market as well. Daiwa Securities and Mitsubishi UFJ Securities distributed the notes to Japanese investors. Proceeds were used in the general operations of IBRD.

World Bank Green bonds (USDeq 350 million, October 2008) are 6-year, Swedish kronor notes paying investors a 3.5 percent annual interest rate and raising funds at a spread of 0.25 percent over comparable-maturity Swedish government paper. They enabled IBRD to raise funds at an attractive cost despite the challenging market environment. Skandinaviska Enskilda Banken (SEB) underwrote the issue and distributed mainly to Scandinavian institutional investors, who were attracted to the investment because the proceeds would be credited to a special account at IBRD that supports World Bank loan disbursements on qualifying climate change mitigation and adaptation projects.

Source: IBRD.

4.6 **Innovative debt offerings by MDBs target *sustainable investing* (SI).**[25] **A leader in SI bonds, IBRD has raised a total of US$2.15 billion through bonds that tap new sources by**

[24] Includes IFFIm.

[25] "Sustainable investing" (SI) describes an investing approach that is becoming increasingly popular, especially among retail investors. It integrates social and environmental concerns into investment decisions.

engaging investors beyond the financial dimension of the transactions, as partners and stakeholders in development. While these new financing products can be purchased by investors that are not new to the Bank, their product "content" is radically different. Along with their safe investment return, World Bank bonds offered through La Poste, Westpac, and DekaBank, as well as those issued for the World Supporter Fund, provide investors an opportunity to help with broader development goals. Proceeds from these SI bonds, launched over the 2005–8 period, totaled US$1.3 billion.

4.7 **SI bonds with climate change-related themes have enabled investors to support a specific cause and raised a total of US$771.5 million through 2008 (Box 4.1).** The proceeds from the World Bank Eco notes and World Bank Cool Bonds support the general country-based operations of IBRD. Proceeds from World Bank Green Bonds aim to provide some degree of earmarking in order to demonstrate the linkage between resources mobilized and specific World Bank projects that support climate change mitigation and adaptation. World Bank Cool Bonds offer the additional benefit of paying a portion of its returns based on the fast-growing market for CERs in China and Malaysia.

4.8 **Several development banks—and in particular regional ones—have also sought to issue *local currency bonds* to fund country operations. Between 1995 and 2008, development banks raised US$52 billion through local currency bond issues.** In addition to the financial rationale for issuing bonds in certain local currencies, these debt offerings fund local currency lending (discussed in Section V). An ancillary benefit of issuing bonds in developing countries' currencies is that they open potential markets for these countries' governments and corporations to raise funds in their own currencies on international markets (thereby reducing currency risks). This benefit may be pronounced for local currency bonds issued on local markets if they help develop local capital markets. Table 4.2 indicates that key issuers of local currency bonds were the European Bank for Reconstruction and Development (EBRD) (26 percent of all such issues), IBRD (23 percent), followed by KfW (14 percent), and the Asian Development Bank (ADB) and Inter-American Development Bank (IDB) (8 percent each).[26]

Table 4.2: Funds Raised by Development Banks through Bonds Denominated in Developing Countries' Currencies, 1995–2008 (US$ million)

Organization	First Issue (Year)	Amount Raised	Amount Raised Local Market
EIB	1996	13,701	2,335
IBRD	1996	11,853	1,773
KfW	2004	7,125	
IDB	1996	4,280	2,159
ADB	1998	4,033	1,254
IFC	1996	3,904	861
EBRD	1995	3,346	325
AfDB	1997	1,279	264
IIC	2001	44	
Others		2,812	
Total		**52,377**	**8,973**

Source: Dealogic.

[26] Variations can be explained in part by the different mandates and policies of development banks.

4.9 **While the bulk of these consisted of Eurobond issues, US$8.97 billion or 17 percent of all such *local currency bonds were issued on local financial markets themselves*.** In addition to IBRD, the regional banks—and in particular, the European Investment Bank (EIB), IDB, and ADB—were major issuers of local currency bonds on local markets. These are described below:

- **In Eastern Europe, the EBRD launched its first floating-rate bond in 2005, thereby setting a benchmark in Russian capital markets.** This 5 billion rouble (€140 million) bond issue in 2005 was followed by two more rouble bonds in 2006 totaling 12.5 billion roubles (€360 million). The proceeds of this bond supported local currency lending to municipalities, electricity utilities, and small businesses without exchange rate risks.

- **In East Asia, the ADB and KfW mobilized funds from local financial markets in China and Thailand in order to finance local currency lending.** In 2006, the ADB launched the first Yuan denominated bond for CNY1 billion (US$124.9 million) in order to boost local currency capital markets in the region and increase funds available to the private sector in China. In 2007, KfW issued its first bond in Thai baht for approximately €65 million.

- **The Inter-American Investment Corporation (IIC) has issued several bonds with investors in Latin America and the Caribbean (LAC) to fund local currency operations.** It has raised US$118 million as of this writing through two bond issues in Colombia and Mexico and has registered a new bond issue in Peru equivalent to US$80 million at the then-current exchange rate.

4.10 **To date, the World Bank Group as a whole accounts for US$15.76 billion or 30 percent of total local currency bond issues by development banks over the 1995–2008 period. Of these, IFC accounted for US$3.90 billion or 24.7 percent. IFC** in particular undertakes local currency bond issues to support local currency lending, where there is no currency swap market, often with back-to-back borrowing and on-lending arrangements. Notably, the potential of IFC's efforts in Africa to channel local currency bond proceeds back into operations is gaining attention. For instance, in fiscal 2007, IFC made its first local currency bond offering in Sub-Saharan Africa (SSA). This five-year bond, equivalent to US$44.6 million, was sold to funds, banks, insurance companies, and pension funds in the eight countries that use the West African franc. All of the proceeds will be invested locally, where they are intended to help finance domestic companies that need long-term financing in local currency.

4.11 **The World Bank Group promotes the development of local currency bond markets through the innovative Global Emerging Markets Local Currency (Gemloc) bond program.** Gemloc was designed in response to numerous governments that wanted to strengthen their bond markets and better support economic growth with stability. Under the program, a leading private investment manager, is developing investment strategies for local bonds. Markit, a private sector index company, is collaborating with IFC to create a new, transparent bond index, and the World Bank is providing advisory services to strengthen local markets and improve their "investability."

Frontloading of ODA for Urgent Global Priorities

4.12 **Global programs can also benefit from innovative fund-raising on capital markets. The International Finance Facility for Immunisation (IFFIm) experience with "frontloading" ODA represents a breakthrough for the international community.** The initiative originated in a 2003 U.K. proposal that sought to borrow from private investors against legally binding long-term ODA commitments, which would serve as assets to back bond issuances.[27] The key feature of the proposal was its ability to "frontload" resources needed to support MDG-related programs. In 2006, the IFF proposal materialized with the launch of a pilot for immunization, which was supported by France, Italy, Norway, South Africa, Spain, Sweden, and the United Kingdom. Supporters have together pledged to contribute US$ 5.3 billion to IFFIm over 20 years. IFFIm aims to mobilize about $4 billion in the capital markets in the first 10 years.[28] Net proceeds are provided to the GAVI Alliance, which channels these resources to support immunization efforts.

4.13 **IFFIm mobilized US$1 billion and doubled GAVI's annually available resources in its first year of existence.** IFFIm's inaugural bonds, issued on November 14, 2006, raised US$1 billion. The bonds were bought by a broad range of investors, including several central banks, pension funds, fund managers, and insurance companies. The second issuance saw IFFIm's debut in the Japanese market on March 18, 2008, with a principal amount of ZAR 1.7 billion (US$223 million). It constituted the largest South African rand-denominated bond seen to date in the market and was also the first initiative of this kind in Japan to use the capital markets to raise funds for a specific development purpose. This second issue sought retail rather than institutional investors. As of November 20, 2008, it had disbursed an almost equivalent amount.

4.14 **The World Bank serves as the treasury manager for IFFIm.** It manages donor contributions to IFFIm, manages IFFIm's capital markets activities through bond issuances and also provides risk management, investment management, accounting, legal, and other administrative services. IFFIm funds are channeled as grants to developing countries' immunization programs through GAVI. The Bank also administers the GAVI Fund Affiliate Account, which receives bond proceeds from IFFIm and makes disbursements for GAVI programs. The Bank does not play an operational role.

4.15 **Two caveats relating to the adequacy and allocation of resources should be noted.** First, IFFIm does not generate additional ODA flows from private sources, but rather intertemporally shifts funds available for immunization. The expected benefits of frontloading are therefore investment returns on high payoff projects through earlier investment (less the cost of capital for borrowing on the markets). Second, resources mobilized through IFFIm are allocated to GAVI. Vertical funds, such as IFFIm, may still have to contend with the transactions costs associated with earmarked ODA channels.

B. Innovative Partnership Solutions at the Country Level

Private Finance for Infrastructure and Social Service Delivery

4.16 **Over the past two decades, developing countries have recognized that private finance is critical to filling infrastructure deficits and improving service delivery.** A key motivation for developing countries is to leverage private finance to fill large service delivery financing gaps. Annual volumes of private investment in emerging markets infrastructure rose from US$20 billion per annum in 1990 to more than US$120 billion in 1997. The Asian crisis and other factors contributed to its subsequent decline, which was only partially reversed in the 2000s.

4.17 **These public-private partnerships in infrastructure have evolved since the 1990s and will continue to do so in response to the ongoing global economic crisis.** The 1990s

[27] Atkinson, p. 110–111.
[28] Current mobilization levels for IFFIm are less than US$3 billion.

approach to PPPs, with its heavy reliance on privatizations and concessions that did not always involve appropriate risk allocation between governments and the private sector, faced limitations. While infrastructure investment from external sources continue to follow the 1990s model in certain sectors (telecoms, ports, airports, freight railways, and natural gas pipelines), the approach is evolving and the capacity of developing country governments to develop, procure, negotiate, and oversee PPP contracts is strengthening. PPPs increasingly emphasize better risk- and cost-sharing between public and private sectors, and a more systematic poverty focus. The ongoing crisis is impacting PPPs in infrastructure and the social sectors. From August to November 2008, the level of investment in new projects registered a decline of about 40 percent compared with the level in the same period in 2007. Around 27 percent of surveyed projects by investment have been delayed, canceled, or are at risk of being canceled. Projects delayed and at risk of being delayed amount to US$82 billion. The financing and risk management requirements of sustaining PPPs could mean a greater role for governments and their partners.

4.18 **To date, multilateral and bilateral support to PPPs in infrastructure—in the form of lending, risk management, and technical assistance services—has been modest. But it remains critical to crowding in private investment.** While they account for only 3 percent of total investment commitments in volume terms, their involvement in a relatively large share in the number of projects reflects their ability to crowd in private investors. Loans to sovereigns, either direct or through syndication, provide support for launching and sustaining PPPs. Several multilateral players, such as the IDB, ADB, and EBRD, have directly financed a large percentage of projects that use PPPs. In so doing, they have crowded in private investment in the energy sectors in Latin America and the Caribbean, South Asia, Eastern Europe, and Central Asia. Guarantees were also critical to leveraging private finance in infrastructure in middle- and lower-income countries. For example, they accounted for 30 percent of multilateral support in transport over 2001–07 (Annexes 4 and 5).

4.19 **In lower income countries, in particular, ODA has been critical to leveraging private investment in infrastructure.** Three-quarters of infrastructure spending (and 90 percent in IDA countries) are financed entirely by the public sector through budgets or external borrowing. ODA accounted for about 15 percent while public funding accounted for almost 50 percent over the period of review. Donors have helped African organizations of various kinds set up their own infrastructure project preparation facilities, in part as a way of attracting private investors. One example is the Private Infrastructure Development Group, which is a multidonor, member-managed organization that encourages private infrastructure investment in developing countries.

4.20 **Local public banks as well as multilateral, bilateral, and export credit agencies have been also been financiers of PPPs for infrastructure service delivery.** Companies from developing countries mobilized 51 percent of funding for infrastructure projects with private participation in 2005–6 in contrast to the 1990s when large international companies played a dominant role. Projects in Brazil and India, countries accounting for a large share of private activity, have sourced financing largely from public sector banks. Local banks can provide local currency denominated financing in part to management foreign exchange risks.

4.21 **The World Bank Group has played a critical role in assisting countries attract private capital for infrastructure through** lending (including in local currency debt financing),[29] guarantees and other risk management tools, OBA schemes, and advisory services. Over the fiscal 2004–7 period, World Bank Group lending to infrastructure increased

[29] Under Mexico's US$108 million Decentralized Infrastructure Loan, IBRD provides local currency financing by executing swap transactions with a financial intermediary before each disbursement.

significantly to US$41 billion—of which US$33 billion was IBRD and IDA lending. These commitments leveraged an additional US$70 billion in public and private financing. In supporting infrastructure investments, the World Bank Group also shifted its strategy from a focus to flexible PPPs to meet diverse developing countries needs.

4.22 **The role of various World Bank Group guarantees provided by IBRD, IDA,**[30] **MIGA, and IFC are critical to leveraging private finance for public service delivery.** Over the 2000–8 period, guarantees issued by multilateral and bilateral organizations to support investments in infrastructure and social sector investments in developing countries totaled approximately US$8.5 billion in guarantee amounts. Of this amount, US$4.5 billion, or 53 percent, were provided by the World Bank Group alone. In terms of guarantee amounts, the overwhelming majority or 87 percent were covered by political risk insurance provided by MIGA. Taken together, over the 2000–7 period, MIGA and IBRD/IDA's partial risk guarantees were more heavily focused on leveraging private flows in support of service delivery investments, for example in energy and mining (40 percent), followed by transport (7 percent) and water and sanitation (4 percent). By contrast, and as would be expected, IFC's partial credit guarantees were overwhelmingly focused on the financial and productive sectors (discussed in Section V). Countries in Latin America and the Caribbean received the lion's share of Bank Group support in the form of partial risk guarantees (40 percent in terms of guarantee amounts), followed by Africa (25 percent) and Europe and Central Asia (21 percent).

4.23 **Some of these World Bank Group risk management instruments were embedded in lending products that support PPPs in infrastructure and social sectors. IFC's portfolio of local currency loans with derivatives has grown steadily since 1999.**[31] Approximately 14 percent of the total $5.3 billion in IFC local currency lending using derivatives supported investments in infrastructure. Four percent supported investments in the health and other social sectors. Specific examples include support for hydroelectric generation in northern India, private hospital upgrading in the Philippines, the development of rural access and regional roads in Russia, and the health sector in Nigeria (Box 4.2).

4.24 **World Bank Group efforts to *package* concessional lending, targeted subsidies, and risk-mitigation instruments in support of infrastructure have helped leverage IFC and private flows, particularly in IDA countries.** A number of joint financing models between IFC and IDA have supported a range of infrastructure projects. For instance, IDA, through a Partial Risk Guarantee (PRG), covered political and government-related risks faced by commercial lenders (for example, Bujagali) or by the project company (Kenya-Uganda railways), coupled with an IFC investment to the project, upstream IFC advisory work, and MIGA insurance on the equity stake of private operators. Similarly, IDA/IBRD has funded a line of credit facility to increase the availability of long-term financing for infrastructure PPP projects, together with IFC cofinancing for select subprojects. Furthermore, an IBRD enclave guarantee (for example, SASOL); and IBRD enclave loan support the government's equity position (for example, Chad Cameroon Pipeline), together with an IFC investment.[32]

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[30] Partial Risk Guarantees (PRGs) available under the IDA guarantee pilot program cover commercial debt owed to private lenders or investors relating to private sector projects against debt service default, where such defaults are caused by a government's failure to meet its contractual obligations related to the project.
[31] Companies with revenues in local currency should generally borrow in their local currency rather than a foreign currency. For these firms, hedging against currency risk is a prudent financial strategy.
[32] World Bank. *World Bank-IFC Collaboration in IDA Countries. Annual Progress Report, 2009.*

<u>Box 4.2</u>: Local Currency Loans Using Derivatives: The Case of Hygeia Nigeria

IFC offers local currency loans in any country where it is possible to hedge its resulting currency exposure from the local currency loan. It uses long-term derivatives or swaps to synthetically transform the cash flows from a local currency loan into dollar cash flows. In addition to the development impact of the projects they finance, local currency loans also help improve the client's currency risk management and develop financial markets in other countries.

Hygeia Nigeria Limited, a private sector provider of hospitals and Health Maintenance Organization (HMO) services in Nigeria, was founded in 1984 as a multispecialty hospital in Lagos. The company has evolved into an integrated health care services group with an HMO, three hospitals in Lagos, 25 worksite clinics, and a network of more than 200 clinics across the country. In 2006, Hygeia was interested in borrowing money to finance an expansion and renovation of its hospitals and to improve its HMO business. Historically, Hygeia has borrowed in dollars and was exposed to significant currency risk.

From 2000 to 2003, the Nigerian naira depreciated by more than 40 percent relative to the U.S. dollar. Then, from 2003 to 2008, the currency appreciated more than 15 percent relative to the U.S. dollar, only to depreciate again 15 percent. This extreme volatility in currency markets demonstrates the importance of linking a company's revenues and liabilities to the same currency. Hygeia was seeking long-term local currency debt in a market where any kind of long term debt financing is limited.

Using derivatives, IFC provided Hygeia with a loan of 390 million Nigerian naira (US$3 million). The swap used to fund this loan was the longest maturity currency swap in the Nigerian naira market to date. It is expected to pave the way for more long-term naira/dollar swaps, leading to more local currency investment in Nigeria.

Source: IFC

4.25 **<u>Output-Based Aid</u> (OBA)—a form of public-private partnerships—involves contracting arrangements with the private sector that tie the disbursement of public funding or "subsidies" to the achievement of specific service delivery results.** First introduced in 2000, OBA schemes compensate service providers (usually the private sector but in some cases also community or nongovernmental organizations or public sector utilities) with subsidies upon delivery of a specified output, such as water connections of a specified quality, to a targeted beneficiary. Subsidies, provided in the form of payments for the provision of services to targeted groups, cover the gap between the cost of provision and the user's ability to pay.

4.26 **Of the total 159 OBA projects identified around the world, 123 are supported by the World Bank Group, totaling US$3.8 billion in investments** (US$2.6 billion Bank and US$1.1 billion government).[33] The plurality of these schemes was focused in the water and energy sectors, followed by health and other social services. However, in terms of funding volumes, the transportation sector represented about half of OBA-related flows. While a third of OBA projects were in Africa, in volume terms those in Latin America were largest. Of the 123 OBA projects, more than 60 percent (75 projects) are in IDA countries, 33 are in IBRD countries, and 15 are in IDA/IBRD blend countries. Increasingly, OBA schemes are being mainstreamed into the design of IBRD and IDA lending operations.

[33] A handful of projects involve well-functioning public sector service providers and involve partnerships between public institutions.

4.27 **The Bank Group helps pilot OBA projects with grants provided through a multidonor trust fund financed by the DFID, the Netherlands, Australia, and IFC.** A similar initiative is IFC's Performance-Based Guarantee Initiative (PBGI), which has dedicated US$250 million of funds to subsidies in infrastructure and small and medium enterprise (SME) projects. USAID and KfW are also supporting OBA projects in the health, water, and energy sectors. The State Secretariat for Economic Affairs (SECO) of Switzerland provided OBA funding for a joint IFC/IDA energy project in Tajikistan. AFD is involved in implementing OBA approaches in water and sanitation projects in Morocco, Kenya, and Cambodia.

4.28 **Advisory services constitute a significant component of the World Bank's work in promoting PPPs for public service delivery.** Since 1999, the World Bank–managed *Public-Private Infrastructure Advisory Facility* (PPIAF) has funded more than US$130 million in technical assistance (TA), facilitated more than 100 transactions, and strengthened more than 50 institutions.[34] IFC has also allocated $100 million to *Infra-Ventures*, which assists private sponsors with prefeasibility studies and risk capital in order to promote private investment in power, water, and municipal services, and transport. Finally, between 2000 and 2008, IFC advisory mandates on PPPs helped mobilize US$10 billion in investment, US$1.7 billion in concession fees and other fiscal benefits for governments.[35]

Sovereign Catastrophe Risk Finance

4.29 **In recent years, there has been growing recognition that exogenous shocks are more frequent and costly in developing countries.**[36] According to the OFDA/CRED International Disaster Database, the estimated direct damage caused to developing countries alone by natural and human made disasters. Damages reached almost US$33 billion in 2007. As a result of underdeveloped local insurance markets, the estimated insured losses caused by natural disasters have remained stable at less than 5 percent in low-income countries over the past decade. Hydrometeorological events from droughts to floods cause 90 percent of the damage.

4.30 **Developing countries are recognizing, however, that they can no longer rely purely on *ex post* relief and recovery measures.** Delays in provision of *ex post* relief and recovery efforts compound the costs of crises. Also, following a disaster, funds in developing countries' budgets are diverted from development objectives to immediate relief and then reconstruction. Donors covered an estimated 2 to 14 percent of economic losses from natural disasters, often with significant delays and disproportionate generosity for the most visible disasters.[37]

4.31 **Catastrophe risk finance is an important means of leveraging private finance to support *ex ante* management of sovereign risks.** Specifically, risk management tools can help transfer a part of the government's assessed financial risk or its contingent liability from catastrophe to the domestic and/or international insurance markets. Because domestic insurance markets are underdeveloped in most developing countries, development partners can help governments transfer sovereign risks to global capital markets.

4.32 **Even though catastrophe and sovereign risk financing is relatively new to development finance institutions, donors can help in coordinating and catalyzing the process, by supplying initial funding to cover startup costs, deploying capital, and providing**

[34] PPIAF. *2008 Annual Report.*
[35] IFC. *2008 Annual Report.*
[36] Guillermo Perry, 2009.
[37] Cummins and Mahul, 2006.

technical assistance. Key instruments include contingent loans, regional catastrophe insurance pools, weather derivatives insurance, and technical assistance and advisory services. Described below, these applications allow countries to secure immediate liquidity and budget support following a major natural disaster or other exogenous shocks. Among development partners, the World Bank has supported a number of firsts in this area, including the following:

- IBRD's first ***contingent loan*** of US$65 million, approved in September 2008, supports Cost Rica's Disaster Risk Management Program through a development policy loan with a Catastrophe Deferred Drawdown Option (CAT DDO). It is expected to be followed by similar operations under preparation in Albania, Colombia, Croatia, and Guatemala.

- IBRD assisted 16 countries in establishing a ***multicountry catastrophe insurance pool*** that offers parametric insurance against major hurricanes and earthquakes. Through the Caribbean Catastrophe Risk Insurance Facility (CCRIF), governments can purchase coverage—akin to business interruption insurance—that provides immediate liquidity in case of a major event. CCRIF's financial capacity depends on its own reserves (initially provided by donors) and international reinsurance. It placed more than US$110 million on international reinsurance and capital markets in 2007 and 2008. In 2007, a 7.4-magnitude earthquake triggered indemnity payments to St. Lucia and Dominica totaling US$1 million. Hurricane Ike in 2008 triggered a US$6 million payout to the Turks and Caicos Islands.

- As part of the reinsurance placement of the Caribbean Facility (noted above), IBRD also arranged to transfer a portion of the risk to capital markets through a US$20 million ***cat swap.*** This derivative transaction between IBRD and CCRIF was the first to enable developing countries to access capital markets to insure against natural disasters.

- IBRD provided technical assistance and intermediation services to the Government of Mexico in issuing a ***cat bond***, which was designed to make its self-insurance fund less dependent on government for the allocation of post-disaster funds. Mexico purchased US$450 million in catastrophe coverage, of which US$160 million was issued as a cat bond to cover earthquakes. Institutional investors in the United States and Europe paid into a single-purpose reinsurer created for the Government of Mexico. If an earthquake of a specified magnitude were to occur in designated areas of the country within three years, the Government can draw on these funds. If none occurs during this period, the money will be returned to the investors.

- IBRD intermediated its first ***weather risk management contract*** to help Malawi protect itself against the risk of severe drought. It marks the first time that a member of IDA is able to access World Bank market-based risk management tools. On behalf of the Government of Malawi, the DFID financed the premium payment for the contract (Box 4.3).

4.33 **Other Sovereign Risks. Currency risk arises when the currencies borrowers owe are different from what they receive from their net earnings or revenue streams.** Such risk can have a more significant impact on debt service requirements than interest rate risk primarily because it affects both principal and interest. Access to local currency financing to protect public resources against exchange rate volatility is limited for most borrowers. Developing countries can therefore use local currency swaps to better manage these risks. Such swaps allow borrowers to convert the currency of disbursed loan amounts into their local currency.

<u>Box 4.3</u>: World Bank Intermediation Services for Malawi Weather Indexed Insurance

Weather derivatives are designed to provide compensation for financial loss related to adverse weather events. Contracts can be based on measureable weather events, such as excessive or insufficient rainfall, temperatures (extreme heat/cold), and tropical storms, hurricanes, cyclones, and typhoons. Contracts are based on an underlying weather index and payments are triggered by adverse weather events according to prespecified conditions. Weather risk management transactions can be customized according to each country's specific needs: the type of weather hazard, level of protection, and estimated financial loss associated with a severe and catastrophic event. These can be applied to agriculture and energy production, as well as hedging tourism revenues.

Even though these instruments became available in the late 1990s, some countries, such as Malawi, have reduced access to market-based risk-management tools because of market inefficiencies and limited capacity. Almost 90 percent of Malawi's population lives in rural areas and engages mainly in smallholder, rain-fed subsistence farming. Agriculture contributes 38 percent of the country's GDP, and the weak and erratic performance of the agricultural sector, mostly a result of the impact of drought, has constrained growth in the country. Maize production, in particular, is a crucial element of food security and recurrent drought leads to chronic and widespread malnutrition.

In response to the Government's request, the World Bank helped identify when weather risk management instruments can be appropriately used as part of a comprehensive agricultural risk management framework. Based on this analysis, the Bank structured a market-based tool for commodity price risk reduction. The contract was designed as an option on a rainfall index. The index links rainfall and maize production so that, if precipitation falls below a certain level, the index will reflect the projected loss in maize production. Under the contract, if the maize production in the country, as estimated by the rainfall index, falls 10 percent below the historical average, Malawi will receive a payout of up to a maximum of US$5 million. DfID paid the premium for the contract on behalf of the Government and the World Bank. The Bank's Treasury Department then transacted the contract with a market counterparty. The payout could be used as part of a broader framework to finance commodity price risk management strategies.

Source: IBRD.

4.34 **Multilateral development banks, such as IBRD, are increasingly involved in providing technical assistance and intermediation services for currency swaps**, for example, by embedding them in IBRD Flexible and Fixed Spread Loans or as stand-alone products for other IBRD loans and non-IBRD creditors' debt. The Bank's intermediation of swaps allows borrowers to benefit from IBRD's superior credit rating to achieve better terms at a lower cost. For instance, an IBRD swap for Mexico transferred foreign currency risk from the borrower to the market. Swap intermediation for Bulgaria helped reduce the vulnerability of its debt portfolio to external shocks by reducing its exposure to U.S. dollars. Swaps can also help change the currency composition of developing country debt portfolios. In 2004, IBRD contracted with financial intermediaries in the market to swap U.S. dollars for euros, and a variable interest rate for a fixed rate for the maturity of the loan. This reduced Morocco's U.S. dollar liabilities and the interest rate risk of its external debt portfolio.

4.35 **In countries where swap markets are illiquid or nonexistent, back-to-back financing allows IBRD to extend a loan in local currency to sovereign borrowers.** To undertake this transaction, IBRD issues a local currency-denominated bond in the domestic market and uses the proceeds to extend a loan with similar terms. Depending on country conditions, this type of transaction can help mitigate currency risks while enabling domestic market development. For instance, in one application of this approach, IBRD issued a Uruguayan peso-denominated bond at levels lower than the Government of Uruguay's own cost of funding.

V. CATALYZING PRIVATE ENTRY AND MARKET DEVELOPMENT

5.1 **A major component of innovative finance solutions on the ground involves the use of official flows to catalyze market creation and development,** including by reducing the risks and costs of private entry into existing markets**.** These catalytic mechanisms can also be used to tap new sources of official and private flows. Like other mechanisms discussed in this paper, these deploy an array of financial instruments.

A. New Sources for Catalyzing Market Development

Carbon Finance

5.2 **Carbon finance represents an emerging source of development finance.**[38] **By establishing a framework for trading "reduction(s) in greenhouse gases by the equivalent of one metric ton of CO2," signatories to the Kyoto Protocol have essentially created a new globally traded commodity.** This commodity, which has a market value, is traded across borders both in markets within developed countries (through emission trading systems), between developed countries and developing countries (through the Clean Development Mechanism, or CDM), and between developed countries and economies in transition (through Joint Implementation, or JI). With the Kyoto Protocol coming into force in February 2005, the market for emission reductions has expanded with the sale of emissions reductions from developing countries. While there were private purchasers in the market early on, most generally traded in small quantities in pilot projects.

5.3 **The global market for greenhouse gas emission reductions through project-based transactions has been growing steeply, doubling in value between 2006 and 2007, reaching US$13.6 billion in commitments,**[39] **of which US$5.5 billion were traded on the secondary CDM market. However, only a few—mostly middle income—countries have benefitted to date.** At the end of March 2008, there were 3,188 projects in the CDM pipeline,[40] of which roughly one-third are registered or in the process of registration, while roughly two-thirds are at validation stage. It can take between one and two years for a project to go from validation to registration. European buyers account for 90 percent of the CDM market. For the third consecutive year, China was the world leader in CDM supply with a 73 percent market share in terms of 2007 transacted volume (compared to 54 percent market share in 2006). Brazil and India, at 6 percent market share each, transacted the highest volumes after China, although this represented a drop for each from 2006 levels. Africa followed with 5 percent.[41]

5.4 **As an experienced developer of CDM projects, <u>the World Bank Group</u> has played an important role in helping to deepen carbon markets.** To date, the Bank has sought to support developing countries in fully exploiting the capital transfers available from carbon finance by assisting in the identification and preparation of projects that reduce carbon emissions; moving to a programmatic approach (through the Carbon Partnership Facility); and promoting carbon projects in countries, sectors, and activities yet to benefit from carbon finance (including through the Forest Carbon Partnership Facility, which aims to reduce emissions from deforestation and forest degradation). It also raises additional carbon finance, and supports

[38] Carbon finance here refers to purchases of greenhouse gas emission reductions in developing countries and economies in transition to offset emissions by governments and firms in industrialized countries.
[39] The global carbon market was US$64 billion in 2007. Of this, EU ETS accounted for US$50.4 billion.
[40] By the end of December 2008, the number of projects in the CDM pipeline had grown to about 4,200.
[41] World Bank. *State and Trends of the Carbon Market.* 2008.

investments by partnering with industrialized governments and private corporations seeking to buy carbon credits in developing markets. Overall, the Bank tries to ensure that all carbon projects that it promotes have sustainable development benefits.[42]

5.5 **Although it accounts for a small portion of the overall transaction volume, the World Bank has played an important intermediary role in supporting project-based transactions** (Table 5.1).[43] Since 2004, the Bank supported 160 projects in 26 countries (including 3 IDA and 2 Blend countries). The total volume of transactions reached nearly $280 million as of fiscal 2008 end. As of fiscal 2008 end, donors had contributed more than $850 million in 11 World Bank carbon funds. On average, the annual volume of transactions increased two-fold every year since 2004. Through its carbon trust funds, the World Bank has mobilized more than US$2 billion of equity, 57.4 percent of which was from private sources. These funds have been committed to Emissions Reduction Purchase Agreements (ERPAs) worth US$638 million, most of which were in Asia.[44]

Table 5.1 World Bank Share of ERPA Commitments and Payments,* 2005–8

(US$ million)	2005	2006	2007	2008	Total
Carbon Finance or ERPA Commitments					
Primary Market CDM	2,417	5,804	7,426	--	--
ERPAs under WB Carbon Funds	339	242	186	218	
Share (%)	14	4	3	--	--
Carbon Finance Flows or ERPA Payments					
Africa/Middle and Near East	0.3	2.8	14.1	4.6	21.8
Asia	74.9	107.3	529.4	538.1	1,249.7
Latin America and Caribbean	33.6	38.8	113.1	90.0	275.6
Others	--	---	--	--	--
Total	**108.9**	**149.0**	**656.7**	**632.7**	**1,547.1**
World Bank Carbon Fund (ERPA Payments)					
Amount	3.0	4.8	24.8	35.6	69.6
Share (%)	2.8	3.2	3.8	5.6	4.5

** From the two hydroflourocarbon (HFC) deals signed by the Bank in China in 2006, only the emission reductions acquired by the participants in its existing funds were considered in the commitment and payment calculations.*
Source: World Bank Carbon Unit.

5.6 **The *actual financial flows* generated by the primary market for Carbon Emission Reduction certificates (CERs) totaled only US$1.55 billion over the 2005–8 period.[45] Of these, only 4.5 percent, or US$69.6 million, were supported through World Bank carbon funds**.[46] Globally, the lion's share of carbon finance flows went to China (58 percent), India (22 percent), and Brazil (13 percent). Bank carbon funds contribute only a small portion of these

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[42] *The Role of the World Bank in Carbon Finance: An Approach for Further Engagement, 2006.*
[43] The World Bank Carbon Finance Unit does not lend or grant resources to projects, but rather purchases project-based emission reductions in developing countries and economies in transition, using resources provided by governments and private participants in industrialized countries.
[44] An ERPA is the agreement that governs the purchase and sale of emission reductions.
[45] This includes retroactive purchases from 2002 and 2004.
[46] The Umbrella Carbon Fund (UCF)was created to offload excess CERs generated by the two HFC deals (and not absorbed by the participants in the existing funds). Only 28.1 percent of annual HFC disbursements are attributed to UCF payments. The Bank's participation increases if the CERs in the UCF were included.

flows in part because they aim to catalyze rather than crowd out other market players. It will be important to monitor the Bank's success in helping to identify projects in lower income countries.

5.7 **The emerging carbon market is at a critical juncture. While demand for emission reductions is conservatively estimated at 3.5 billion tons by 2012, the challenge of identifying viable projects remains.** Although the Kyoto Protocol continues until 2012, viable projects that can generate large volumes of emissions to meet demand have not been developed at the scale needed. At the same time, geographic and technological diversity of GHG emission reduction projects is important for those that seek to buy and sell CERs. So far projects have been concentrated in a few sectors and have not reached many countries, in particular some of the poorer developing countries. Further deepening of the carbon market requires more proactive efforts to identify viable projects in lower income countries.

5.8 **Various risk management tools can also help strengthen the credibility of the carbon market as well as the predictability of the long-term price of carbon.** For instance, carbon delivery guarantees, such as those provided by IFC, include efforts to maximize the price of credits to project developers through credit enhancements that guarantee the delivery obligation of primary market projects to secondary market buyers (e.g., the premium in pricing obtained by the buyers in the secondary markets is passed on to the projects net of guarantee fees). Other promising examples include insurance to protect investors against factors, such as advance payments, pricing fluctuation, delivery risks, and projects/credits eligibility under regulatory schemes. While still early, there is a growing market for derivatives, options, and swaps that provide hedging alternatives for investors who feel overexposed to a specific carbon asset.[47] Finally, monetization of future carbon receivables and carbon-linked bond transactions can generate capital to be channeled for investment in new low-carbon projects.

5.9 **The long-term market for carbon depends on ensuring a robust and enforceable post-Kyoto regulatory framework along with the supporting institutional structures.** In anticipation of the importance of the CER market over time, the World Bank Group and other multilateral agencies, such as the EIB and ADB, have launched post-2012 carbon funds.

B. Catalytic Uses at the Country and Regional Level

Promoting Entry into the Financial and Productive Sectors through Guarantees

5.10 **In addition to funding constraints, investors in the financial and productive sectors in developing countries routinely face sovereign, currency, and project risks that hinder entry into markets**.[48] As recognition of these risk factors has grown, so has the market for private providers of political and commercial risk guarantees and other risk management tools. For several years, private investors have utilized risk mitigation measures, such as guarantees and insurance schemes to reduce the risks and costs of market entry in the financial and productive sectors in developing countries.[49] Political risk guarantees cover specific risk events related to noncommercial factors (such as currency convertibility, transferability of currencies outside the host country, and government nonperformance). Partial credit guarantees cover payment risks for

[47] Kossoy, 2008.
[48] Bestani, et al. 2005.
[49] "The terms guarantee and insurance are used interchangeably by providers. A guarantee differs from an insurance policy because it envisages timely unconditional payment for nonperformance, while an insurance involves claim investigation and, depending on terms and conditions, other intermediate steps." IEG Review, 2008.

debt obligations or trade finance transactions. Between one-sixth and one-third of all foreign direct investments and one-fifth of all exports are insured.

5.11 **Over the 2000s, the major issuers of insurance or guarantees included members of the Berne Union and multinational agencies. Together, they offered a diversity of risk mitigation products available to private investors in the financial and productive sectors** (Annex 4). Export credit agencies are also major issuers. However, comprehensive data on their activities are not available.[50] It is important to note that guarantees are often embedded in portfolios comprising direct or syndicated loans, equity, and grants for technical cooperation.

5.12 **Excluding export credit to developing countries, the largest shares of guarantees were focused on the banking and financial (34 percent) and productive (18 percent) sectors over the period 2001–7.** Since a large portion of guarantees in the banking sector involved local currency and interbank loan guarantees that benefitted companies in industry, agriculture, and mining, the share of direct and indirect guarantees supporting investment in the productive sector was probably more significant. Geographically, East Asia alone accounted for almost two-thirds of all guarantees and insurance (including export credit) over the period. Excluding export credit, Latin America and the Caribbean received about one-third of guarantees, Eastern Europe[51] 30 percent, and Asia 22 percent. In both cases, Africa's role was marginal.

5.13 **The following salient features of the guarantees and insurance markets** are critical to investors involved in the financial and productive sectors in developing countries:

- Even though the export credit insurance market is highly concentrated and dominated by private sector players, **state-owned export credit agencies** accounted for more than a fifth of total credit insurance for exports to developing countries.[52]

- While private insurers account for more than 50 percent of the political risk insurance market, multilateral and bilateral agencies have played a catalytic role through issuance of **partial political or credit guarantees** in support of financial market development and trade finance.

- **Local currency loan guarantees** are mainly aimed at facilitating credit to SMEs. Since 2003, IIC has provided credit guarantees in several countries, thereby allowing firms to obtain local currency loans. The African and Asian Development Banks, as well as AFD have similar facilities that offer credit guarantees to SMEs.

- **Bond guarantees** have also been used for infrastructure and financial sector projects**.** IDB has guaranteed bonds issued by firms operating toll roads, including in Brazil, Chile, and Mexico. IIC has also issued guarantees for bond issues of cable operators in Mexico and mortgage backed securities issues in Colombia.

- **Interbank loan guarantee**s **are mainly used for trade finance facilitation.** Trade finance facilitation has become one of the most common uses of guarantees. These programs involve revolving partial credit guarantees designed to play a counter-cyclical role by providing

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[50] These do not include all guarantees because most export credit agencies publish only a fraction (sometimes only 50 percent) by country destinations, while others treat data as "commercial in confidence" and do not disclose them. Some guarantees were "policy renewals" and did not back additional flows.
[51] Europe's share may be overestimated since it is difficult to separate it from Russia's share.
[52] USAID's Credit Development Authority alone issued 114 guarantees totaling $335mm, mobilizing US$856mm in private investment in 36 countries.

liquidity to the international trade finance system, particularly during times of economic difficulties. Key players include the EBRD, IDB, ADB, and the World Bank Group.

5.14 **Over the 2000–8 period, the World Bank Group issued guarantees totaling US$7.7 billion in guarantee amounts to support investments in finance and the productive sectors. This comprised more than a third of all guarantees issued by multilateral and bilateral organizations in these sectors.** IBRD and IDA's Partial Risk Guarantees (PRGs) as well as MIGA's [53]guarantees worth US$4.66 billion leveraged total project costs of US$13 billion in support of financial sector and other productive sector investments. This amounts to a leverage ratio of 2.8. Over the period of review, IFC's Partial Credit Guarantees (PCGs) totaling US$3.03 billion in guarantee amounts, leveraged total investment costs of US$6.74 billion—a mobilization rate of 2.2.

5.15 **IFC, in particular, has spearheaded World Bank Group efforts to support country-level catalytic efforts through risk-management instruments.** As noted above, PCGs have been offered on both single- and multiborrower portfolios of loans in 2000. These included *nontrade-related* loan obligations, totaling US$683 million, mostly on local currency instruments. **IFC** has also issued *bond guarantees* totaling US$323 million in support of local currency bond issuance of US$861 million, assisting in local capital market development. Guarantee products also assisted in *the placement of securitizations* in both local and cross-border capital markets. Over the past six years, IFC has credit-enhanced several emerging-market securitizations, typically through the assumption of mezzanine-level risk. Accordingly, since 2000, it has assisted in the issuance of US$5.7 billion in securitization transactions through investing in, or guaranteeing, US$596 million in securitization-related exposures. Finally, an important component of IFC's catalytic efforts relates to trade finance. Since late 2005, IFC's Global Trade Finance Program issued 884 guarantees in support of transactions worth more than US$1.5 billion.

Managing Currency Risks in the Financial and Productive Sectors

5.16 **As noted earlier in Section IV, access to local currency financing can help mitigate the risks of currency mismatches. Managing such risks is particularly important in the case of private investors in the financial and other productive sectors.** Since the mid-2000s in particular, MDBs and other development finance institutions have begun to expand local currency financing to private firms in these sectors. Example include ADB's approval of 13 local currency loans to private firms in Central and East Asia, totaling US$779.5 million; EBRD's provision of long-term Russian rouble finance, including its single large rouble syndicated loan to Volkswagen Rus to set up a car plant in 2007; IDB's approval of 10 new operations to private firms under its new Local Currency Facility (LCF); and the launch of a global partnership between FMO, a Dutch development finance institution, and Citigroup, which supports a US$540 million risk-sharing facility. Through this facility and other efforts, FMO has increased local currency financing to 17 percent of its portfolio and aims to reach 20 percent by 2010.

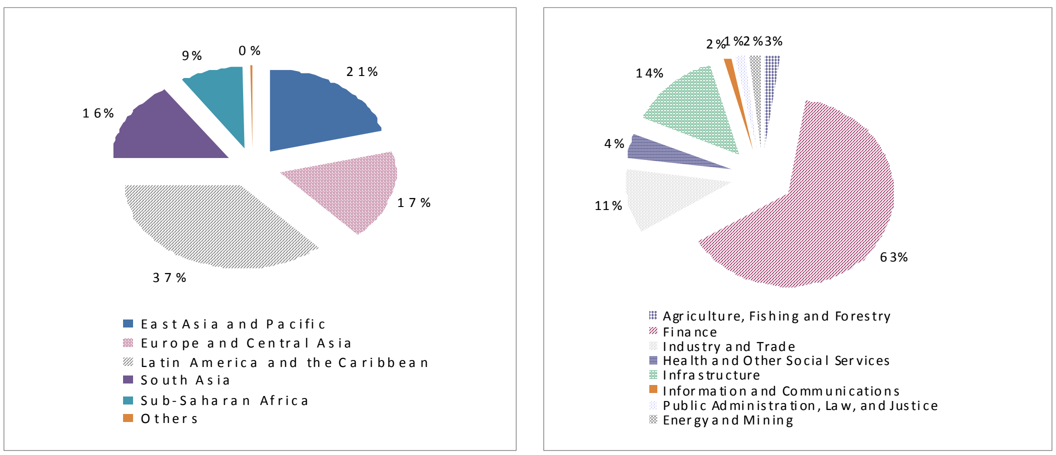
5.17 **Currency swaps can also help mitigate currency risks for firms. Because these swaps are only possible for a few developing countries' currencies, development partners have launched efforts to develop markets for long-term finance in local currency.** TCX—a special purpose fund created by donors, development banks, and international banks—provides currency and exchange rate risk-management products to investors active in emerging markets,

[53] This allows senior obligations in these securitizations to achieve higher credit ratings than would be possible without the credit enhancement.

such as basic currency and interest rate derivatives. It focuses on currencies and maturities that are not covered by regular market providers. As of November 2008, TCX has approved 49 benchmarks in 60 countries. TCX's current paid-in and committed Tier 1 and Tier 2 capital is equal to US$585 million.

5.18 **Leading the World Bank Group's efforts in this area, IFC committed more than US$5.3 billion equivalent of local currency loans using derivatives in 26 different currencies, the bulk of which focused on the financial and productive sectors.** IFC works actively with swap market counterparties to increase the number of hedging currencies that are available. In 2007 and 2008, it committed loans using derivatives for the first time in Ghanaian cedi, Kenyan shillings, Nigerian naira, Romanian leu, Vietnamese dong, and Zambian kwacha. As Figure 5.1 illustrates, 63 percent of IFC local currency lending went to the financial sector, followed by 11 percent in industry and trade sectors. More than a third of these flows went to Latin America and the Caribbean, followed by East Asia and the Pacific, and Eastern Europe and Central Asia.

Figure 5.1: IFC Local Currency Lending By Sector and Region, FY1997–2009



Source: IFC Treasury.

Developing Private Catastrophe Insurance Markets

5.19 **Domestic catastrophe insurance markets (for example, for households, farmers, and herders) are under-developed in middle- and lower-income countries. Demand and supply-side constraints hinder the emergence of markets for property catastrophe insurance and agriculture insurance.** While more than 40 percent of the direct losses from natural disasters are insured in developed countries, less than 10 percent of these losses are covered by insurance in middle-income countries and less than 5 percent in low-income countries.[54] On the demand side, development of efficient markets is undermined by low nonlife insurance penetration, inadequate awareness of catastrophic risk exposure, and limited ability to pay insurance premiums due to low incomes. On the supply side, these countries have limited technical capacity, undercapitalization of local insurers, and regulatory impediments.

[54] Cummins and Mahul, 2008.

5.20 **Given these constraints and the high exposure of economic agents in developing countries, there is a rationale for public support to catalyze catastrophe insurance markets.** A number of developing countries are already actively fostering meso- and micro-level insurance markets by encouraging private insurers and reinsurers to offer competitive products to homeowners, SMEs, and farmers and herders. These markets would allow for the transfer to private insurers of catastrophe risks, which would otherwise be retained by economic agents.

5.21 **The World Bank has helped countries developing markets for private property catastrophe insurance through national insurance pools and regional reinsurance pools.** A precedent involved the *Turkish Catastrophe Insurance Pool (TCIP)***,** established in the aftermath of the 1999 Marmara earthquake. The pool ensures that all property-tax-paying domestic dwellings can purchase affordable and cost-effective earthquake insurance coverage; relieves pressure on government to provide housing subsidies *ex post*; and transfers catastrophe risk to international reinsurance markets. TCIP was initially capitalized with a World Bank–committed contingent loan facility of US$100 million, extended to US$180 million, in 2004. Full-risk capital requirements are met through commercial reinsurance and build-up of surplus. In 2007, 2.8 million policies were issued at market-based premium rates, compared to 600,000 at initiation.

5.22 **Turkey's success also brought worldwide recognition. To date, more than a dozen other mostly middle-income countries—including China, Colombia, Greece, India, Iran, and Philippines—are preparing their own property catastrophe insurance programs.** Also supported by the Bank, the *South Eastern Europe Catastrophe Risk Insurance Facility* will facilitate the development of a catastrophe insurance market in Eastern European countries and thereby provide homeowners and SMEs access to affordably priced (but not subsidized) catastrophe insurance across the region. The soon-to-be launched Romania Catastrophe Insurance Pool provides homeowners with coverage against earthquake and flood risks.

5.23 **The World Bank has also helped countries develop private insurance markets to protect farmers and herders against weather-related shocks using *insurance pools.*** A noteworthy example of *insurance pools* in the agriculture sector involves Mongolia's Livestock Insurance Indemnity Pool, which combines self-insurance by herders, market-based insurance, and social insurance to protect herders against excessive livestock mortality caused by harsh winters and summer drought (Box 5.1).

Box 5.1: Mongolia's Livestock Insurance Indemnity Pool

Combining self-insurance by herders, market-based insurance, and social insurance, Mongolia's Livestock Insurance Indemnity Pool (LIIP) is a syndicate pooling arrangement, which allows participating insurance companies to build collective reserves. Excess-of-loss reinsurance is provided by the Government, backed by a US$5 million World Bank contingent credit facility. Accordingly, herders retain small losses, larger losses are transferred to the private insurance industry, and extreme or catastrophic losses are transferred to the Government using a public safety net program. The insurance pays out to individual herders whenever the mortality rate in a local region exceeds a specific threshold. Individual herders receive an insurance payout based on local mortality, irrespective of their individual losses. They therefore have a strong incentive to manage their herds in a manner that minimizes the impact of major livestock mortality events. Pilots in selected areas over the 2005–8 period should provide the basis for expanding the program nationwide. In the third sales season, about 600,000 animals were insured, representing 14 percent insurance penetration, for a total premium volume of US$120,000. The 2008 season saw a major loss of US$230,000 which triggered the contingent credit.

Source: World Bank.

5.24 **Interest in using *index-based insurance* has grown as countries seek to tackle the systemic component of agricultural production losses**. Notwithstanding basis risks, parametric index insurance offers advantages over traditional insurance relying on individual losses, including lower monitoring costs and a more transparent indemnity structure. They rely on the measurement of an objective and independent parameter that is highly correlated with the actual loss incurred by a farmer (for example, rainfall or temperature as a proxy for yield loss). Payouts are based solely on the measurement of a particular parameter (for example, of rainfall at a named meteorological station) according to an agreed-upon payout scale (established in the insurance policy).

5.25 **To date, about 20 index-based insurance programs—many supported by the World Bank—have been implemented in middle- and lower-income countries.** In India, for instance, the Bank is assisting the government with two index-based insurance schemes, the Modified National Agricultural Insurance Scheme (MNAIS) and the Weather Based Crop Insurance Scheme (WBCIS). MNAIS offers coverage to farmers against crop yield losses, using an area-yield index in the indemnity payment schedule. To date, about 20 million farmers are insured under this program, for a total liability of US$7 billion, making this the largest crop insurance program in the world in terms of insured farmers. WBCIS protects famers against specific adverse natural events (e.g., rainfall deficiency, excess rainfall) through weather-based insurance. More than 600,000 farmers purchased weather-based crop insurance in 2007 in India. Building on India's example, other countries are piloting national and regional weather-based crop insurance schemes, including Guatemala, Honduras, Malawi, Nicaragua, and Thailand (through a Central American, regional weather risk-management program).[55]

5.26 **As demand for these efforts grows, key challenges include the availability of affordable reinsurance for country schemes and the development of in-country expertise in the private sector.** The World Bank and other development partners are utilizing the Global Index Insurance Facility (GIIF), a multidonor trust fund linked with a specialized index-based reinsurance company that promotes index-based insurance in developing markets. Technical assistance provided under the GIIF would support local insurance companies and other private institutions. Donor funding, including €25 million from the European Commission, has been secured to support the development of index-based insurance in the Group of African, Caribbean, and Pacific Countries (ACP) countries. In addition, the Bank and the UN are supporting the Global Facility for Disaster Reduction and Recovery (GFDRR), which is providing technical assistance to a number of agriculture insurance schemes in Ethiopia, Malawi, India, and Nepal, as well as property catastrophe insurance schemes in Albania, Chile, Colombia, Croatia, Guatemala, and Mexico, as well as in South Eastern Europe and the South Pacific Islands.

C. Correcting Global Market Failures

5.27 **An emerging class of innovations using ODA involves efforts to correct global market failures through advance market commitments and copayment schemes.** Sovereign donors, private industry actors, and developing countries are making progress in using catalytic mechanisms to create and deepen markets for essential vaccines and drugs.

[55] Weather-based crop insurance for farmers is different from the weather indexed derivative (Box 4.3), which was designed to help manage *sovereign* catastrophe risk.

Advance Market Commitment for Vaccines

5.28 **The Advance Market Commitment (AMC) pilot for vaccines aims to accelerate the creation of a viable market for pneumococcal vaccines for developing countries**, by providing a financial commitment to subsidize the future purchase (up to a predetermined price) for a vaccine needed in developing countries, when and if it is developed and demanded. It is focused on pneumococcal vaccines, for which the key technological issues have been resolved and there is substantial demand in poor developing countries. Pneumonial infections are the largest killer of children in Africa and worldwide, and the largest cause of pneumonia deaths. Therefore, the pilot is expected to yield high benefits, saving an estimated 7.7 million lives by 2030 with a low estimated cost per DALY (Disability-Adjusted Life Year).

5.29 **Approved by the World Bank's Board in 2009 and pending approval by donors, the AMC is financed by ODA and foundation grants. These resources are provided under unusually long-term payment agreements, which are placed directly on IBRD's balance sheet to provide a "guarantee."** Donors include Italy (US$635 million); United Kingdom (US$485 million); Canada (US$200 million); Russia (US$80 million); Norway (US$50 million); and the Gates Foundation (US$50 million). The GAVI Fund and the World Bank are lead-implementing agencies for the pilot. The Bank's role is to administer the pilot and advance funds to GAVI according to agreed-upon plans. As such, it provides AMC's financial platform and related financial management, legal, accounting, IT systems, and reporting functions.

Copayment Schemes

5.30 **Also dependent on ODA, the Affordable Medicines Facility–malaria (AMFm) is a financing system designed to make a new generation of antimalarial treatments more affordable and accessible.** The AMFm involves negotiating a reduced price for artemisinin-based combination therapies or ACTs, and making a copayment to further lower their sales price to end users in malaria-endemic countries. These drugs are then be distributed by public, private, and not-for-profit providers. By reducing their cost, the facility aims to help countries expand access to ACTs and curtail emerging resistance to artemisinin-based single-drug treatments.

5.31 **In 2007, the Global Fund To Fight AIDS, Tuberculosis and Malaria decided to host and manage the AMFm.** Even though no resources have been disbursed thus far, AMFm will negotiate with manufacturers to reduce the minimum suggested price to US$1 for all buyers and make a US$0.95 copayment. Phase I will cover 11 African countries and will cost about US$312–$337 million, including US$212 million for copayments, and US$100–$125 million for supporting interventions. The Government of the United Kingdom has pledged £40 million, and UNITAID has provisionally committed up to US$130 million for 2009–10.

VI. CONCLUSIONS

A. Lessons Learned

Innovative Finance as Potential Tool for Development Effectiveness

6.1 **To date, innovative finance mechanisms have played a more significant role in supporting financial solutions on the ground than in identifying and exploiting "alternative sources of ODA."** Efforts to achieve development results can be strengthened by expanding the use of these innovative financial solutions. For instance, developing countries are increasingly interested in solutions that support r*isk management and risk reduction* across sectors (for example, through use of insurance, derivative, and other risk management products). Through their intermediation services, MDBs can help customize these tools in response to their specific needs and help build indigenous capacity to undertake similar transactions in the future. Similarly, development partners can do more with less by more systematically channeling official flows through catalytic and PPP mechanisms that leverage private flows at the country level. Catalytic efforts in particular should be expanded in middle and lower income countries as part of the response to the global crisis. Global market-making efforts, for example, in carbon trading and advance market commitments for vaccines also have demonstrated their potential but depend on robust regulatory frameworks and clear agreements on roles and responsibilities.

Need for Realism about Innovative Fund-Raising

6.2 **Innovative fund-raising should be viewed as a complement—rather than a substitute—to traditional efforts to mobilize official flows, in particular concessional flows.** Donors should be realistic about the potential of innovative schemes to generate additional flows. Budget outlays from emerging sovereign donors were the only significant source of additional concessional flows or ODA. PPP mechanisms that support *global programs* (for example, through pooling sovereign and private donations or frontloading ODA) can help broaden the base of support for development, but can also contribute to aid proliferation. New debt offerings by multilateral and national development banks, such as those issued in local currencies and those targeting sustainable investors, have shown potential. But they were modest in comparison to traditional efforts and are subject to market conditions.

Understanding What Works, What Doesn't

6.3 **Innovations need to be tested and evaluated to determine their value-added.** For instance, the high start-up costs of certain schemes have been noted. Over time, more in-depth evaluation will be required to determine the value-added and *net* benefits of fund-raising efforts and financial solutions. It is important to note that, unlike fund-raising, solutions on the ground can take time to materialize.

B. Pointers on the Way Forward for Development Partners

6.4 **Innovative finance is a small but emerging component of the development business.** Developing countries, donors, and the private sector are eager to bring innovative finance into the mainstream of development practice. Leaders around the world are actively exploring the potential scalability of innovative schemes, for example, through the High Level Taskforce on Health System Strengthening or the Copenhagen meeting on climate change. Agencies like the World Bank Group can help by using innovative finance more systematically and strategically to further funding and operational goals. Building on existing efforts, they should:

- **Employ Innovative Fund-Raising More Selectively:** While innovative fund-raising for *country-based efforts* (for example, partnerships with private donors and investors) has mobilized modest resources to date, it can help broaden the base of support for development among private actors. Innovative fund-raising for *global priorities* is more critical to ensuring actual funding for international efforts on health and climate change.

- **Mainstream the Use of Innovative Finance across Countries and Sectors:** As they prove their effectiveness, innovations should become a more integral part of the core operational toolkit of development agencies. This can be done *inter alia* by using *country-based platforms* to broaden the use of innovative finance to countries and sectors where it can add value, for example, mainstreaming OBA, or finding new applications for Advance Market Commitments (Box 6.1). Doing so requires strengthening internal incentives for innovation by rationalizing financial and operational control processes; providing upstream advisory support on financial issues; and updating the financial skills of operational teams (for example, using a handbook that builds on the glossary in Annex 9).

Box 6.1: A Country-Based Platform for Mainstreaming Innovative Finance

Critical to effective official assistance is the country-based approach. During the IDA15 replenishment, donors noted several core strengths of the country-based approach, including a knowledge base that cuts across sectors, the ability to integrate finance ad knowledge across programs and projects, the ability to promote strategic coherence through harmonization and alignment across sectors, and the ability to sustain results over time. They also noted various "derivative" strengths of this approach, including *flexibility* to adapt to country circumstances; preparedness to act as a *"first mover"* when appropriate; and the *ability to leverage* other funding and scale up poverty reduction interventions by other partners.

These strengths of the country-based platform can also facilitate the development and mainstreaming of innovative fund-raising and financial solutions in both middle- and lower-income countries. For instance, the platform can enable:

- efficient pooling of multilateral, bilateral, and nonsovereign resources and leveraging of private and philanthropic donations to support credit buy-downs;
- integrated delivery of financial and advisory support for PPPs and catalytic efforts in priority sectors (such as IDA/IBRD policy dialogue and lending, identification of carbon projects, IFC lending and guarantees, and MIGA guarantees);
- supporting South-South learning on key innovations, such as catastrophe risk finance;
- strengthening linkages between global programs supported by innovative finance and country priorities and systems; and
- scaling-up of intermediation services that customize solutions to problems of sovereign and private risk management, *in the context* of a sound macroeconomic and fiscal framework.

Source: "The Role of IDA in the Global Aid Architecture." IDA15 Paper. World Bank, June 2007.

- **Monitor Trends and Results:** There is urgent need to monitor the impact of innovative finance on the international aid and development finance architecture and to evaluate "what works" in innovative fund-raising and financial solutions.

- **Engaging Partners:** Clients should also be better informed about emerging good practice. Ongoing outreach and dialogue to private investors and donors as well as DAC and emerging donors will also enhance prospects for mainstreaming innovating finance.

<u>ANNEX 1</u>. DATA SOURCES AND METHODS

General Issues

1. To ensure consistency across the World Bank and other data sources, the paper uses the OECD DAC definition of "developing country." As such, certain IBRD countries are not reflected in the data (for example, on guarantees). According to the DAC, the term "developing country" employed without qualification has generally been taken to mean a country eligible for ODA. Other organizations have their own definitions. The World Bank usually uses the term to refer to low- and middle-income countries, assessed by reference to per capita GNI. The new DAC List of ODA Recipients is consistent with World Bank practice, except that it excludes countries that are members of the G8, or the EU, or that have a date of admission to the EU. This means that as of 2005, it excludes the following middle-income countries: *Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Russia, Slovak Republic, and Slovenia.*

2. All data are in current prices, US$.

3. While the bulk of the data was presented in calendar years, World Bank Group data on financial solutions (for example, those involving guarantees) were presented in fiscal years. Over the period reviewed, differences between calendar and fiscal years were found to be marginal.

4. Given the diversity of instruments presented in this paper (for example, cash and derivative instruments), data on innovative applications or uses does not differentiate between disbursements and commitments.

Specific Issues

5. <u>Philanthropy and Private Donors</u>: All data are from OECD DAC Table 1, grants by private voluntary agencies. These were verified with data from McKinsey's report to Bank.

6. <u>Guarantees and Insurance</u>: All data on guarantees were derived from financial statements of export credit agencies and MDBs, except for the World Bank Group where information was gathered internally. No effort was made to harmonize financial and calendar years. Data on export credit agencies might include a few nondeveloping countries as amounts were provided by region. Data expressed in currencies different from US$ were converted into US$ by using end of the year exchange rates. Data used in the analysis reflects guarantee amounts.

7. <u>Private Participation in Infrastructure (PPI)</u>: All data on PPI were derived from the online PPIAF's PPI database. Guarantees were excluded to avoid double counting. Data refer only to the share of PPI that was supported by donors.

8. <u>Carbon Trade</u>: The value of CERs paid in each year was calculated using the UNFCCC database for the number of CERs issued during each year. The amount was then multiplied by the prevailing primary market price two years before the CERs were issued. This time lag is an approximation to account for the fact that CERs are mostly sold through ERPAs, which lock in the price.

9. <u>IFFIm</u>: Data from IFFIm financial statements were also verified by World Bank Trust Fund data on encashments. Disbursement data were received from relevant implementing agencies.

10. Catastrophe Risk Insurance: Data from the Bank's Treasury Department and the GFDRR Unit were collected and verified against data presented in the recent Management report to the Board.

11. IDA and IBRD Buy-downs: Data were provided by various teams including FRM, HDNHE, and PTO. These were verified.

12. Output-Based Aid: Data were drawn from the latest update by the GPOBA team.

13. Emerging Donors: Data on emerging donors were gathered from the following sources: *Turkey and Korea* – OECD DAC; *China* – D. Brautigam, private communication; G.D. Rawnsley, A Survey of China's Public Diplomacy;[56] *Brazil* – Catrina Schlager, FES Briefing Paper 3, March 2007; *India* – Matthias Jobelius, FES Briefing Paper 5, March 2007; *Russia* – Alexander Alimov, Department of International Organizations, Ministry of Foreign Affairs of the Russian Federation, Russia's Participation In Global Development Cooperation; *Thailand* – OECD DAC and Thailand Development Cooperation Agency, Thailand as an Emerging Donor.

14. IDA non-DAC donors: These included Barbados, Brazil, China, Czech Republic, Hungary, Iceland, Israel, Republic of Korea, Kuwait, Mexico, Poland, Russian Federation, Saudi Arabia, Singapore, Slovak Republic, Slovenia, South Africa, Turkey.

15. Emerging donors to World Bank-Administered Trust Funds: These included Afghanistan, Andorra, Argentina, Bahrain, Bangladesh, Barbados, Benin, Bermuda, Brazil, Bulgaria, Burkina Faso, Cameroon, Cape Verde, Chad, China, Cote d'Ivoire, Croatia, Czech Republic, Egypt, Estonia, Ethiopia, Gabon, Hungary, Iceland, India, Indonesia, Iran, Israel, Kenya, Korea, Kuwait, Liechtenstein, Macedonia, Madagascar, Mali, Mexico, Montenegro, Morocco, Nigeria, Pakistan, Palau, Philippines, Poland, Monaco, Qatar, Romania, Russian Federation, Rwanda, Saudi Arabia, Senegal, Serbia, Singapore, Slovakia, Slovenia, South Africa, Tanzania, Thailand, Turkey, Uganda, Samoa, Zimbabwe.

16. Local Currency and Countercyclical Loans: Data were based on analyses of financial statements of key multilateral and bilateral development banks.

17. Local Currency Bonds: All data were gathered through Dealogic's Bondware with the help of the World Bank Treasury Department.[57] An item-by-item analysis was carried out to determine which bonds were issued on developing countries' markets to fund activities in developing countries through MDBs. When calculating the overall share of local currencies bonds issued by MDBs on developing countries markets, EIB and KfW were not included since neither is an MDB.

18. New Taxes: The only taxes that are operational are the Airplane Ticket Tax, for which data are available in UNITAID's financial statement and the Adaptation Fund's tax on CERs, which was calculated using data available at Bank and current CER prices.

19. National Lottery: Data were gathered from Web sites of Belgian and UK lotteries.

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[56] http://uscpublicdiplomacy.com/index.php/newsroom/pdblog_detail/070502_a_survey_of_chinas_public_diplomacy/.
[57] Dealogic is a leading provider of global investment banking analysis and systems, and one of the few sources of information on trade finance developments.

ANNEX 2: INTERNATIONAL INNOVATIVE DEVELOPMENT FINANCE LANDSCAPE, 2000–8

Annex 2.1a: International Innovative Development Finance by Source, 2000–8 (US$ million)

Mechanism & Instrument	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
Solidarity		**186**	**1,200**	**1,353**	**1,697**	**2,644**	**3,045**	**1,104**	**485**	**11,713**
Emerging donors [1/]		186	1,200	1,331	1,667	2,615	2,784	[679]	[283]	10,744
Global Taxes [2/]										
Adaptation Fund									68	68
Airline Ticket Tax							221	359		580
National Lottery				21	29	29	40	66		187
StAR Global Program									[134]	134
Catalytic						**112**	**154**	**681**	**668**	**1,615**
Carbon Finance [2/]						112	154	681	668	1,615
PPP	**2,910**	**1,133**	**866**	**556**	**2,139**	**6,786**	**7,034**	**10,977**	**11,352**	**43,754**
Frontloading of ODA (e.g., IFFIm) [2/]							1,000		223	1,223
Innovative Debt Offerings by MDBs										
Local Currency Bonds	2,910	1,124	848	509	2,120	6,700	5,961	9,925	10,020	40,116
Sustainable Investments (climate)								350	419	769
Sustainable Investments (general)						56	48	347	76	527
World Supporter Fund								300	550	850
Pooling with Private Donors [5/]		9	18	47	19	31	25	55	64	268
Total	**2,910**	**1,319**	**2,067**	**1,908**	**3,836**	**9,542**	**10,233**	**12,763**	**12,505**	**57,082**

Annex 2.1b: International Innovative Development Finance by Use, 2000–8 (US$ million)

Mechanism & Instrument	2000	2001	2002	2003	2004	2005	2006	2007	2008	Unspec	Total
Solidarity			**38**		**36**			**66**			**140**
Buy-down (with sovereign support) [3/]			38		36						74
Counter-cyclical loans								66			66
Catalytic	**1,832**	**4,110**	**4,201**	**4,996**	**3,821**	**4,642**	**5,734**	**7,138**	**1,192**	**1,688**	**39,355**
Advanced Market Commitment (AMC) [2/]										1,500	1,500
Affordable Medicines Facility for Malaria (AMFm) [2/]										188	188
Investment Insurance		1,464	1,727	1,944	682	627	465	378			7,287
Local currency loans (others)	5	161	401	350	745	1,439	2,100	2,939	1,192		9,331
Risk Mitigation for Finance, Industry and Trade											
Partial Credit Guarantees (PCG)	823	1,407	1,273	1,316	1,508	1,713	2,552	3,341	..		13,933
Partial Risk Guarantees (PRG)	306	182	529	489	350	395	213	88	..		2,553
Political Risk Insurance (PRI) [4/]	548	895	271	868	536	468	404	326	..		4,316
Guarantee, Unspecified								65	..		65
Private Catastrophe Insurance											
Agricultural Insurance				30		0		1			31
Property Catastrophe Insurance	150										150
PPP	**2,014**	**1,216**	**1,099**	**961**	**1,727**	**728**	**761**	**1,067**	**464**	**3,190**	**13,227**
Buy-down (with nonsovereign support)				25		42	21				87
Local currency loans (sovereign)					258	9	66		8		341
Output-Based Aid (OBA)			28	10	96	5	8	24	386	3,190	3,748[5/]
Risk Mitigation for Infrastructure and Social Services											
Partial Credit Guarantees (PCG)	196	132	155	103	33	23	63	28	..		734
Partial Risk Guarantees (PRG)	936	509	110	502	1,115	213	136	498	..		4,019
Political Risk Insurance (PRI) [4/]	882	575	806	321	226	285	305	447	..		3,848
Sovereign Catastrophe Risk Insurance						150	161	70	70		451
Total	**3,846**	**5,327**	**5,339**	**5,958**	**5,584**	**5,369**	**6,495**	**8,271**	**1,656**	**4,879**	**52,723**

Note*: Data on uses do not differentiate between commitments and disbursements. [1/] Comprehensive data on ODA from emerging donors are not available for 2007–8. [2/] Linked to global programs. [3/] Breakdown for debt swaps under Poland's EcoFund is not available. [4/] Political risk insurance and partial risk guarantees are similar. For the WBG, Partial Risk Guarantees require a formal "indemnity" agreement from the government. Political risk guarantees are supported by similar, but informal arrangements. [5/] Data on other donors are not available.*

Annex 2.2a: World Bank Group Innovative Development Finance by Source, 2000–8 (US$ million)

Mechanism & Instrument	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
Solidarity		**186**	**136**	**205**	**189**	**166**	**253**	**679**	**485**	**2,299**
Adaptation Fund [1/]									68	68
Emerging donors		186	136	205	189	166	253	679	283	2,097
StAR Initiative									134	134
Catalytic						**3**	**5**	**25**	**36**	**68**
Carbon Finance [1/]						3	5	25	36	68
PPP	**1,431**	**117**	**376**	**180**	**397**	**1,060**	**1,631**	**3,458**	**4,562**	**13,212**
Frontloading of ODA (e.g., IFFIm) [1/]							1,000		223	1,223
Innovative Debt Offerings by MDBs										
Local Currency Bonds	1,431	108	358	133	378	973	558	2,405	3,230	9,574
Sustainable Investments (climate)								350	419	769
Sustainable Investments (general)						56	48	347	76	527
World Supporter Fund								300	550	850
Pooling with Private Donors		9	18	47	19	31	25	55	64	268
Total	**1,431**	**303**	**511**	**385**	**586**	**1,229**	**1,890**	**4,162**	**5,082**	**15,579**

Annex 2.2b: World Bank Group Innovative Development Finance by Use, 2000–8 (US$ million)

Mechanism & Instrument	2000	2001	2002	2003	2004	2005	2006	2007	2008	Unspec	Total
Solidarity			**38**		**36**						**74**
Buy-down (with sovereign support)			38		36						74
Catalytic	**1,205**	**1,477**	**631**	**1,350**	**1,298**	**1,619**	**2,028**	**2,081**	**1,192**	**1,500**	**14,381**
Advanced Market Commitment (AMC) [1/]										1,500	1,500
Local currency loans (others)	5	161	134	88	466	787	807	1,368	1,192		5,007
Risk Mitigation for Finance, Industry and Trade											
Partial Credit Guarantees (PCG)	503	420	226	364	197	113	818	386	..		3,027
Partial Risk Guarantees (PRG)					100	250			..		350
Political Risk Insurance (PRI) [2/]	548	895	271	868	536	468	404	326	..		4,316
Private Catastrophe Insurance											
Agricultural Insurance				30		0		1			31
Property Catastrophe Insurance	150										150
PPP	**964**	**707**	**840**	**459**	**610**	**601**	**685**	**729**	**464**	**3,190**	**9,250**
Buy-down (with nonsovereign support)				25		42	21				87
Local currency loans (sovereign)					258	9	66		8		341
Output-Based Aid (OBA)			28	10	96	5	8	24	386	3,190	3,748
Risk Mitigation for Infrastructure and Social Services [3/]											
Partial Credit Guarantees (PCG)	21	132	5	28	31	23	63	28	..		332
Partial Risk Guarantees (PRG)	61			75		87	60	160	..		443
Political Risk Insurance (PRI) [2/]	882	575	806	321	226	285	305	447	..		3,848
Sovereign Catastrophe Risk Insurance						150	161	70	70		451
Total	**2,169**	**2,184**	**1,509**	**1,809**	**1,944**	**2,220**	**2,713**	**2,810**	**1,656**	**4,690**	**23,704**

Note: *Data on uses do not differentiate between commitments and disbursements. [1/] These are linked to global programs. [2/] Political risk insurance and Partial Risk Guarantees are similar. Only Partial Risk Guarantees issued by IBRD and IDA require a counter-guarantee. Political risk guarantees are supported by similar, but informal arrangements. [3/] Data for guarantees in 2008 are not available.*

Annex 2.3: International Innovative Development Finance Landscape at a Glance by Source and Use, FY2000–8

2.3a: International Innovative Finance Sources and World Bank Share (US$ million)

Mechanism & Instrument	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
Solidarity		186	1,200	1,353	1,697	2,644	3,045	1,104	485	11,713
of which World Bank		*186*	*136*	*205*	*189*	*166*	*253*	*679*	*485*	*2,299*
Catalytic						112	154	681	668	1,615
of which World Bank						*3*	*5*	*25*	*36*	*68*
PPP	2,910	1,133	866	556	2,139	6,786	7,034	10,977	11,352	43,754
of which World Bank	*1,431*	*117*	*376*	*180*	*397*	*1,060*	*1,631*	*3,458*	*4,562*	*13,212*
Total	**2,910**	**1,319**	**2,067**	**1,908**	**3,836**	**9,542**	**10,233**	**12,763**	**12,505**	**57,082**
of which World Bank	***1,431***	***303***	***511***	***385***	***586***	***1,229***	***1,890***	***4,162***	***5,082***	***15,579***

2.3b: International Innovative Finance Uses and World Bank Share (US$ million)

Mechanism & Instrument	2000	2001	2002	2003	2004	2005	2006	2007	2008	Unspec	Total
Solidarity			**38**		**36**			**66**			**140**
of which World Bank			*38*		*36*						*74*
Catalytic	**1,832**	**4,110**	**4,201**	**4,996**	**3,821**	**4,642**	**5,734**	**7,138**	**1,192**	**1,688**	**39,355**
of which World Bank	*1,205*	*1,477*	*631*	*1,350*	*1,298*	*1,619*	*2,028*	*2,081*	*1,192*	*1,500*	*14,381*
PPP	**2,014**	**1,216**	**1,099**	**961**	**1,727**	**728**	**761**	**1,067**	**464**	**3,190**	**13,227**
of which World Bank	*964*	*707*	*840*	*459*	*610*	*601*	*685*	*729*	*464*	*3,190*	*9,250*
Total	**3,846**	**5,327**	**5,339**	**5,958**	**5,584**	**5,369**	**6,495**	**8,271**	**1,656**	**4,879**	**52,723**
of which World Bank	***2,169***	***2,184***	***1,509***	***1,809***	***1,944***	***2,220***	***2,713***	***2,810***	***1,656***	***4,690***	***23,704***

Annex 2.4a: Innovative Finance with Local Currency Bonds as an Estimated Share of Development Finance, 2000–8 (US$ million)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Source									
Total gross ODA and IFI Bonds	103,231	116,258	116,948	117,556	127,939	159,772	157,601	172,539	183,566
Sources	2,910	1,319	2,067	1,908	3,836	9,542	10,233	12,763	12,505
Global						112	1,375	1,040	1,093
Country	2,910	1,319	2,067	1,908	3,836	9,430	8,858	11,722	11,412
Sources over ODA+ bonds (%)	***2.8%***	***1.1%***	***1.8%***	***1.6%***	***3.0%***	***6.0%***	***6.5%***	***7.4%***	***6.8%***
of sources (Global)	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.9%	0.6%	0.6%
of sources (Country)	2.8%	1.1%	1.8%	1.6%	3.0%	5.9%	5.6%	6.8%	6.2%
Use									
Total ODA and Emerging donors	65,476	65,493	72,975	89,221	104,929	134,257	135,707	134,994	134,183
Innovative ODA (all uses)	3,846	5,327	5,339	5,958	5,584	5,369	6,495	8,271	[1,656]
Innovative ODA share of uses	***5.9%***	***8.1%***	***7.3%***	***6.7%***	***5.3%***	***4.0%***	***4.8%***	***6.1%***	***[1.2%]***
of uses (Global)	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*[0.0%]*
of uses (Country)	*5.9%*	*8.1%*	*7.3%*	*6.7%*	*5.3%*	*4.0%*	*4.8%*	*6.1%*	*[1.2%]*

Annex 2.4b: Innovative Finance without Local Currency Bonds as an Estimated Share of Development Finance, 2000–8 (US$ million)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Source									
Total gross ODA	65,476	65,493	72,975	89,221	104,929	134,257	135,707	134,994	134,183
Sources	-	195	1,218	1,400	1,716	2,787	4,224	1,840	1,440
Global						112	1,375	1,040	1,093
Country	-	195	1,218	1,400	1,716	2,675	2,849	800	347
Sources over ODA (%)	***0.0%***	***0.3%***	***1.7%***	***1.6%***	***1.6%***	***2.1%***	***3.1%***	***1.4%***	***1.1%***
of sources (Global)	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.9%	0.6%	0.6%
of sources (Country)	0.0%	0.2%	1.0%	1.2%	1.3%	1.7%	1.8%	0.5%	0.2%
Use									
Total ODA and Emerging donors	65,476	65,493	72,975	89,221	104,929	134,257	135,707	134,994	134,183
Innovative ODA (all uses)	3,846	5,327	5,339	5,958	5,584	5,369	6,495	8,271	[1,656]
Innovative ODA share of uses	***5.9%***	***8.1%***	***7.3%***	***6.7%***	***5.3%***	***4.0%***	***4.8%***	***6.1%***	***[1.2%]***

Annex 2.4c: Estimated ODA from Some Emerging Donors, 2002–6 (US$ million)

Country	2002	2003	2004	2005	2006	Notes
Brazil	24	24	24	24	24	Excl. debt relief
China	650	678	788	970	1,100	Excl. debt relief
India					300	
Korea	358	435	471	752	425	
Russia				97	100	Excl. debt relief, target for 2008: US$500 million
Thailand				95	74	DAC for 2006, Thailand for 2005
Turkey	117	86	305	601	675	
Others	51	108	79	76	86	
Total	**1,200**	**1,331**	**1,667**	**2,615**	**2,784**	

Sources: Data on emerging donors were gathered from the following sources: *Turkey and Korea* – OECD DAC; *China* – D. Brautigam, private communication; G.D. Rawnsley, A Survey of China's Public Diplomacy;[58] *Brazil* – Catrina Schlager, FES Briefing Paper 3, March 2007; *India* - Matthias Jobelius, FES Briefing Paper 5, March 2007; *Russia* – Alexander Alimov, Department of International Organizations, Ministry of Foreign Affairs of the Russian Federation, Russia's Participation In Global Development Cooperation; *Thailand* – OECD DAC and Thailand Development Cooperation Agency, Thailand as an Emerging Donor.

[58] http://uscpublicdiplomacy.com/index.php/newsroom/pdblog_detail/070502_a_survey_of_chinas_public_diplomacy/.

ANNEX 3: COMPOSITION OF WORLD BANK GROUP INNOVATIVE DEVELOPMENT FINANCE PORTFOLIO, 2000–8

Annex 3.1: WB Innovative Finance by Sector, 2000–8 (US$ million)

Sector	2000	2001	2002	2003	2004	2005	2006	2007	2008	Unspec	Total
Agriculture, Fishing, and Forestry	150			30		150	161	71	70		632
Education		8		7	36	19	29	28	8	239	374
Energy and Mining	1,019	427	363	567	245	409	206	465	10	150	3,862
Finance	632	787	413	807	471	392	1,069	323			4,894
Health and Other Social Services			38	25	5	45	21		11	2,751	2,895
Industry and Trade	231	433	84	156	202	101	63	389			1,660
Information and Communications	132	248	355	41	98	99	82	140		52	1,246
Public Administration, Law, and Justice					30						30
Transportation		102	73	66	124	200	186		330	1,415	2,497
Water, Sanitation, and Flood Protection		18	48	21	268	17	89	26	36	84	607
Unspecified	5	161	134	88	466	787	807	1,368	1,192		5,007
Total	**2,169**	**2,184**	**1,509**	**1,809**	**1,944**	**2,220**	**2,713**	**2,810**	**1,656**	**4,690**	**23,704**

Annex 3.2: WB Innovative Finance by Region, 2000–8 (US$ million)

Region	2000	2001	2002	2003	2004	2005	2006	2007	2008	Unspec	Grand
East Asia and Pacific	**24**	**328**	**78**	**436**	**202**	**164**	**86**	**118**	**16**	**66**	**1,517**
Catalytic	24	152	40	227	53	31	46	75			648
PPP		176		208	113	133	40	42	16	66	795
Solidarity			38		36						74
Europe and Central Asia	**437**	**105**	**366**	**328**	**532**	**300**	**100**	**3**		**14**	**2,184**
Catalytic	381	44	231	328	532	300	97	3			1,916
PPP	56	61	135				3			14	268
Latin America and the Caribbean	**950**	**1,260**	**422**	**355**	**343**	**444**	**630**	**720**	**70**	**2,346**	**7,542**
Catalytic	313	843	123	191	17	264	237	462			2,450
PPP	638	417	299	164	327	181	392	258	70	2,346	5,092
Middle East and North Africa	**40**	**73**	**26**	**88**	**75**	**8**	**269**	**112**	**6**	**12**	**710**
Catalytic	40	73	26	88		6	228	60			521
PPP					75	2	41	52	6	12	188
South Asia	**191**	**105**	**112**	**79**	**37**	**58**	**129**	**93**	**5**	**289**	**1,098**
Catalytic	109	52	21	70	37	41	30	13			373
PPP	82	53	91	9		18	99	80	5	289	725
Sub-Saharan Africa	**522**	**151**	**370**	**435**	**229**	**459**	**693**	**397**	**366**	**464**	**4,087**
Catalytic	334	151	56	358	133	190	584	100			1,905
PPP	189		315	78	96	269	109	297	366	464	2,181
Unspecified	**5**	**161**	**134**	**88**	**526**	**787**	**807**	**1,368**	**1,192**	**1,500**	**6,567**
Catalytic	5	161	134	88	526	787	807	1,368	1,192	1,500	6,567
Total	**2,169**	**2,184**	**1,509**	**1,809**	**1,944**	**2,220**	**2,713**	**2,810**	**1,656**	**4,690**	**23,704**

Annex 3.3: Estimated Leverage of Select Mechanisms and Instruments, 2000–7 (US$ million)

(US$ million)	Buy-downs		OBA	PCG		PRGs/PRIs	
	Solidarity	PPP	PPP	Catalytic	PPP	Catalytic	PPP
Bank Commitments	74	87	3,362	3,027	332	4,666	4,291
Total Project Costs	390	484	6,203	6,743	2,502	13,035	28,720
Estimated Leverage	**5.3**	**5.6**	**1.8**	**2.2**	**7.5**	**2.8**	**6.7**

Annex 3.4: WB Innovative Finance by Country Lending Category, 2000–8 (US$ million)

Lending Category	2000	2001	2002	2003	2004	2005	2006	2007	2008	Unspec	Total
Blend	175	125	124	218	110	136	56	15	5	97	1,062
IBRD	1,213	1,662	718	591	1,088	705	1,021	857	78	2,252	10,185
IDA	662	236	423	652	121	592	760	474	381	841	5,141
Other	119	161	243	348	626	787	876	1,465	1,192	1,500	7,317
Total	**2,169**	**2,184**	**1,509**	**1,809**	**1,944**	**2,220**	**2,713**	**2,810**	**1,656**	**4,690**	**23,704**

Annex 3.5: WB Innovative Finance by Corporate Entity and Business Line, FY 2000–8

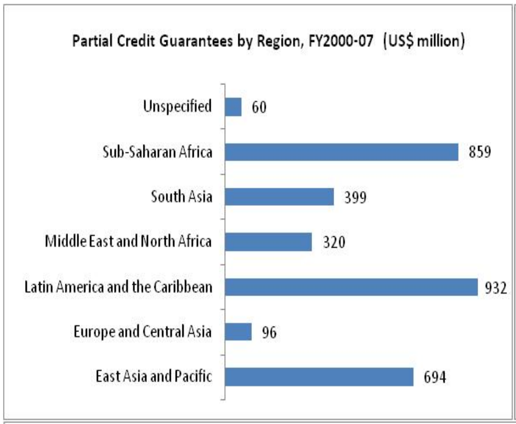
Business Line	Amount (US$ million)	Percentage
MIGA	8,163[1/]	34.4% [1/]
IFC	7,957	33.6%
IBRD	3,949	16.7%
TF	1,895	8.0%
IDA	1,710	7.2%
GOVT [2/]	30	0.1%
Total	**23,704**	**100%**

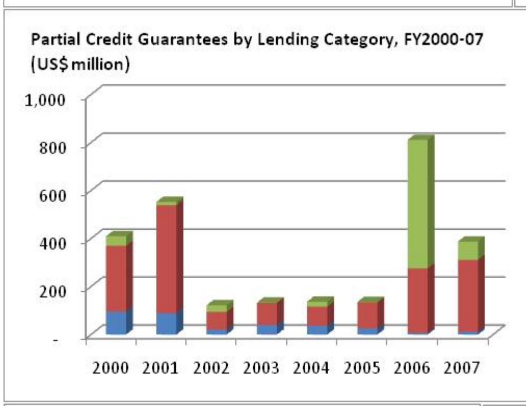
Note*: [1/]MIGA's PRI data are not available for FY2008. The percentage has been underestimated. For FY2000–7, MIGA's innovative finance share is 37.0%. [2/]The GOVT US$30 million (0.1%) belongs to two OBA projects that were funded by "Local Govt.," as labeled by the OBA team.*

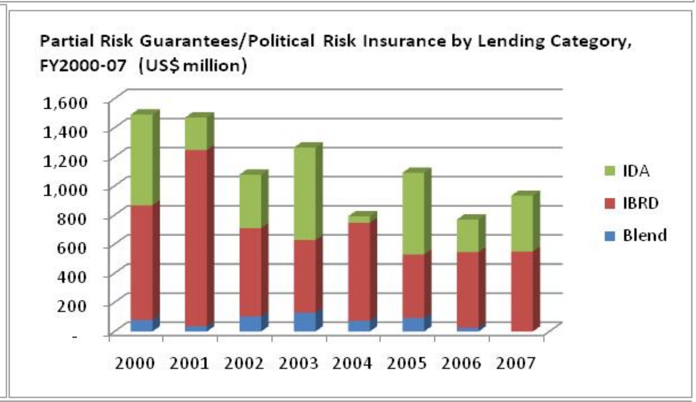
Annex 3.6: Average Annual Flows under WBG Innovative Finance by Use and Objective, 2000–8

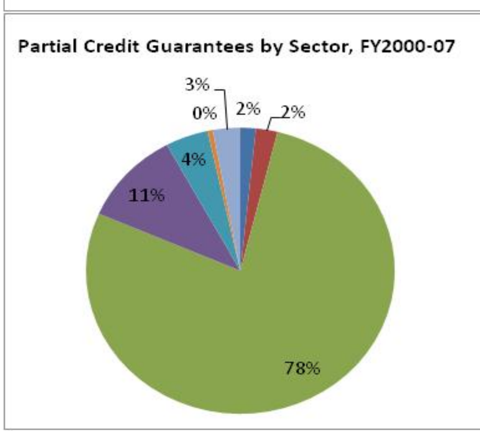
Objective and Country Type	Avg. US$ per capita per annum
IBRD	**78**
Managing fiscal exposure	1
Improving service delivery	23
Catalytic	54
IDA and Blend	**54**
Managing fiscal exposure	0
Improving service delivery	32
Catalyzing market development	23

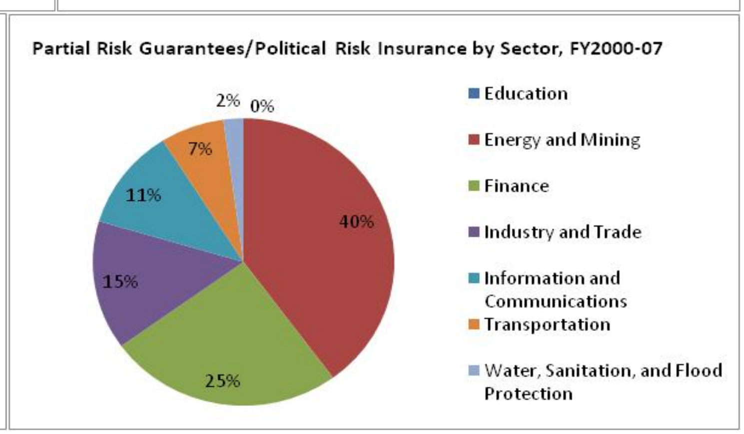
<u>Annex 3.7</u>: World Bank Group Guarantees By Region, Sector, and Country Type











Annex 3.8a: Innovative Development Finance in World Bank Trust Funds, 2002–8

Overall Total (Innov. Finance + TA + Admin Cost)	2002	2003	2004	2005	2006	2007	2008	Total
Global Program	17	37	40	48	69	825	471	1,506
Country Program/Others	9	10	35	50	49	95	81	329
Others		1	1	3	4	5	7	21
Total	**25**	**49**	**76**	**101**	**122**	**925**	**559**	**1,856**

Annex 3.8b: By Usage—Admin. Cost, 2002–8

By Usage – Admin. Cost	2002	2003	2004	2005	2006	2007	2008	Total	Avg. Cost
Global Program	0	5	6	10	20	18	25	84	12.02
Country Program/Others	0	0	0	0	0	0	2	2	0.34
Total	**0**	**5**	**6**	**10**	**20**	**18**	**26**	**87**	**12.36**

Annex 3.8c: By Usage—Innov. Finance

Investment	2002	2003	2004	2005	2006	2007	2008	Total
Global Program	7	20	16	20	27	782	420	1,292
Country Program/Others	9	10	30	45	34	77	52	256
Total	**16**	**29**	**46**	**66**	**61**	**859**	**472**	**1,548**

Annex 3.8d: By Usage—TA

Fiscal Year	2002	2003	2004	2005	2006	2007	2008	Total
Global Program	9	13	17	18	22	25	26	130
Country Program/Others	0	1	5	4	15	18	27	70
Total	**9**	**14**	**22**	**22**	**37**	**43**	**53**	**200**

Annex 3.8e: By Usage (in US$ million)

Fiscal Year	2002	2003	2004	2005	2006	2007	2008	Total
Innovative Finance	16	29	46	66	61	859	472	1,548
TA	9	14	22	22	37	43	53	200
Administration Cost	0	5	6	10	20	18	26	87
Others	-	1	1	3	4	5	7	21
Total	**25**	**48**	**76**	**101**	**122**	**925**	**558**	**1,856**

Annex 3.8f: TF Disbursements by Managing Unit of the Trustee Fund (US$ million)

VPU of Main TF	FY02	FY03	FY04	FY05	FY06	FY07	FY08	Total
CFPVP	-	-	0	0	0	735	236	**972**
SDNVP	10	19	26	31	51	63	206	**406**
HDNVP	1	1	28	25	7	33	13	**108**
AFRVP	12	19	14	16	7	16	15	**100**
IFC	-	-	1	7	18	26	43	**95**
EAPVP	-	3	1	11	12	22	8	**58**
FPDVP	2	3	3	5	10	10	14	**47**
SARVP	-	-	-	-	-	10	1	**11**
LCRVP	-	-	-	-	-	-	9	**9**
ECAVP	-	-	-	-	9	0	0	**9**
WBIVP	0	0	0	0	2	2	3	**8**
DECVP	0	1	1	1	2	1	2	**7**
CSRND	-	-	0	0	0	0	1	**2**
OPCVP	0	1	0	0	0	0	-	**1**
PRMVP	-	-	-	-	-	0	0	**1**
MNAVP	0	0	0	0	0	(0)	-	**1**
MIGEX-VPU	0	-	0	0	0	-	-	**0**
LEGVP	-	-	-	-	-	-	-	**-**
Total	**25**	**48**	**75**	**98**	**118**	**920**	**552**	**1,835**

Annex 3.8g: TF Disbursements by Managing Unit of the Grants (US$ million)

VPU of Grant	FY02	FY03	FY04	FY05	FY06	FY07	FY08	Total
CFPVP	-	-	-	-	-	735	236	**971**
SDNVP	10	19	26	31	51	63	206	**406**
AFRVP	12	19	14	17	8	16	17	**103**
IFC	-	-	1	7	18	26	43	**95**
HDNVP	1	1	28	23	5	21	7	**85**
EAPVP	-	3	1	12	12	22	9	**59**
FPDVP	2	3	3	5	10	10	14	**47**
SARVP	-	0	-	0	0	19	2	**21**
ECAVP	-	-	0	0	10	1	1	**12**
LCRVP	-	-	0	0	0	0	10	**11**
WBIVP	0	0	0	0	2	2	3	**8**
DECVP	0	1	1	1	2	1	2	**7**
MNAVP	0	0	0	1	1	1	1	**4**
CSRND	-	-	0	0	0	0	1	**2**
OPCVP	0	1	0	0	0	0	-	**1**
PRMVP	-	-	-	-	0	0	0	**1**
MIGEX-VPU	0	-	0	0	0	-	-	**0**
LEGVP	-	-	-	-	-	-	-	**-**
Grand Total	**25**	**48**	**75**	**98**	**118**	**920**	**552**	**1,835**

ANNEX 3.9: WORLD BANK GROUP INSTRUMENTS AND SERVICES

Mechanisms & Programs	WBG Instruments and Services					
	Loans	Grants	Guarantees	Swaps, Insurance, Options	CAT-DDO	TA
Public-private partnerships	√	√				√
Output-Based Aid		√				√
Carbon Finance						√
Mitigation of sovereign and project risks			√			√
Mitigation of currency, commodity, and weather-related risks				√	√	√

Mechanisms & Programs	FY64–80	FY81–85	FY86–90	FY91–95	FY1996–2000	FY2001–5	FY2006–9
Public-private partnerships	√						
Output-Based Aid						√	
Carbon Finance							√
Mitigation of sovereign and project risks		IFC PCG		MIGA PRG; IBRD PRG & PCG	IBRD "enclave" PRG; IDA PRG		
Mitigation of currency, commodity, and weather-related risks							Malawi weather hedge, CAT DDO & all other cat insurance products

ANNEX 4: INSURANCE AND GUARANTEES ISSUED BY BILATERALS AND MULTILATERALS TO DEVELOPING COUNTRIES, 2001–7

	2000	2001	2002	2003	2004	2005	2006	2007	Total
Investment Insurance		**1,464**	**1,727**	**1,944**	**682**	**627**	**465**	**378**	**7,287**
CESCE				118	6	217	167	147	655
Export Credits Guarantee Department		1,464	1,451	1,255	676	410	298	230	5,785
SACE			276	571					847
Partial Credit Guarantees (PCG)	**1,019**	**1,539**	**1,429**	**1,419**	**1,541**	**1,735**	**2,616**	**3,370**	**14,668**
ADB	120	90	500	170		18	110	376	1,384
AfDB						10	13		23
Agence Francaise de Développement				11	21	29	116		178
DEG		-	17	4	60	314	62	49	505
EBRD	198	366	387	586	682	650	933	1,144	4,945
IADB	175	531	155	85	370	298	396	1,127	3,137
IBRD	250	159							409
IFC	274	393	231	393	227	136	881	415	2,950
Inter-American Investment Corp (IIC)				20	10	91		9	130
Nordic Investment Bank	3								3
Proparco			36	77	14	12	61	85	285
Netherlands Development Finance Company			103	74	157	177	44	166	720
Partial Risk Guarantees (PRG)	**1,242**	**691**	**639**	**991**	**1,465**	**609**	**350**	**586**	**6,572**
ADB	251		382	70	10	50	15		778
IBRD					30	200		45	275
IDA	61			75	70	137	60	115	518
OPIC	930	691	257	846	1,355	221	275	426	5,001
TF						-			-
Political Risk Insurance (PRI)	**1,430**	**1,470**	**1,078**	**1,189**	**762**	**754**	**709**	**773**	**8,163**
MIGA	1,430	1,470	1,078	1,189	762	754	709	773	8,163
Guarantee, Unspecified								**65**	**65**
Agence Francaise de Développement								29	29
CESCE								36	36
Total	**3,691**	**5,165**	**4,872**	**5,543**	**4,449**	**3,725**	**4,139**	**5,171**	**36,755**

ANNEX 5: PRIVATE PARTICIPATION IN INFRASTRUCTURE: COMMITMENTS AND MULTILATERAL SUPPORT, 2000–7

Indicator	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**Total**
Total Investment Commitments for PPI in Developing Countries (US$ million, current prices)									
Energy	34,602	18,924	22,724	23,951	13,146	24,656	33,778	58,224	230,004
Transport	15,792	11,291	7,764	9,658	13,460	37,104	49,742	51,331	196,141
Telecom	18,600	13,798	11,446	9,189	16,344	24,421	26,971	30,418	151,187
Water and sewerage	8,101	3,409	1,706	1,767	5,329	2,173	3,374	4,551	30,412
All Sectors	**77,095**	**47,422**	**43,641**	**44,565**	**48,280**	**88,353**	**113,865**	**144,524**	**607,744**
Share of PPI Projects with multilateral support (% of commitments)									
Energy	5%	9%	2%	5%	7%	9%	3%	3%	5%
Water and sewerage	1%	7%	4%	8%	5%	6%	2%	4%	4%
Transport	5%	2%	4%	3%	2%	3%	1%	3%	3%
Telecom	1%	1%	2%	4%	2%	0%	1%	1%	1%
All Sectors	**3%**	**5%**	**3%**	**4%**	**4%**	**4%**	**2%**	**2%**	**3%**
Share of PPI Projects with multilateral support (% of number)									
Energy	24%	17%	11%	20%	17%	40%	18%	16%	21%
Water and sewerage	5%	21%	4%	14%	11%	10%	6%	7%	10%
Transport	10%	15%	11%	9%	8%	6%	10%	8%	9%
Telecom	11%	6%	17%	10%	6%	2%	6%	1%	6%
All Sectors	**15%**	**14%**	**12%**	**13%**	**10%**	**15%**	**10%**	**8%**	**12%**
Share of PPI Projects with multilateral support (% of number)									
Latin America and the Caribbean	13%	24%	13%	24%	8%	16%	23%	13%	16%
Europe and Central Asia	23%	12%	18%	15%	15%	24%	10%	9%	15%
Sub-Saharan Africa	13%	18%	23%	15%	16%	18%	11%	9%	15%
South Asia	29%	0%	0%	0%	11%	12%	8%	4%	7%
Middle East and North Africa	20%	8%	6%	6%	6%	0%	3%	11%	7%
East Asia and Pacific	6%	5%	9%	7%	6%	10%	3%	2%	6%
All Regions	**15%**	**14%**	**12%**	**13%**	**10%**	**15%**	**10%**	**8%**	**12%**
Type of Multilateral Support (% of total support)									
Loan	40%	42%	38%	39%	78%	56%	57%	51%	51%
Guarantee	11%	13%	58%	34%	15%	29%	22%	25%	24%
Syndication	46%	43%	1%	10%	5%	12%	5%	20%	20%
Equity	2%	0%	1%	4%	1%	3%	6%	2%	2%
Insurance	0%	0%	0%	0%	0%	0%	10%	3%	2%
Risk management	0%	0%	0%	10%	0%	0%	0%	0%	1%
Quasi-equity	0%	1%	2%	3%	0%	0%	0%	0%	1%
Total Investment Commitments for PPI by Agency (US$ million, current prices)									
IFC	538	561	263	410	452	418	535	973	4,150
IADB	930	963		304		392	180	595	3,363
MIGA	130	298	371	668	177	595	329	362	2,930
EBRD	91	79	57	236	174	481	104	432	1,652
EIB	349	63		13	268	722		130	1,544
ADB	403		75	112	110	157	55	197	1,109
IDA		58	34	27	168	310	125	148	870
CAF						23	810		833
IBRD	150	186	75		256			45	712
IDB		14	180	20		87	-	100	401
BCIE	4			2	50			337	393
Other		10	40			219	102		371
AFDB	13				191		75		279
BOAD	4	20	2						27
IAIC								4	4
All Agencies	**2,611**	**2,252**	**1,098**	**1,792**	**1,846**	**3,404**	**2,315**	**3,322**	**18,638**

ANNEX 6: ACTIVE AND COMPLETED CATASTROPHE RISK PROJECTS (US$ million)

Type of Cat Financing	Country/Region	Donor/IFI	Year	Actual or Estimated Amount of Coverage	Amount of premiums	Type and Amount of Donor support
Catastrophe Insurance Pooling						
Turkish Catastrophe Insurance Pool	Turkey	World Bank	2000	3,000	150	Contingent loan: 180 TA, funding of premiums
Caribbean Catastrophic Risk Insurance Facility	Caribbean	World Bank, DFID, Japan (PHRD), Canada, France	2007	500	20	Loan/grants: 47 TA + payment of insurance premiums
Index-Based (Parametric) Risk Insurance						
Livestock Insurance	Mongolia	World Bank + Japan (PHRD)	2005	2.2	0.11	Contingent loan: 5
Weather-Based Crop Insurance	India	World Bank	2003	600	30	TA
Weather Insurance	Malawi	World Bank	2005	0.3		TA
Weather Insurance	Central America	IADB, CABEI, World Bank	2008	5 (unclear)		TA
Weather Insurance	Thailand	World Bank	2007	0.04	0.003	TA
Weather Insurance	Ethiopia	World Bank	2007	unclear		Loan: 1
Weather Derivative	Ethiopia	World Bank, WFP, USAID	2006	18.6	0.93	Grant: 0.93 (premiums) TA
Ex-Ante Sovereign Financing						
Catastrophe Bond	Mexico	World Bank	2006	160		TA
Contingent Credit Facility	Colombia	World Bank	2005	150		Loan: 150 + TA
Catastrophe Swap	Caribbean	World Bank (paid advisory role)	2007	20		Advice paid by CCRIF
Catastrophe Deferred Drawdown Option	Costa Rica	World Bank	2008	65		Loan: 65 (committed)
Total				**4,521**		**More than 449**

Note: Coverage was assumed to be 20 times premiums, unless actual coverage was provided.

ANNEX 7: WORLD BANK CARBON FUNDS: AMOUNTS RAISED, SOURCES, PARTICIPANTS, AND ERPAs SIGNED

Fund	Inception	Fund capital (US$ mil.)	Private capital raised (US$ mil.)	% private	Leverage of donor support (private: donor)	Participants	MtCO2e under contract (ERPA signed)
Prototype Carbon Fund	2000	180	115	63.9	1.8	23	31
Community Development Carbon Fund	2003	128.6	58	45.1	0.8	25	7.1
BioCarbon Fund Tranche 1	2004	53.8	30	55.8	1.3	14	4.7
Danish Carbon Fund	2005	75.4	49.5	65.7	1.9	6	3.6
Spanish Carbon Fund	2005	308	69.9 [1/]	22.7	0.3	13	15
Umbrella Carbon Facility Tranche 1	2006	998.8	749.1	75	3	16	129.3
Netherlands CDM Facility	2002	..	..	..	..	1	..
Netherlands European Carbon Facility	2004	..	..	..	..	1	..
Italian Carbon Fund	2004	155.6	47	30.2	0.4	7	15.4
BioCarbon Fund Tranche 2	2007	36.1	18.1	50	1	6	..
Carbon Fund for Europe	2007	70	14.0 [1/]	20	0.3	5	..
Total		**2,006.30**	**1,150.60**	**57.4**	**1.3**	**117**	**206.1**

[1/] *Converted from € to US$ at the exchange rate of 1€=1.4US$.*

ANNEX 8: DEVELOPING COUNTRY PERSPECTIVES ON INNOVATIVE DEVELOPMENT FINANCE

1. On numerous occasions, developing countries have voiced their support for innovative and predictable financing of country and global efforts.[59] These have also included strong support for the International Finance Facility and its proposal for frontload ODA to provide urgently needed financing for development. Notwithstanding these expressions of support, there is need to better understand developing country demand for innovative finance. Summarized below are highlights of issues and opinions voiced by developing countries in key fora.

Demand for Market-Based Solutions

2. As early 1999 the Group of 77 and China asked for an examination of various solutions:

- exploration market-driven approaches to financing small size infrastructure projects;
- partnership between the public and private sectors through leveraging private capital with public funds through risk guarantees, insurance, and/or project cost-sharing;
- privatization of publicly owned assets and companies;
- increased efforts to develop local capacity, such as microcredit lending and developing local bond markets;
- joint ventures, development bonds with options to be converted to equity;
- nonmonetary contributions from the private sector;
- mobilizing private resources;
- build-operate-transfer under public-private partnership;
- public-private-NGO collaborations;
- creation of public-private funds as an equity investment by governments in new ventures;
- making government equity a key tool in capital creation;
- review of mechanisms for development financing for government projects.[60]

3. They also noted that the "multilateral financial institutions, in particular World Bank, could play an intermediary role in providing technical assistance to developing countries to facilitate their access to international capital markets through guarantees and insurance of projects as well as facilitating the exchange of information on securities and bond offering of developing countries in the international financial and capital markets." [61] The need for guarantees and other instruments that support for private sector engagement and PPPs was reiterated in 2007.[62]

4. A summary of the views expressed by representatives from developing countries during consultations for the UN Financing for Development Process are provided below:

[59] Declaration at Thirty-First Annual Meeting of Ministers for Foreign Affairs of the Group of 77 United Nations Headquarters, New York, 27 September 2007; Consultations for the UN Financing for Development Process in 1998, Document A/52/840; Statement by Mr. Mohammad Ali Zarie Zare, New York, 7 May 2001.
[60] Statement by H.E. Ambassador June Persaud of Guyana on behalf of the G77 and China on theme 6: Innovative sources of financing before the ad hoc open-ended working group on financing for development, New York, April 6, 1999.
[61] Statement by H.E. Ambassador June Persaud of Guyana on behalf of the G77 and China on theme 6: Innovative sources of financing before the ad hoc open-ended working group on financing for development, New York, April 6, 1999.
[62] Statement on behalf of the G77 and China by H.E. Hamid Yar Hiraj, Minister of State of Commerce of Pakistan during the thematic discussion at 2007 substantive session of the ECOSOC, Geneva, 3 July 2007.

- Asia and the Pacific: The consultations concluded that "the relevance of innovative sources lies primarily in their ability to leverage additional private sources of finance for development purposes."[63] The consultations also highlighted the importance of "increasing the access of the poor to financial services," including microfinance; as well as "new private/public partnerships to raise funds";

- Latin America and the Caribbean: Multilateral, regional, and subregional banks were asked to develop "systems of guarantees or cofinancing mechanisms" in order to provide countries that had not benefited from private credit flows with greater market access;[64]

- Europe: Four priority areas were identified for expanding the set of financing solutions, including the "savings-investment nexus and inadequate financial intermediation, finance for SMEs, and public-private partnerships."[65]

Interest in New Sources of Finance

5. In 2005, the G77 and China noted the importance of finding new sources of financing for development through "taxation and charges," such as "cross-border payments taxes; carbon taxes; conservation tax and patent rights to protect biodiversity; uniform nationally applied global taxes on foreign exchange transactions to regulate capital flow; tax on financial transactions; tax on capital flows; brain-drain tax; tax on all international transactions…."[66] More recently, these calls were reinforced by developing countries represented on the Leading Group for Solidarity Levies, which supports a number of financing mechanisms that increase financial flows, such as the solidarity levy on air tickets that finances UNITAID. Other fundraising mechanisms identified by the Leading Group was the 1 percent Solidarity levy to finance the Digital Solidarity Fund, auctioning of carbon permits taxes on financial transactions and foreign exchange operations, and voluntary contributions, such as Voluntary Solidarity Levies and Product Red.[67]

6. Recent consultations in Africa revealed growing civil society interested in innovative financing.[68] Civil society representatives focused on additional funds that could be generated from the currency transaction tax, carbon tax, airline levies, and the digital solidarity fund. However, developing countries warned not to neglect the importance of traditional sources and claimed that "innovative sources of finance should be an addition to ODA and not a substitute."[69]

Predictability of Financing

7. Predictability of financing is another issue developing countries consider important. The G77 have asked for financial solutions that are able to cope with volatility. In 2001, the G77 complained that "existing mechanisms are not able to ensure the continuity of provision of resources for operational activities." It noted "a strong need to increase ODA to match short- and

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[63] Document A/AC.257/13.
[64] Document A/AC.257/17.
[65] Document A/AC.257/15.
[66] Statement by H.E. Ambassador June Persaud of Guyana on behalf of the G77 and China, New York, April 6, 1999; Statement by Ambassador Stafford Neil, permanent representative of Jamaica to the UN, chairman of the G77, New York, 25 April 2005.
[67] Conakry Declaration. Contribution to the follow-up conference on financing for development in Doha November 29–December 2, 2008.
[68] Seth Lartey, John Foster, and Cheikh Tidiane Touré. 2008. "Breaking the Taboo: Perspectives of African Civil Society on Innovative Sources of Financing Development." London: Commonwealth Foundation.
[69] Document A/AC.257/13.

long-terms needs of developing countries. Studying a system where contributions to aid efforts are obligatory and the annual flows are predictable should be considered."[70]

Ownership of Innovative Financing

8. Ownership of the financing process has high priority among developing countries. The Adaptation Fund under the Kyoto Protocol is one such example: a financing solution that strengthens country ownership through its source of financing.[71] The Adaptation Fund's primary financing comes not from traditional development assistance, but from a 2 percent share of proceeds on project-based emissions reductions under the Kyoto Protocol. Because the Adaptation Fund is financed by payers of the levy, it represents a departure from the traditional donor-recipient relationship of development finance. Developing countries have successfully argued that the source of the 2 percent share justifies a prominent voice for recipients of funds in the Adaptation Fund's governance structure.[72] Accordingly, the Adaptation Fund Board comprises a 75 percent majority of developing countries, including the most affected countries (small island developing states and least-developed countries).

9. Some developing countries have themselves contributed to new financing solutions. For example, South Africa committed to pay US$20 million to IFFIm over the next 20 years, and the Russian Federation has pledged US$80 million to the pilot Advance Market Commitment for vaccines. Several beneficiary countries have implemented the Solidarity Levy on air tickets and raised money for UNITAID. Between November 2006 and December 2007, Brazil raised more than US$16 million, Chile more than US$5 million, Mauritius US$324,000, and Niger US$32,000 from the levy.[73] Côte d'Ivoire, Congo, Republic of Korea, and Madagascar have also implemented it. Similarly, Senegal was the first to adopt the so-called "1 percent digital solidarity principle" in its procurement.[74] Under this principle, public institutions and private companies can obligate themselves to pay 1 percent of the contract value of procurement of ICTs (equipment, software, services, and so on) to the Digital Solidarity Foundation.

[70] Statement by Mr. Mohammad Ali Zarie Zare, on behalf of the Group of 77, at the Third Session of the Preparatory Committee For the International Conference on Financing for Development: Increasing international financial cooperation for development through *inter alia* Official Development Assistance (ODA), New York, 7 May 2001.
[71] Statement by Ambassador Munir Akram, permanent representative of Pakistan to the UN at the joint high-level segment of the 13th session of the COP and the 3rd session of the MOP, Bali, Indonesia, 12 December 2007.
[72] Submission from Egypt, Philippines, AOSIS, and Indonesia for the UNFCCC workshop on the Adaptation Fund, Edmonton, Alberta, Canada, 3–5 May 2006, Document FCCC/SBI/2006/MISC.7.
[73] Annual Report UNITAID 2007. http://www.unitaid.eu/images/governance/annualreport2007.pdf.
[74] http://www.dsf-fsn.org/cms/content/view/318/1/lang,en/.

ANNEX 9: GLOSSARY OF SELECTED INNOVATIVE AND TRADITIONAL FINANCIAL INSTRUMENTS AND MECHANISMS

This glossary summarizes existing and proposed innovative and traditional financial mechanisms and instruments for development.

The range of instruments and mechanisms exceeds the scope of the main paper, which concentrates on implemented mechanisms and instruments with proven fund flows.

The purpose of this annex is to provide a further overview of the currently discussed instruments and mechanisms as well as a reference to the main old and new expressions used in development finance.

The glossary is updated on an ongoing basis by the Multilateral Trusteeship and Innovative Financing Department of the Concessional Finance and Global Partnerships (CFPMI) Vice Presidency.

AccessRH

AccessRH, formerly Minimum Volume Guarantee (MVG) "is a global procurement mechanism that helps countries and other buyers get the lowest possible price for supplies by allowing them to buy through a master framework agreement with suppliers."[75] The master framework agreement "contracts with manufacturers for specific products, guaranteeing a minimum volume, the magnitude of which will depend on the mechanism's appetite for risk and the forecasts provided by the buyers. In exchange for this guaranteed minimum volume, the manufacturer would extend favorable terms to buyers making purchases through the master contract."[76] Increasing the number of potential buyers, aggregating demand, and providing manufacturers with up-front commitments can yield lower unit prices which the operator of the master agreement can then pass along to its customers." AccessRH focuses particularly on smaller-scale buyers, which are more likely to face high prices and poor terms. It also targets circumstances where low production volumes squeeze manufacturer profit margins so that sales are no longer commercially viable." The underlying financing mechanism is PG4Health.

Further information:	http://www.rhsupplies.org/
Reading:	Reproductive Health Supplies Coalition and Dalberg Global Development Advisors 2008
See also:	PG4Health

Adaptation Fund

Under the UNFCCC process, the Adaptation Fund is intended as a principal source of adaptation support for developing countries and a centerpiece of the international agenda on climate change. The Adaptation Fund is designed to finance concrete climate change adaptation projects and programs that are country driven and based on needs, views, and priorities of eligible developing country Parties to the Kyoto Protocol.

The Adaptation Fund's primary financing comes not from traditional development assistance, but from a 2 percent share of proceeds of Certified Emission Reductions (CERs) issued by the Clean

[75] http://www.rhsupplies.org/.
[76] Reproductive Health Supplies Coalition and Dalberg Global Development Advisors 2008.

Development Mechanism (CDM) under the Kyoto Protocol. The Adaptation Fund's financial base is thus precedent-setting: an international base arising from an international treaty. Using a share of the proceeds from CER sales to assist developing countries was envisioned when the Kyoto Protocol was agreed in 1997; the Adaptation Fund was allocated a 2 percent share as early as 2001.

The governance of the Adaptation Fund reflects its innovative source of financing. It assigns ownership to developing countries. Accordingly, the Adaptation Fund Board comprises a 75 percent majority of developing countries, including the most-affected countries (small island developing states and least-developed countries), and it provides that they can submit proposals directly to the Adaptation Fund Board.

Further information:	http://adaptation-fund.org/ http://cdm.unfccc.int/Registry/Issuance/SOPByProjectsTable.html
See also:	Global Taxes

Advanced Market Commitment (AMC)

An AMC tackles a longstanding development problem—persistent private sector failures to develop and produce products needed in developing countries due to perceptions of insufficient demand or market uncertainty. A pilot is being launched in 2009. It focuses on the vaccine market, where research, development, and production of vaccines specific to the needs of the poorest developing countries are limited by the small number of manufacturers, high cost of product development and capacity scale-up, and demand uncertainty. The pilot AMC's sources of funds of US$1.5 billion are ODA and foundation grants—provided under unusually long-term payment agreements. The pledge flows are enhanced by an IBRD "guarantee." The AMC targets private sector engagement via a unilateral offer to industry designed to spur development of manufacturing capacity to supply needed vaccines. The funds flow to GAVI (which is itself portrayed as an innovative public-private partnership) and are used by UNICEF to procure vaccines.

Further information:	http://www.vaccineamc.org http://www.worldbank.org/amc
Reading:	Batson, et al. 2006, Kremer 2000, Kremer and Glennerster 2004, Kremer and Zwane 2005, Ridker 2006, Tremonti and Finanze 2005a, 2005b, World Bank and GAVI 2006

Affordable Medicines Facility-malaria (AMFm)

The Affordable Medicines Facility-malaria (AMFm) is a financing mechanism to make artemisinin-combination therapies (ACTs) more available and affordable. ACTs delay emergence of resistance to the artemisinin. Without the AMFm, effective treatment may be too expensive or simply unavailable to the majority of patients.

The AMFm will negotiate with ACT manufacturers to reduce the price to the current price available to the public sector. The AMFm will provide a copayment to buyers to lower the price to a level comparable with less-effective antimalaria alternatives. A core function of the AMFm, which serves both the public and private sectors, is the copayment toward purchases of eligible antimalarials by first-line buyers. Through the copayment, the AMFm will reduce the prices that buyers pay for ACTs, but it will not subsidize manufacturers.

The AMFm has been approved by the Board of the Roll Back Malaria Partnership (RMP). The Board of the Global Fund to Fight AIDS, Tuberculosis and Malaria approved a decision to host and manage the AMFm in November 2007. It is projected to be operational in 2009.

Further information: http://rbm.who.int

Reading: AMFm Task Force of the Roll Back Malaria Partnership 2007

Arms Trade Tax

The Arms Trade Tax is a proposal for a global tax to reduce trade in arms and raise money for development, disarmament, or compensation of victims. A number of objections have been raised against such a tax, including difficulties in achieving compliance; tax evasion; creating an incentive for increased illicit trade in arms; and the likelihood that developing countries, as the purchasers of armaments, would have to pay a substantial part of the tax.[77]

Reading: Brzoska 2004

See also: Global taxes

Auctioning/Sales of Emission Permits

One source of funds from cap and trade mechanisms is the auctioning or sales of emission permits. For example, EU Allowances (EUA) under the European Unions European Trading System may be auctioned or otherwise sold rather than being distributed to emitters. The proceeds could be directed to financing international development.

An EU Directive recommends that at least half the revenue should be used to fight and adapt to climate change and lists a number of purposes, mainly within the EU, but also in developing countries.[78] Between January 1, 2008, and November 14, 2008, Germany sold a total of 40 million EU allowances with an overall value of €933.3 million.[79] Germany decided a "share of the income, Euros 120 million in 2008, will be invested in international climate protection measures in developing countries. This share will be and must be increased in subsequent years."[80] Also, the United Kingdom and Austria have auctioned emission permits.[81] In general, under the EU Emissions Trading Scheme, for the first years the majority of the emissions permits are supposed to be allocated for free. However, the latest EU Commission proposal suggests that from 2013 full auctioning is to be the rule for the power sector and allocating for free is to be phased out for industry over the 2013–20 period.[82]

Further information: http://www.bmz.de/en/approaches/bilateral_development_cooperation/approaches/joint-financing/innovative_funding_instruments/index.html
http://ec.europa.eu/environment/climat/emission/auctioning_en.htm

See also: Cap and Trade

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[77] Brzoska 2004.
[78] http://ec.europa.eu/environment/climat/emission/auctioning_en.htm.
[79] http://www.bmu.de/files/pdfs/allgemein/application/pdf/jahresbericht_kwf_08_en.pdf.
[80] http://www.bmz.de/en/approaches/bilateral_development_cooperation/approaches/joint-financing/innovative_funding_instruments/index.html.
[81] http://ec.europa.eu/environment/climat/emission/auctioning_en.htm.
http://www.defra.gov.uk/environment/climatechange/trading/eu/operators/auctioning.htm.
[82] http://ec.europa.eu/environment/climat/emission/auctioning_en.htm.

Aviation Taxes

There have been several proposals for indirect taxes, or equivalent charges, on international aviation, from regional and global taxes to coordinated taxes whose proceeds are earmarked toward development—as implemented with the Solidarity Levy on Airline Tickets. Several arguments favor an aviation tax: it would earn a double dividend, raising funds and also internalizing the costs of emissions. "The indirect tax burden on international aviation is very low, yet aviation contributes significantly to border-crossing environmental damage, is just as proper an object of taxation as any other commodity, and incipient tax competition is likely to result in these taxes being set at inefficiently low levels."[83] A variety of tax bases have been proposed, including taxing aviation fuel, ticket values, and departure/arrival taxes.

Reading: Keen and Strand 2007, Müller and Hepburn 2006

See also: Solidarity Levy on Airline Tickets
Global Taxes

Beneficiary Pays Instrument

See: Payments for Services

Blending Loans and Grants

Blending loans and grants, also called blending arrangements, potentially increases the volume and impact of development finance. Blending loans and grants means adapting the level of concessionality of funding to the recipient's needs, thereby using funds in the most careful and economical way. Reasons for blending include: global or regional externalities that justify additional support to a country, debt distress, and targeting key sectors as part of the push to achieve the Millennium Development Goals.[84] IBRD and IDA buy-downs are blending arrangements.

Reading: Development Committee 2005

See also: Buy-Downs

Blended Value

Blended value refers to blending individual, profit-maximizing, or commercial objectives with philanthropic objectives.

See also: Blended Value Products
Blended Value Investing

Blended Value Investing

Blended value investments blend profit and philanthropic objectives for investments by aiming for financial returns and, at the same time, supporting noncommercial. Social responsible investments, impact investments, and program related investments can be considered examples of blended value investments.

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[83] Keen and Strand 2007.
[84] Development Committee 2004.

Further information: http://www.blendedvalue.org

Reading: Brainard 2006, Global Foundation Leaders Advisory Group 2005, World Economic Forum 2006

See also: Socially Responsible Investments
Impact Investments
Program Related Investments

Blended Value Products

Blended value products stimulate voluntary contributions from individuals by combining consumption with charity. Consumers make small contributions proportionate to their purchases. Examples are (PRODUCT)RED and the Visa GreenCard. Blended value products are similar to voluntary solidarity contributions. The difference is that the contribution of blended value products is included in the price of the product while voluntary solidarity contributions offer consumers with the option to make a voluntary contribution while purchasing.

Further information: http://www.joinred.com
http://www.theglobalfund.org/en/partners/private/red/
https://www.visagreencard.nl/

See also (PRODUCT)RED
Voluntary Solidarity Contributions

Buy-Downs

Buy-downs (also called "credit buy-downs" or "loan buy-downs) are a combination of a loan to a developing country and a donor commits to buy down the loan, effectively transforming it to a grant. In some cases a buy-down is a blending arrangement that increases the level of concessionality of loans. Examples are IBRD buy-downs. In other cases, the instrument, such as IDA buy-downs, is linked to results. The commitment to buy-down the loan is triggered by predefined results that have to be achieved. The developing country receives funds up front and has the insurance that, with successful implementation, a donor will cancel the debt.

An IBRD-buy-down for a TB project in China piloted this tool in 2003. The objective was to increase loan concessionality in response to China's graduation from IDA and its refusal to borrow on IBRD terms for the health sector. DFID grant funds were combined with IBRD into a single stream, which reduced the cost of borrowing to roughly 2 percent. This was followed by two additional buy-down arrangements in China, one for education and one for rural development.

Results-based IDA buy-downs were initially piloted in Pakistan and Nigeria in projects supporting polio eradication, spurred by the global public good character of this initiative. A total of eight credits, including supplemental credits, are expected to include buy-downs with funding from the Gates Foundation, the United Nations Foundation, Rotary International, and the U.S. Centers for Disease Control**.** Seven of these have been approved (for a total of approximately US$240 million).

Reading: Development Committee 2004, Hecht and Shah 2006

See also: Results-Based Financing
Blending between loans and grants

Cap and Trade

Cap and trade (also called emissions trading) is a mechanism that sets a cap on emissions and allows emitters to trade their contingencies. Contingencies are set by a central authority, such as a government or international body and can be either auctioned, sold, or allocated for free to emitters. A cap and trade mechanism sets a price on a negative externality, and thereby internalizes it.

Funds from cap and trade mechanisms for developing countries may result from two sources. First, countries can charge the private sector for carbon emissions and auction or sell emissions permits and then may transfer the proceeds to developing countries as development assistance (see Auctioning/Sales of Emissions Permits.). Second, cap and trade mechanisms may allow for trading carbon emissions certificates internationally. Emitters can support emissions reductions projects in developing countries to offset their emissions (see Carbon Funds). Furthermore, cap and trade mechanisms produce double dividends by raising funds and internalizing a negative externality.

Further information: http://unfccc.int

Reading Capoor and Ambrosi 2008, Olsen 2007, Sandmo 2005

See also: Auctioning/sales of Emission Permits
Carbon Funds

Carbon Funds

Typically, carbon funds work as intermediaries that purchase project-based GHG emission reductions on behalf of governments and private sector companies in developed countries from low-carbon projects in developing countries. Emission reductions are distributed to the Carbon Fund’s participants according to their contribution. The World Bank acts as trustee of its carbon funds, which purchase project-based emission reductions generated under the framework of the Kyoto Protocol’s flexible mechanisms (i.e., the Clean Development Mechanism and the Joint Implementation).

Further information: http://carbonfinance.org

Reading: Capoor and Ambrosi 2008

See also: Cap and Trade

Carbon-Linked Bonds

The performance of carbon-linked bonds (also called carbon-indexed bonds) depends on the development of the carbon markets. In 2008, the World Bank issued a carbon-linked bond. “By purchasing this bond, investors can indirectly participate in the market for GHG emission reductions. Investors will also be supporting demand for CERs generated from a specific

UNFCCC-registered clean energy project. The market for CERs contributes to a reduction of global greenhouse gas emissions and the transition to a low carbon growth economy."[85]

See also: Indexed Bonds

Carbon Tax

The carbon tax is a tax that could be imposed by an international organization, a country, or a subnational governance body on GHG emissions in an area. If imposed by an international organization, a carbon tax would be a global tax. A global carbon tax addresses negative externalities from greenhouse gas emissions, a global public bad. A carbon tax could serve as an alternative implementation of the Kyoto Protocol's Cap and Trade system.

Reading: Hoel 1992, Pearce 1991, Sandmo 2005

See also: Cap and Trade
Global Taxes

Caribbean Catastrophic Risk Insurance Facility (CCRIF)

The CCRIF is a parametric insurance facility, owned, operated, and registered in the Caribbean for Caribbean governments. It insures government risk and is designed to limit the financial impact of catastrophic hurricanes and earthquakes to Caribbean countries by quickly providing short-term liquidity when a policy is triggered. It is the world's first regional insurance fund, giving Caribbean governments the unique opportunity to purchase earthquake and hurricane catastrophe coverage not available elsewhere and with lowest-possible pricing. The CCRIF represents a paradigm shift in the way governments treat risk, with Caribbean governments leading the way in predisaster planning.

In June 2007, at the start of the Atlantic Hurricane Season, the CCRIF was launched. By pooling their risk, the governments saved approximately 40 percent on what each would have paid had they negotiated individually through commercial insurance markets."[86]

Further information: http://www.ccrif.org/

Cash on Delivery

Cash on Delivery (or payments for progress) are a proposal for a results-based financing instrument by the Washington-based Center for Development. Donors would commit to pay a specific amount for evidence of progress toward agreed development goals. "For example, donors could promise to pay governments $20 for every child that is vaccinated, or $100 for every child that completes primary school beyond the number that completed school in 2000, or $200 for every primary school graduate who passes a competency test. In contrast to output-based aid, payments would be made against 'progress' toward a goal, not against a prespecified 'result' or 'goal' *per se*."[87] Developing country governments would report their progress and donors would pay the agreed amount accordingly. Performance-based aid links financing to results and can be viewed as a form of results-based financing.

[85] http://treasury.worldbank.org/Services/Capital%2bMarkets/News+for+Investors/CO2LBond.html.
[86] http://www.ccrif.org/main.php?main=9.
[87] Barder and Birdsall 2006.

Reading: Barder and Birdsall 2006

See also: Results-Based Instruments

Catastrophe (Cat) Bonds

Catastrophe or cat bonds are risk-linked securities that transfer a specified set of risks to investors. Cat bonds require the bondholders to forgive or defer some or all payments of principal or interest if actual catastrophe losses exceed a specified amount, or trigger. Catastrophe bonds have traditionally covered natural disasters.

Reading: Cummins and Mahul 2008, Doherty 1997, Hofman and Brukoff 2006

Catastrophe Deferred Drawdown Option (CAT DDO)

A CAT DDO is a committed credit line for catastrophe risk by the World Bank. It acts as a source of bridge financing that may be disbursed partially or in full if the country declares a state of emergency as a result of a natural disaster. This will allow the country to maintain its development programs while mobilizing other sources of funding to address the emergency.

Further information: http://treasury.worldbank.org

Reading: Cummins and Mahul 2008

See also: Deferred Drawdown Option

Catastrophe Swap

A catastrophe swap exchanges a fixed payment for a part of the difference between insurance premiums and the losses caused by insurance claims.

Reading: Cummins and Mahul 2008, Torre-Enciso, et al. 2003

Challenge Grant

A challenge grant conditions eligibility to receive a grant on predefined conditions. The Millennium Challenge Account is an implementation of the concept by the U.S. Government.

See also: Millennium Challenge Corporation

Commodity-Indexed Bond

A commodity indexed bond is a bond whose repayments are linked to the price of a commodity. Commodity linked bonds allow the issuer to mitigate the risk of changing commodity prices. For example, a bond linked to changes in oil prices allow oil producers (or oil producing countries) to hedge their risk of not being able to repay a loan as a result of falling oil prices.

Reading: Atta-Mensah 2004

See also: Indexed Bonds

Concessional Loan

A concessional loan is a loan with a grant element. Conceptually, the measure of concessionality, or grant element, involves calculating the difference between the face value of a loan and the present value (or economic value) of debt service repayments, expressed as a percentage of the face value of a loan. For the purposes of classifying ODA, loans have been categorized as concessional by the OECD if their grant element exceeds 25 percent, using a fixed 10 percent discount rate in the present value calculation.

See also:	Grant Loan Blending loans and grants

Conditional Cash Transfers (CCTs)

Conditional cash transfers provide money to individuals or families contingent on certain behavior, such as sending children to school or bringing them to health centers. CCTs strengthen the demand side of social services and complement health, education services, and other services.

Further information:	http://go.worldbank.org/BWUC1CMXM0
Reading:	De Janvry, et al. 2006; De Janvry and Sadoulet 2006; Fiszbein, et al. 2009, Heinrich 2007; Rawlings and Rubio 2005; Skoufias, et al. 2006
See also:	Results-Based Financing Results-Based Instruments

Contingent Loan

A contingent loan (or contingent credit) is a financing instrument through which funding for a specific previously defined event is provided after such event occurs. Deferred Drawdown Options on World Bank loans are an application of contingent loans. Also, the International Monetary Fund Exogenous Shocks Facility provides financing continent to exogenous macroeconomic shocks.

Reading	Cummins and Mahul 2008
See also:	Deferred Drawdown Options Cat Deferred Drawdown Options IMF Exogenous Shocks Facility

Cool bonds

Cool bonds are five-year, USD-denominated notes paying a coupon of 3 percent for an initial period, and a variable coupon amount for the remaining maturity of the note tied to Certified Emission Reductions (CERs) generated by specified greenhouse gas–reducing projects in China and Malaysia. IBRD counterparties hedging exposure to CERs contributes to expansion of carbon markets. Daiwa Securities and Mitsubishi UFJ Securities distributed the notes to Japanese investors.

Further information:	http://treasury.worldbank.org/Services/Capital+Markets/News+for+Investors/CO2LBond.html

Corporate Social Responsibility (CSR)

Corporate Social Responsibility (CSR) is an umbrella term that means taking corporate responsibility for the impact of the company's activities on all stakeholders: customers, employers, suppliers, shareholders, community, and environment. It includes sponsoring and philanthropy, ethical products, and pro bono activities.

Counter-Cyclical Loan (CCL)

A counter-cyclical loan is a proposed concessional loan that adapts sovereign debt-service obligations to their ability to meet these obligations, as measured by their export earnings. The proposed loan would have the grace period reduced period from 10 years to 5 years. The remaining grace period would be used as an asset the country can draw upon when a bad shock occurs.

Reading: Cohen, et al. 2008

See also: GDP-indexed Bond

Currency Tax

The currency tax (also known as currency transaction tax or Tobin Tax) is a levy on international foreign exchange transactions. There have been several concrete proposals for a currency tax. The first proposals addressed market instability; later proposals were seen as a source to finance the Millennium Development Goals and global public goods.

Tobin Tax: Originally, a currency tax was proposed by the economist James Tobin not primarily for its potential revenues but for its ability to stabilize currency markets. It would do so by imposing a tax high enough to limit speculation on currency fluctuations.

Regional proposals: Some proposals suggested starting to implement regional solutions in order to show the feasibility of the concept. The currency transaction tax would be implemented only for one country or within one region and only for one currency. A euro and a sterling tax have been proposed.[88]

Currency Transaction Tax: At the financing for development conference in Doha in November 2008 a currency transfer tax has been proposed.[89] The tax would generate significant revenues of about US$30 to US$60 billion per year but the proposed tax rate of 0.005 percent would be too small to distort or even influence the market for currency transactions. Implementation is considered to be feasible because the market is fully electronic and tax collection would be computerized.

Currency Transaction Levy: Recently, a Currency Transaction Tax that would be voluntarily adopted by some countries, has been called a "Currency Transaction Levy."

Reading: Development Committee 2004, Hillman, et al. 2006, Nissanke 2005, Schmidt 1999, 2007, Spahn 2002, Spratt 2006a, 2006b, Tobin 1996

See also: Global Taxes

[88] Spratt 2006a, 2006b.
[89] http://www.internationalhealthpartnership.net/pdf/IHP%20Update%2013/. Taskforce/Stamp%20Out%20Poverty%20presentation%20-%20Doha%20Side%20Event.pdf.

De-Tax

De-Tax is a proposal combining two elements: (i) participating governments would waive the value-added tax (VAT) by 1 percent on the overall price of any good or service sold by sellers associated with the initiative; (ii) sellers would—on a voluntary basis—waive a share of their profit on designated transactions. A special fund would benefit from the 1 percent of VAT from governments as well as related seller contributions.

See also: Global Taxes

Debt Reduction Facility (DRF) for IDA-Only Countries

The World Bank's Debt Reduction Facility (DRF) for IDA-Only Countries was established in July 1989. It provides grants to eligible countries to buy back at a deep discount their public and publicly guaranteed commercial external debt. To date, the DRF has supported 24 operations in 21 IDA-only countries, extinguishing about US$4.8 billion of external commercial debt principal and an estimated US$4.2 billion of associated interest arrears and penalties. The DRF has become one of the key instruments to facilitate the participation of commercial creditors in the delivery of HIPC Initiative debt relief.

Further information: http://go.worldbank.org/2CRHS4N500

See also: Debt Relief

Debt Relief

"Debt relief is any form of debt reorganization which relieves the overall burden of debt."[90] Since World War II, industrialized countries have entered into debt rescheduling agreements. Later, through the Paris Club, they also agreed to provide concessional treatment (i.e., a treatment that implies a reduction in the Net Present Value of the consolidated debts) to debt owed by highly indebted countries. In recent years, two major debt relief initiatives have been launched namely, the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI). These two initiatives are the first ones to include multilateral debt relief. Debt relief instruments include debt swaps and debt buy-backs.

Further information: http://go.worldbank.org/KNZR2IIQG0

See also: Debt Reduction Facility
Debt Swaps
Heavily Indebted Poor Countries (HIPC) Initiative
Multilateral Debt Relief Initiative (MDRI)

Debt for Nature Swaps

In debt-for-nature swaps, a portion of a country's foreign debt is forgiven in exchange for local investments in conservation measures. Usually, an international NGO purchases debt titles on the secondary market. The NGO transfers the debt title to the debtor country. In exchange the country agrees to either carry out environmental policies or endow a government bond with the aim of funding conservation programs.

[90] http://stats.oecd.org/glossary/detail.asp?ID=558.

Reading: Deacon and Murphy 1997, Hansen 1989

See also: Debt Swap

Diaspora Bonds

A diaspora bond is a sovereign debt instrument to raise financing from a country's overseas diaspora. Israel and India have raised US$35–$40 billion with diaspora bonds. Diaspora bonds can have two objectives: they can keep the diaspora affiliated with their original home country and they can offer countries possibilities to raise funds that are partially concessional because a diaspora member is likely to accept under-market interest rates for patriotic reasons.

Reading: Chander 2001, Ketkar and Ratha 2007

Debt2Health

Debt2Health is a debt conversion scheme piloted by Germany, Indonesia, and the Global Fund to Fight AIDS, Tuberculosis and Malaria. In the first Debt2Health operation, Germany cancelled Indonesian debts of €50 million, Indonesia paid €25 million to the Global Fund, and the Global Fund in turn agreed to spend this contribution on projects in Indonesia. The novel aspect of this mechanism is that a multilateral organization can more ensure appropriate usage of funds received from debt conversion. Another Debt2Health Swap with Pakistan, Germany, and the Global Fund has been implemented. Debt2Health initiatives with Kenya and Peru and the Global Fund and Germany are planned.

Further information: http://www.theglobalfund.org/en/funds_raised/innovative_financing/initiatives/debt2health/

Reading: Cassimon, et al. 2008

See also: Debt Swap
Debt Relief

Debt Swap

A debt swap (also called debt-for-development swaps) provides development financing "through the exchange of a foreign-currency-denominated debt for local currency, typically at a substantial discount. The process normally involves a foreign NGO that purchases the debt from the original creditor at a substantial discount using its own foreign currency resources, and then resells it to the debtor country government for the local currency equivalent (resulting in a further discount). The NGO in turn spends the money on a development project, previously agreed upon with the debtor country government."[91]

Reading: Edwards 1992, Kaiser, et al. 1996

See also: Debt2Health
Debt Relief

[91] OECD Glossary of Statistical Terms: http://www.imf.org/external/pubs/ft/eds/Eng/Guide/index.htm.

Deferred Drawdown Option (DDO)

A Deferred Drawdown Option is an option to a contingent IBRD loan that gives middle income countries flexibility and options to deal with adverse events such as natural catastrophes, downturns in economic growth, or adverse changes in commodity prices or terms of trade. The product gives the borrower the option of deferring disbursements of a loan for up to three years, provided that overall program implementation and the macroeconomic framework remain adequate. Exercising the DDO would give borrowers access to long-term IBRD resources if market borrowing becomes difficult and a financing need materializes.[92]

Further information: http://treasury.worldbank.org

See also: Cat Deferred Drawdown Option
Contingent Loan

Digital Solidarity Levy

The digital solidarity levy is a proposal for a semi-obligatory levy on public entities' information and communication technology (equipment, software, services, etc.). Public institutions including national and subnational governments and private companies obligate themselves to pay 1 percent of the contract value of procurement of information and communication technology to the Digital Solidarity Foundation. Senegal is the first national government that applies this so-called "1% digital solidarity principle" to its procurements.

Further information http://www.digital-solidarity.org

Reading: Weber and Menoud 2008

Eco notes

Eco notes are six-year Euro-denominated notes issued by IBRD with a coupon of 3 percent plus a potential additional return linked to an ABN-Amro index of "green" equities. The notes raised funds for IBRD at attractive rates, while raising awareness for funding "green" activities. At the same time, hedging activities of IBRD's swap counterparties supported capital to "green" companies in the index. Eco notes are a form of socially responsible investing.

See also: Sustainable Investing

Emissions Trading

See: Cap and Trade

Enhanced Heavily Indebted Poor Countries (HIPC) Initiative

In 1996, the World Bank and IMF launched the HIPC Initiative to create a framework in which all creditors, including multilateral creditors, can provide debt relief to the world's poorest and most heavily indebted countries, and thereby reduce the constraints on economic growth and poverty reduction imposed by the debt-service burdens in these countries. The Initiative was modified in 1999 to provide three key enhancements: Deeper and broader relief, faster relief, and stronger link between debt relief and poverty reduction. To date, 35 HIPC countries have reached their decision points, of which 24 have reached the completion point.

[92] http://treasury.worldbank.org/Services/Financial+Products/FAQs/Deferred+Drawdown+Option.html.

Further information: http://go.worldbank.org/YJUSTQSGG1

Reading: International Development Association and International Monetary Fund 2008, World Bank Independent Evaluation Group 2006

See also: Debt relief
Multilateral Debt Reduction Initiative (MDRI)

European Union MDG Contract

The European Union MDG Contract is a form of budget support launched in 2008 with three key features: (i) It is more predictable and provides longer term (six years) support; (ii) it provides flexibility as it is fixed for the first three years, but may be adjusted in the second half of the term following a mid-contract review of performance with respect to MDG-related indicators; and (iii) it is performance based, because "in case of unsatisfactory trends in the eligibility areas for budget support, macroeconomic stability, public financial management and implementation of poverty reduction strategy, the temporary withholding of a limited share of the annual allocation until the re-establishment of a satisfactory trend would be possible if considered necessary to support the dialogue process."[93]

Further information: http://ec.europa.eu/development/how/aid/mdg-contract_en.cfm

GDP-indexed Bond

A GDP-indexed bond is a sovereign bond whose interest rate and/or repayments vary with a country's rate of economic growth. If economic growth is low, interest and/or principal payments are low; if it is high, interest payments are high. Therefore, countries with poor economic performance which are less likely to be able to serve their debt face a lower burden from serving GDP-indexed bonds. The instrument allows to hedge debt payments against economic recessions. The first GDP-indexed bond was issued by Bulgaria in 1994, followed by other countries.

Reading Borensztein and Mauro 2004, Borensztein and Mauro 2002, Griffith-Jones and Sharma 2006, Shiller 2003b, 2005

See also: Indexed Bonds

Global Emerging Markets Local Currency Bond Program (Gemloc)

Gemloc is a US$ 5 billion local currency bond for investment in up to 40 emerging bond markets,[94] launched in October 2007 by the World Bank Group together with private partners. Gemloc supports the development of local currency bond markets in developing countries. The objective is that more institutional investment from local and global investors can flow into local currency bond markets.

Further information: http://www.gemloc.org

See also: Local Currency Lending

[93] http://ec.europa.eu/development/how/aid/mdg-contract_en.cfm.
[94] Grant 2007.

Global Development Bond

A Global Development Bond would mobilize private capital investment to developing countries. Certain risks of the bond would be mitigated through guarantees or insurance by governments or agencies. The bond would "not work like foreign aid or other public sector funding (trade, investment, risk mitigation) programs, but will complement them, leverage their funds and further their goals."[95]

Reading: Eckhart 2004

Global Lottery

National lotteries are a source of income for national charities. A global lottery would direct the proceeds from a lottery towards international development. Two forms of a global lottery have been proposed: (i) an international agency would organize a new and genuinely international lottery; or (ii) or an international agency would receive a share of proceeds from national lotteries.

Reading: Addison and Chowdhury 2005, Morgan 2000

See also: Global Premium Bond

Global Premium Bond

A premium bond (or lottery bond is a proposal for a debt instrument whereby people buy savings bonds that do not disburse the interest proceeds but interest proceeds are paid into a lottery. The winners of that lottery would receive payments. Two proposals for a Global Premium Bond exist: (i) A single global bond or coordinated national bonds would direct a share of the proceeds of the lottery toward development. The bond would not lend to developing countries. (ii) A single global bond or coordinated national bonds would lend directly to developing countries. These would receive financing for more favorable term because premium bonds usually pay lower interest to investors than comparable conventional bonds. Investors would have to bear the developing country credit risk.

Reading: Addison and Chowdhury 2005

Global Taxes

A number of global taxes have been proposed, including carbon and other environmental taxes; aviation taxes on the ticket price, flight distance, or jet fuel; a currency tax (the original currency tax proposal was the Tobin Tax); a tax on arms trade; a tax on international shipping; a trade tax on internationally traded goods; a surtax on profits of multinational corporations; a tax on financial transactions of bonds, stocks, and derivatives; a surcharge on domestic taxation; charges on use of outer space, such as a satellite tax; charges on information exchange: mail, telecommunication, or the Internet (bit tax); royalties on minerals mined in international waters; charges for exploration in or exploitation of Antarctica; charges for fishing in international waters; charges for the use of the electromagnetic spectrum.

The proposed global taxes vary in their ambition of including a great number of countries and of being a true tax with obligatory long-term payments. Usually, a tax is considered an obligatory

[95] Eckhart 2004.

mechanism imposed on the payer of the tax. Some of the global tax proposals are regional, such as a proposed tax on currency transactions within the Euro area. Others are solidarity contributions of countries that voluntarily are implementing the tax, such as the Solidarity Levy on Airline Tickets. Recently, globally coordinated and nationally on a voluntary basis implemented taxes have been called "levies" or "solidarity levies" The 2 percent levy on carbon finance for the Adaptation Fund currently is an obligatory tax on the issuance of Certified Emissions Reduction under the Kyoto Protocol.

Global taxes deliver stable and predictable long-term funding to finance international development. Most global tax proposals are designed to raise additional financing and, at the same time, produce a "double dividend" by offsetting a global public bad.

Reading: Boadway 2005, Development Committee 2004, 2005, Frankman 1996, Mendez 1992, Technical Group on Innovative Financing Mechanisms 2004, Wachtel 2000, Zedillo and High-level Panel on Financing for Development 2001, Zee 2006

See also: Adaptation Fund
Arms Trade Tax
Aviation Tax
Cap and Trade
Carbon Tax
Currency Tax
Digital Solidarity Levy
Solidarity Levy on Airline Taxes
Solidarity Levies

Grant

In development finance a grant is defined as a transfer made in cash, goods, or services for which no repayment is required.[96]

Green bonds

Green bonds are six-year, Swedish kronor notes paying investors a 3.5 percent annual interest rate and raising funds at a spread of 0.25 percent over comparable-maturity Swedish government paper issued by IBRD. They enabled IBRD to raise funds at an attractive cost despite the challenging market environment. Skandinaviska Enskilda Banken (SEB) underwrote the issue and distributed mainly to Scandinavian institutional investors, who were attracted to the investment because the proceeds would be credited to a special account at IBRD that supports World Bank loan disbursements on qualifying climate change mitigation and adaptation projects. Green bonds are a form of socially responsible investing.

Further information: http://treasury.worldbank.org/Services/Capital+Markets/News+for+Investors/GreenBond.html

See also: Sustainable Investing

[96] OECD: http://stats.oecd.org/glossary/detail.asp?ID=1143.

Guarantees

A guarantee is an agreement by a guarantor to assume the responsibility for the performance of an action or obligation of another person or legal entity by agreeing to compensate the beneficiary in the event of nonperformance. In development finance it is mostly an instrument that mitigates political, regulatory, and foreign exchange risks of investors including the risk of expropriation and nationalization without compensation, war, and restrictions on the conversion of currencies. Both, equity and debt investments can be guaranteed.[97] The terms of a guarantee can cover the whole or only a partial risk in the event of nonperformance.

The World Bank offers three kinds of guarantees:

– Partial Risk Guarantees (PRGs) cover private lenders against the risk of a public entity failing to perform its obligations with respect to a private project. PRGs ensure payment in the case of default resulting from the nonperformance of contractual obligations undertaken by governments or their agencies in private sector projects.
– Partial Credit Guarantees (PCGs) cover private lenders against all risks during a specific period of the financing term of debt for a public investment. PCGs are specially designed to extend maturity and improve market terms.
– Policy-Based Guarantees (PBGs) help to improve governments' access to capital markets in support of social, institutional, and structural policies and reforms. PBGs are offered to countries with a strong track record of performance with a satisfactory social, structural, and macroeconomic policy framework and a coherent strategy for gaining (or regaining) access to international financial markets.

Further information: www.worldbank.org/guarantees/
www.miga.org

Reading: Winpenny, et al. 2005

HIPC

See: Enhanced Heavily Indebted Poor Countries (HIPC) Initiative

IMF Exogenous Shocks Facility (ESF)

"The Exogenous Shocks Facility (ESF) provides policy support and financial assistance to low-income countries facing exogenous shocks." After some modifications in September 2008, the ESF has two components: (i) "A rapid-access component under which a country can access fairly quickly, up to 25 percent of its quota for each exogenous shock;" and (ii) "a high-access component…with access up to 75 percent of quota for each arrangement in normal circumstances." Access will be determined on a case-by-case basis and the conditionality is tailored to IMF members' needs and circumstances.[98]

Further information: http://www.imf.org/external/np/exr/facts/esf.htm

Reading: Bulir and Hamann 2006

See: Contingent loans

[97] World Bank guarantees only cover debt, although a "deemed loan" special scheme can cover equity.
[98] http://www.imf.org/external/np/exr/facts/esf.htm.

Impact Investments

Impact investments generate both social value and financial returns. "Impact investment is private equity, debt and/or real estate investment that generates measurable financial as well as social or environmental returns beyond comparable industry standard investments. Impact investors and their investees explicitly seek to generate both financial and these extra-financial returns."[99] The difference to social responsible investing is that investors search for investment opportunities that actively seek impact. A recent report estimates that impact investing could grow to 1 percent of total professionally managed assets within the next five to ten years with a market of about US$500 billion.[100]

Examples include microfinance bonds, which securitize micro credits and sell them on the international capital markets or direct investments in microfinance institutions; the Media Development Loan Fund (MDLF), which invests in media institutions in emerging markets; and a US$500 million equity investment fund to invest in companies in the health sector, which IFC plans to set up. New communication technology also enables person-to-person socially responsible investments. Kiva.org (without interest payments) and MyC4.com (partially concessional with lower than market rate interest payments) allow investors to give micro loans directly to entrepreneurs in developing countries on a personal basis.

Further information:	http://www.mdlf.org http://www.kiva.org http://www.myC4.com http://www.rockfound.org/efforts/impact_investing/impact_investing.shtml
Reading:	Monitor Institute 2009
See also:	Blended Value Investments Person-to-Person Giving

Index-based Insurance

See:	Parametric insurance

Indexed Bonds

Indexed bonds tie the performance (schedule or amount of payment of interest and/or of repayment of principal) to the performance of an index. The instrument allows debtors to hedge against risks deriving from fluctuations of the index. Common indices are inflation and GDP but also a carbon-indexed bond has been piloted by the World Bank in cooperation with a private sector partner.

Reading:	Fischer 1975, Shiller 2003b, 2005
See also:	Carbon-indexed Bonds Commodity-indexed Bonds GDP-indexed Bonds Inflation-indexed Bonds

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[99] http://www.rockfound.org/efforts/impact_investing/RIIC_recommendations_final.pdf.
[100] Monitor Institute 2009.

Inflation-Indexed Bonds

An inflation-indexed bond's performance is tied to the inflation rate. An inflation-indexed bond would allow investors to make investments that are independent from inflation.

Reading: Shiller 2003a, Wrase 1997

See also: Indexed Bonds

Insurance

Risk-transfer mechanism that fully or partially compensates for the loss or damage caused by the insured event. In general insurance, compensation is normally proportionate to the loss incurred.

See also: Parametric insurance

International Finance Facility (IFF)

The International Finance Facility (IFF) is a proposal for a frontloading instrument of future development aid by the United Kingdom. The IFF relies on long-term ODA commitments as assets that underpin the issuance of bonds in the international capital markets and leverage immediate resources for development assistance. The result of an IFF is the frontloading of future development assistance. It was first proposed in 2003 as an instrument to help fill the financing gap for the Millennium Development Goals and at the same time respond to near-term fiscal constraints facing donors.

A first IFF has been piloted with the IFF for Immunisation (IFFIm). Other proposals have included an IFF for adaptation to climate change[101] and an IFF for mitigation adaptation and clean technology.[102]

Further information: http://www.hm-treasury.gov.uk/press_21_03.htm

Reading: Conceição, et al. 2005; Development Committee 2004; HM Treasury 2004; Mavrotas 2005; Tang and Yeoh 2007; World Business Council for Sustainable Development and World Economic Forum 2007

See also: International Finance Facility for Immunisation (IFFIm)

International Finance Facility for Immunisation (IFFIm)

The International Finance Facility for Immunisation (IFFIm) is an IFF supported by long-term, legally binding grants from sovereign donors (France, Italy, Norway, South Africa, Spain, Sweden, and the United Kingdom). IFFIm was established as a new supranational in 2006, with some US$5 billion in assets paid over 20 years. IFFIm's first triple-A rated US$1 billion bond issuance funded immunization programs of the GAVI Alliance. The World Bank is IFFIm's Treasury Manager.

Further information: http://www.iff-immunisation.org/

[101] Tang and Yeoh 2007.
[102] World Business Council for Sustainable Development and World Economic Forum 2007.

Reading: Barder and Yeh 2006, Global Alliance for Vaccines and Immunization (GAVI) 2004, Lob-Levyt and Affolder

See also: International Finance Facility

Line of Sovereign Credit

A line of sovereign credit would provide automatic access to a line of credit at a predetermined interest rate. Whenever a country experiences liquidity problems it could draw from its line of credit. A line of credit would provide a country with flexible access to volatile and unpredictable demand for financing. Other than contingent loans, the access to funding through a line of sovereign credit would not be linked to exogenous shocks and triggers.

Reading: Cordella and Levy Yeyati 2006, Plaut and Melnik 2003

See also: Contingent loans

Loan

In development finance a loan (also credit) is defined as a transfer made in cash, goods, or services for which repayment is required.[103]

Local Currency Lending

Local currency lending refers to loans that are denominated in recipient countries currencies. (Traditionally, development assistance is denominated in donors' currencies). Local currency lending avoids currency risks of borrowers. Local currency bond markets for sovereign and private debt have developed quickly over the last years but are still not available for some of the least developed countries.

Further information: Burger and Warnock 2006, 2007

See Also: Global Emerging Markets Local Currency Bond Program (GEMLOC)

Macro Markets (Macro Derivatives)

In macro markets, claims on aggregate national incomes, fractions of the GDP, real estate, or income of various groups of a country are traded. Macro markets allow individuals to hedge against risks that derive from the macroeconomic environment (for example, personal income is correlated to GDP and expenses to housing prices).

Reading: Gürkaynak and Wolfers 2005, Jakab 2006, Shiller 1993, 2003b, 2005

Microfinance

Microfinance offers poor people access to basic financial services, such as loans, savings, money transfer services, and microinsurance. The roots of modern microfinance are in the 1970s when first programs in Bangladesh, Brazil, and a few other countries began to provide small loans to groups of poor women, using the group's savings as collateral. Different types of microfinance providers have emerged including nongovernment organizations; cooperatives; community-based development; commercial and state banks; insurance and credit card companies;

[103] OECD: http://www.oecd.org/glossary/0,2586,en_2649_33721_1965693_1_1_1_1,00.html#1965544.

telecommunications and wire services; and post offices. Today, multiple loan products are available: providing working capital for small businesses, larger loans for durable goods, loans for children's education, and loans to cover emergencies. Also, many microfinance providers have started to collect deposits.

Further Information: http://www.cgap.org/

Reading: Armendariz de Aghion and Morduch 2005, Hardy, et al. 2002, Pretes 2002, Roodman and Qureshi 2006, World Bank 2009

See also: Microinsurance

Microinsurance

Microinsurance provides protection of low-income people against specific risks, such as natural disaster and illness or death in exchange for regular premium payments, proportionate to the likelihood and cost of the risk involved. Often, microinsurance is an extension of existing microfinance provision or is coordinated with health care service delivery. Typical products are life insurance, health insurance, agricultural insurance, and livestock insurance.

Reading: Churchill, et al. 2006; Matthäus-Maier and Von Pischke 2008; Pui Lee, et al. 2000; Sabri 2003

Millennium Challenge Corporation (MCC)

The Millennium Challenge Corporation is a United States financing facility that offers poor countries challenge grants. Grants are provided only on measurable success in or progress toward achieving predefined objectives and targets having to do with good governance, economic freedom, and investments in people. Before a country can become eligible to receive assistance, MCC looks at their performance on independent and transparent policy indicators. MCC selects eligible countries for Compact Assistance. Countries that have demonstrated significant improvement in policy indicators but do not yet qualify for a Compact grant may be eligible for Threshold Program assistance.

Further information: http://www.mcc.gov

Reading: Brainard 2003, Radelet 2003

Minimum Volume Guarantee (MVG)

See: AccessRH

Multilateral Debt Reduction Initiative (MDRI)

At the July 2005 G8 Summit in Gleneagles, Scotland, G8 leaders pledged to cancel the debt of the world's most-indebted countries, the majority of which are located in Africa. The aim of this Multilateral Debt Relief Initiative (MDRI) was to reduce further the debt of HIPCs and provide additional resource to help them reach the Millennium Development Goals.

The MDRI is separate from the HIPC Initiative but linked to it operationally. Under the MDRI, three multilateral institutions—the World Bank's International Development Association (IDA), the International Monetary Fund (IMF), and the African Development Fund (AfDF)—provide

100 percent debt relief on eligible debts to countries having reached the HIPC completion point. In 2007, the Inter-American Development Bank joined IDA, IMF, and the AfDF. Unlike the HIPC Initiative, the MDRI does not involve participation of official bilateral or commercial creditors, or of multilateral institutions other than the above-mentioned.

Further information:	http://go.worldbank.org/QR2YE1KBV0
Reading:	International Development Association and International Monetary Fund 2008
See also:	Debt relief Enhanced Heavily Indebted Poor Countries (HIPC) Initiative

NetGuarantee

NetGuarantee is a proposal by Malaria NO MORE for a financing mechanism that would accelerate access to malaria prevention tools. It would allow procuring goods and services right after development aid has been committed, omitting the time lag of signing grant agreements. The procurement process for malaria tools usually starts 10 or more months after the Global Fund to Fight Aids, Tuberculosis and Malaria has approved a project because of the grant signature process.[104] NetGuarantee would provide guarantees on behalf of countries to issue procurement tenders before the grant has been signed. NetGuarantee would make development assistance available much faster.

Further information:	http://www.malarianomore.org/ http://www.rollbackmalaria.org/partnership/board/meetings/ppt/15pbm/s4_1.pdf

Official Development Assistance (ODA)

ODA consists of "grants or loans to…developing countries which are: (a) undertaken by the official sector; (b) with promotion of economic development and welfare as the main objective; (c) at concessional financial terms [if a loan, having a grant element (q.v.) of at least 25 per cent]."[105]

See also:	Concessional Loan Grant Loan

Output-Based Aid

"Output-Based Aid (OBA) is a strategy for using explicit performance-based subsidies to support the delivery of basic services where policy concerns would justify public funding to complement or replace user-fees. Affordability concerns for particular groups of users, positive externalities, or the infeasibility of imposing direct user-fees represent examples of the types of policy concerns that have motivated governments to use public funds to support the delivery of basic services. OBA involves delegating service delivery to a third-party, typically private firms, but also public utilities, NGOs, and community-based organizations, under contracts that tie disbursement of the

[104] http://www.rollbackmalaria.org/partnership/board/meetings/ppt/15pbm/s4_1.pdf.
[105] http://www.oecd.org/glossary/0,2586,en_2649_33721_1965693_1_1_1_1,00.html#1965586.

public funding to the services or outputs actually delivered."[106] Like results-based financing, output-based aid links financing to projects results.

Further information: http://www.gpoba.org

See also: Results Based Financing (RBF)

Parametric insurance

Parametric insurance (also called index-based insurance) does not indemnify the individual loss by the policyholder, but consists of an *ex ante* agreement to make a payment upon a parametric index that is assumed to proxy the actual loss. An example is weather insurance based on specific parameters, such as rainfall.

Reading: Cummins and Mahul 2008, Skees, et al. 2005

See also: Insurance

Partial Risk Guarantees (PRGs)

See: Guarantees

Partial Credit Guarantees (PCGs)

See: Guarantees

Patent Buy-Outs

In a patent buy-out a government offers a private holder of a patent a monetary compensation for transferring the property right to the public domain. Advanced commitments to patent buy-outs can spur investments and research and development into new technologies.

Reading: Hopenhayn, et al. 2006; Kremer 1998; Outterson 2006

See also: Prize
Advanced Market Commitment
Patent pool

Patent Pools

In a patent pool several companies cross-license their patents. Patent pools can help increase the access to research and development intense technologies, such as for affordable drugs and vaccines. Recently, UNITAID decided to establish a patent pool for medicines with an initial focus in the area of pediatric antiretrovirals (ARVs) and new combinations.[107]

Further information: http://www.unitaid.eu/

[106] http://www.gpoba.org/oba/index.asp.
[107] http://www.unitaid.eu/index.php/en/NEWS/UNITAID-moves-towards-a-patent-pool-for-medicines.html.

See also: Patent Buy-Out
Prizes
Advanced Market Commitment

Payments for Environmental Services (PES)

Payments for Environmental Services (PES) is a financing instrument that internalizes externalities in the environmental sector on a local basis. The underlying principle is that those who provide environmental services get paid for doing so ("provider gets") and those who benefit from environmental services pay for their provision ("user pays").

Further information: http://go.worldbank.org/51KUO12O50

Reading: Alix-Garcia, et al. 2008; Antle and Stoorvogel 2008; Bulte, et al. 2008a; Bulte, et al. 2008b; Graff-Zivin and Lipper 2008; Horan, et al. 2008; Pagiola, et al. 2005; Pagiola, et al. 2008; Wunder 2008; Zilberman, et al. 2008

Payments for Progress

See: Cash on delivery

Payments for Services

Payments for services also known as "beneficiary pays" instruments are direct payments for goods or services, by those who profit from their provision. Payments for services can be blended with other sources of financing, which subsidize them. Payments for services are an option when service benefits can be attributed to a person or organization and when those beneficiaries are financially strong enough to pay for the services.

See also: Payments for Environmental Services (PES)

Performance-Based Aid

Performance-based aid ties disbursement of funds to project or program performance. Major aid agencies with performance-based aid allocations include the International Development Association (IDA), the Global Fund to Fight Aids Malaria and Tuberculosis, and the GAVI Alliance. Performance-based aid links financing to results and can be viewed as a form of results-based financing.

See also: Results-Based Instruments

Performance-Based Grants (GAVI Alliance)

GAVI Immunisation Services Support (GAVI ISS) provides funding to countries on the basis of children the country has immunized. After an upfront investment phase, "countries are eligible to receive US$20 for each additional child they reach with three doses of diphtheria-tetanus-pertussis (DTP3) vaccine, as compared to the previous year's target. Thereafter, GAVI ensures transparency and accountability through an intensive proposal and performance review process, and an independent audit of each country's data collection and reporting system."[108] The example of GAVI ISS highlights one of the problems with performance-based aid, results-based financing,

[108] http://www.gavialliance.org/resources/ISS_evaluation.pdf.

and output-based aid: Financial flows are linked to the measurement of outputs. Recently, the GAVI ISS has been accused of being exploited through systematic overreporting.[109]

Further information: http://www.gavialliance.org/resources/ISS_evaluation.pdf

Reading: Lim, et al.

See also: Results-Based Instruments

Performance-Based Funding (Global Fund)

"The Global Fund was created around the concept of 'performance-based funding.' Essentially this means that only those grant recipients who can demonstrate measurable and effective results will be able to receive additional funding. In other words, initial funding is awarded solely on the basis of the technical quality of applications, but continued and renewed funding is dependent on proven results and targets achieved. In order to measure performance, the Global Fund has put in place a rigorous system of measurement and evaluation. This begins at the time a grant agreement is signed, when targets and indicators are agreed upon between recipients and the Global Fund. Results are tracked at every point in the process, from disbursement requests to performance updates and on through requests for continued funding at the two-year point of the grant. Since targets are set according to the resource levels and ambitions of each country, the Global Fund's performance-based funding system provides a platform for grant recipients to demonstrate—and prove—their achievements."[110]

Further information: http://www.theglobalfund.org/en/files/about/replenishment/berlin/Global_Fund_Backgrounder.pdf

See also: Results-Based Instruments

Performance-Based Funding (International Development Association)

"The main factor that determines the allocation of IDA resources among eligible countries is each country's performance in implementing policies that promote economic growth and poverty reduction. This is assessed by the Country Policy and Institutional Assessment (CPIA), which for the purposes of resource allocation is referred to as the IDA Resource Allocation Index (IRAI). The IRAI and portfolio performance together constitute the IDA Country Performance Rating (CPR). In addition to the CPR, population and per capita income also determine IDA allocations."[111]

Further information: http://www.worldbank.org/IDA

See also: Results-Based Instruments

Person-to-person (P2P) giving

Person-to-person (P2P) giving means that individual donors give directly to individual recipients. The internet expanded the use of P2P giving into new directions. For example, two online platforms that allow for direct microfinance investments to entrepreneurs in developing countries

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[109] Lim, et al.
[110] http://www.theglobalfund.org/en/files/about/replenishment/berlin/Global_Fund_Backgrounder.pdf.
[111] http://go.worldbank.org/F5531ZQHT0.

are Kiva.org (without interest payments) and MyC4.com (with partially concessional, lower than market rate interest payments).

Further information: http://www.kiva.org
http://www.myC4.com;

See also: Private Giving

PG4Health

PG4Health (formerly pledge guarantee) "is a global financing mechanism that will allow recipients of international donor assistance to obtain short-term commercial credit by essentially using their pending donor "pledges" as collateral…When disbursements do finally come through, the loan amount and associated costs are then simply deducted at the source, with the donor, in effect, paying off the loan. This innovative aspect of the Pledge Guarantee reduces risk, eliminates the need to tie up money in costly revolving funds, and makes possible more reliable and predictable funding flows."[112] PG4Health is a proposed financing mechanism for AccessRH.

Further information: http://www.rhsupplies.org/

Reading: Reproductive Health Supplies Coalition and Dalberg Global Development Advisors 2008

See also: AccessRH

Pledge Guarantee

See: PG4Health

Private Giving

Private giving or philanthropy means donating monetary funds, goods, services, time, and/or effort to support a socially or environmentally beneficial cause. By definition, there is no financial or material reward to the donor. Private giving generates substantial sources for development, estimated to be several billion of dollars annually. Estimates range from US$17 billion from DAC donors in 2001 to US$34 billion by the United States only (including faith-based organizations and education at universities within the United States) in 2007.

Reading: Brainard and Chollet 2008, Conceição and Merlen 2005, Development Assistance Committee 2003, Hudson's Center for Global Prosperity 2008, Koch 2008, Micklewright and Wright 2005, NCVO and CAF 2007, Scott 2003

Policy Based Guarantees (PBGs)

See: Guarantees

[112] http://www.rhsupplies.org/working_groups/systems_strengthening/global_financing_and_procurement.html.

Prizes

Prizes are an incentive to stimulate investment in research and development to meet a specified scientific or technological challenge. Prizes are awarded to an individual or organization that makes a predefined scientific discovery or develop a new technology.

In the area of development financing and financing global public good initiatives, such as the Bill and Melinda Gates Foundation's "Grand Challenges in Global Health" and the European Union's "Renewable Energy Partnerships" promise prizes of technological achievements.

Further information:	http://www.gcgh.org/ http://ec.europa.eu/energy/res/renewable_energy_partnerships/index_en.htm
Reading:	Harford 2008; Hopenhayn, et al. 2006; Leonardt 2007; Stiglitz 2006
See also:	Patent Buy-Out Patent Pools Advanced Market Commitment

Pro Bono Activities

Often, the private sector can be more effective providing goods and services rather than financial aid, using their capacity for the greater good by linking their activity to the cause they support and using pro bono activities to motivate their employees. A good example is Google, which gave 1 percent of its shares and is giving 1 percent of its profits to its foundation Google.org and encourages its employees to spent 1 percent of their time on charitable projects.

Further information:	http://www.google.org

(PODUCT)RED

(PRODUCT)RED is a successful example of Blended Value Products. It was launched in 2006 and raises funds for HIV/AIDS programs in Africa through the Global Fund to Fight AIDS, Tuberculosis and Malaria. Partner corporations including American Express, Apple, Converse, Dell, Emporio Armani, GAP, Hallmark, and Microsoft design and sell RED products and make corresponding contributions. By the end of 2008, contributions from corporate partners totaled more than $120 million.

Further information:	http://www.joinred.com http://www.theglobalfund.org/en/partners/private/red/
See also:	Blended Value Products

Program-Related Investments (PRIs)

"Program-related investments (PRIs) are investments made by foundations to support charitable activities that involve the potential return of capital within an established time frame. PRIs include financing methods commonly associated with banks or other private investors, such as loans, loan guarantees, linked deposits, and even equity investments in charitable organizations or in commercial ventures for charitable purposes."[113] Foundations, such as the Bill and Melinda Gates Foundation and Google.org, are leveraging their grants with PRI.

Further information: http://foundationcenter.org/getstarted/faqs/html/pri.html

See also: Blended Value Investments

Public-Private-Partnerships (PPP)

A Public-Private Partnership (PPP) involves the private sector in aspects of the provision of infrastructure and services that have traditionally been provided by the government.[114] Private companies finance projects and provide expertise to ease fiscal constraints and increase efficiency. By engaging the private sector and giving it defined responsibilities, governments broaden their options for delivering better services.

The range of options for Public-Private Partnerships has expanded enormously over the past 30 years. Agreements between public and private entities take many shapes and sizes for both new and existing services. At one end of the spectrum is a management or service contract, where a private company is paid a fee for a service. At the other end is full privatization or divestiture (outright sale), where a government sells assets to a private company. Outsourcing has become another popular option; here a private company might handle an aspect of service, such as billing, metering, transport, or even cleaning.

Hybrid models of Public-Private Partnership have seen explosive growth in recent years, especially with the development of a more diversified pool of emerging market investors and operators with local expertise. These models often rely on simpler contractual arrangements and blend public and private money to diversify risks.

In development finance, vertical funds with a governance structure that includes national governments and the private sector sometimes are called PPPs. Examples are the Global Fund to Fight Aids, Tuberculosis and Malaria and the GAVI Alliance.

Further Information: http://www.ppiaf.org

Reading: Engel, et al. 2007; Osborne 2000; Yescombe 2002, 2007

Remittances

Remittances from migrants to citizens in their home countries are considered as one of the main pillars of transfer of funds to developing countries. In 2007, documented remittances to developing countries were estimated to be about US$240 billion, with unreported remittances making that figure even larger. In some countries (Tajikistan, Moldova, Tonga) remittances make up one-third of the country's GDP.

Reading: Chami, et al. 2005; Maimbo and Ratha 2005; Ratha and Xu 2008; Solimano 2005

[113] http://foundationcenter.org/getstarted/faqs/html/pri.html.
[114] http://www.ppiaf.org/content/view/118/153/.

Results-Based Financing (RBF)

Results-Based Financing (RBF) refers to a range of mechanisms designed to enhance the performance of aid through incentive-based payments. RBF has been used most extensively in the area of health systems. RBF is an umbrella term that includes Output-Based Aid, provider payment incentives, performance-based inter-fiscal transfers, and incentives to households for adopt health-promoting behaviors. What these mechanisms have in common is that a principal entity provides a financial or in-kind reward, conditional on the recipient undertaking a set of predetermined actions or achieving a predetermined performance goal.[115]

A specific application of RBF can be seen in the World Bank managed Norwegian Health Results Innovation Grant. "The Norwegian Health Results Innovation Grant to the World Bank is designed to support governments to achieve the goals outlined in their national health plan through an increased focus on results. By shifting the emphasis of governments from distribution and use of resources and inputs to organizing the system in a different way to achieve results, RBF creates incentives and promotes greater accountability of service providers, improved management, improved efficiency and equity of service delivery, and strengthened health information systems. It can also facilitate greater involvement of the NGO and private sectors in service delivery."

Further information: http://go.worldbank.org/04UNXY1MS0

Reading: Barder and Birdsall 2006, Oxman and Fretheim 2008

See also: Results-Based Instruments

Results-Based Instruments

A number of instruments are results- and performance based:

See also:
Results-Based Financing
Performance-Based Aid
Conditional Cash Transfers
Buy-Downs
Output-Based Aid
Cash for Delivery
Millennium Challenge Account
Performance-Based Grants (GAVI Alliance)
Performance-Based Funding (Global Fund)
Performance-Based Funding (International Development Association)

Securitization of Future Flow Receivables

Securitization of future flow receivables is the pooling of future flow receivables, such as hard currency receivables from commodity trade, airline tickets and credit card receivables, to back the issuance of securities on the capital markets. Securitization reduces investors' risks and therefore potentially opens developing countries' access to lending on the capital markets and brings down cost of capital.

Reading: Ketkar and Ratha 2004, Ketkar, et al. 2001

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115 http://go.worldbank.org/04UNXY1MS0.

Social Funds

"Social funds are multisectoral programs that provide financing (usually grants) for small-scale public investments targeted at meeting the needs of the poor and vulnerable communities, and at contributing to social capital and development at the local level. They serve as innovators and demonstrators of new methods of decentralized participatory decision-making, management, and accountability that may be adopted for broader application by public sector organizations ..."[116]

Further information: www.worldbank.org/socialfunds

Reading: Garnier and Imschoot 2003; Rawlings, et al. 2004; Tendler 2000

Sustainable Investing (SI)

Sustainable investing (or ethical or socially responsible investing) blends for-profit investing with social or environmental criteria for investing. Typically, investment decisions are based on social responsibility ratings or on benchmarks that exclude corporate securities from investments. Sometimes, the term SRI includes investments that actively seek having a social impact (see impact investing). In the USA, assets in socially screened portfolios are estimated to have equaled $2.71 trillion in 2007, an increase over the $2.16 trillion counted in 2003.[117]

The World Bank's and other multilateral development bank's bond issuances offer sustainable and socially responsible investments. World Bank debt issues are the funding source for development loans and have provided financing for more than 4,000 development projects in more than 130 countries through more than US$400 billion in lending.[118] The World Bank's bond offerings that are geared towards sustainable investors include COOL bonds, Eco notes, and Green bonds. By the end of 2008, the World Bank has sold bonds that are based on the developmental purpose of the use of funds of US$ 2.146,47 million[[accuracy of number]].

Further information: http://www.socialinvest.org
http://treasury.worldbank.org/Services/Capital+Markets/About+Debt+Securities/SRI.html

Reading: Cumming and Johan 2007; Hill, et al. 2007; Sparkes and Cowton 2004; Zakri Y. Bello 2005

See also: Blended Value Investments
Impact Investing
Cool bonds
Eco notes
Green bonds

Solidarity Levy on Airline Tickets

The solidarity tax on airline tickets is an example of a financing instrument that has many elements of a global tax, but has been established as a nationally implemented, globally coordinated tax. The solidarity tax on airline tickets has been in effect in France in since mid-2006, and implemented since then in Chile, Côte d'Ivoire, Congo, Republic of Korea,

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[116] www.worldbank.org/socialfunds.
[117] Social Investment Forum 2008.
[118] http://treasury.worldbank.org/Services/Capital+Markets/About+Debt+Securities/SRI.html.

Madagascar, Mauritius, Niger, and Norway. Another 15 countries are in the process of implementing the tax. Although the levy has many elements of a global tax, it is based on voluntary participation and voluntary contributions by member countries.

The funds are used to finance UNITAID, an international purchase facility for drugs and treatments for HIV/AIDS, malaria and tuberculosis. The contributions to UNITAID's budget for 2008, financed primarily through air ticket taxes, are expected to be [[US]]$364 million.

Further information: http://www.unitaid.eu/

See also: Global Taxes
Solidarity Levies

Solidarity Levies

Globally coordinated and nationally on a voluntary basis implemented taxes that direct their proceeds to development are often called "Solidarity Levies."

See also: Global Taxes
Solidarity Levy on Airline Tickets
Currency Tax

Sovereign Wealth Funds (SWF)

Sovereign Wealth Funds are country-owned investment funds allowing domestic and international investments in a wide range of financial products such as government and corporate bonds, stock, commodities, real estate, as well as financial derivatives. An SWF is a backloading instrument saving funds for the future and providing independence from external financing.

Reading: Butt, et al. 2008; Reisen 2008; Truman 2007

Special Drawing Rights (SDRs)

"The SDR is an international reserve asset, created by the IMF in 1969 to supplement the existing official reserves of member countries. SDRs are allocated to member countries in proportion to their IMF quotas…Its value is based on a basket of key international currencies."[119] The innovative financing discussion has led to two types of proposals for leveraging SDRs for development purposes. First, more SDRs should be allocated to developing countries allowing them to fall back on them in case of immediate liquidity needs[120]; second, developed countries should transfer part of their SDRs to developing countries as additional concessional support.

Reading: Aryeetey 2005, Pollak and Clark 2005

Stolen Asset Recovery (StAR) Initiative

Recovery of stolen public assets from developing countries could reclaim resources that have supported poverty reduction. StAR was launched jointly by the World Bank and United Nations Office on Drugs and Crime (UNODC) on September 17, 2007 in New York City at an event chaired by the UN Secretary General Ban Ki-Moon. StAR's objective is to reduce barriers to

[119] http://www.imf.org/external/np/exr/facts/sdr.htm.
[120] The IMF's reallocation of SDR and voting power, discussed in Mach 2008, would respond to this proposal.

asset recovery and thereby encourage and facilitate more systematic and timely return of stolen assets. Luxembourg has started directing recovered funds from illicit activities to bilateral ODA.

Further information: http://www.worldbank.org/star

Reading: World Bank 2007

Supplemental Reserve Facility (SRF)

The supplemental reserve facility is a nonconcessional lending facility to respond to very short-term financing on a large scale due to macroeconomic shocks. It was introduced in 1997 by the IMF in response to the Asian financial crisis.

Further information: http://www.imf.org/external/np/exr/facts/howlend.htm

Swaps

A swap is a derivative in which two parties agree to exchange one stream of cash flows today against another stream in the future. Swaps can be used to hedge risks including interest rate, currency, and commodity price risks. In development financing, for example, the World Bank offers currency, interest rate, and commodity price swaps.

Further information: http://treasury.worldbank.org/

UNITAID

"UNITAID is an international drug purchase facility, established to provide long-term, sustainable and predictable funding to increase access and reduce prices of quality drugs and diagnostics for the treatment of HIV/AIDS, malaria and tuberculosis in developing countries." "Long term commitment and the purchasing of high volume of drugs and diagnostics allows UNITAID to get lower prices as manufacturers are encouraged to increase their production which results in economies of scale."[121] UNITAID receives funding predominantly from the Solidarity Levy on Airline Tickets.

Further information: http://www.unitaid.eu/

See also: Solidarity Levy on Airline Tickets

Voluntary Solidarity Contribution (VSC)

A voluntary solidarity contribution is a voluntary copayment by consumers when purchasing goods or services. The contribution is collected with the sales process. Examples are a VSC on airline tickets and on mobile phones. VSCs are similar to blended value products but the consumer has the choice to contribute.

See also: Blended Value Products
Voluntary Solidarity Contribution (VSC) on Airline Tickets

[121] http://www.unitaid.eu/.

Voluntary Solidarity Contribution (VSC) on Airline Tickets

A proposal to raise funds by introducing a VSC providing individuals and corporations who purchase airline tickets with the opportunity to voluntarily donate a small sum for every ticket purchased; the levy would not be mandatory for consumers.

Further information:	www.who.int/phi/UNITAID_Jan09.ppt
See also:	Voluntary Solidarity Contribution (VSC)

Vouchers

A voucher is a certificate, usually issued by a government by which users can pay for a specific service at a service provider of their choice, rather than assigning the user to a service provider. Vouchers are typically used in the education or health sector. Voucher programs are explicitly aimed at improving service quality by increasing users' choices therefore increasing competition.

Proponents of vouchers argue that vouchers promote free market competition among service providers. Opponents criticize vouchers for the potentially ambiguous effect on the poor: Voucher schemes tend to increase sorting—for example with richer students concentrating in the private schools.[122]

Reading:	Elson-Rogers and European Centre for the Development of Vocational Training 2000, World Bank 2005

Weather derivatives

Weather derivatives are linked to an index that measures weather related risks such as low rainfall or drought. Unlike insurance, weather derivatives do not cover the loss from weather related events but the value of the derivative changes depending on movements of the underlying index. Weather derivatives may avoid moral hazard problems that come with insurance products because the value of the derivative solely depends on exogenous variables, for example rainfall

Reading:	Cao and Wei 2004; Hess, et al. 2002; Turvey 2001

[122] World Bank 2004.

ANNEX 10: BIBLIOGRAPHY

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