

**DOHA FFD MEETING  
SUMMARY OF SIDE EVENTS**

**Lessons for Practitioners: Innovative Financing for Development**

**Monday, December 1, 2008**

The side event on Innovative Financing for Development was jointly organized by the World Bank, Agence Française de Développement (AFD), and the Bill and Melinda Gates Foundation.

The main objective of this session was to discuss how innovative financing mechanisms and instruments can be better tailored to the needs of developing countries and make development finance more effective. For long-term growth and poverty reduction, developing countries need both “smart” public finance-based mechanisms and innovative “market-based” (i.e., private-to-private) financing instruments. In the current crisis situation, facilitation of cross-border capital channeled to the private sector is of particular significance.

The panelists shared experiences and perspectives on the use of innovative financing using market-based and public finance-based financing tools, and public-private partnerships. They also discussed the role of various stakeholders and facilitators including bilateral and multilateral institutions in the development and promotion of these instruments.

More than 80 participants attended the event including governmental institutions (government representatives from Poland, Namibia, St. Lucia, Nigeria, Switzerland, France, etc), NGOs (Stamp Out Poverty, Bread for all, Action for Global Health, etc ), international organizations (IADB, OECD, UN/DESA, UNDP Habitat, FAO, UNICEF, UNDP, WHO, etc), donor agencies (DFID, GTZ, USAID, AFD, etc) as well as private business associations (Bahrain Women Association, African Organization of businesswomen). Highlights of interventions from the panelists included the following:

**Pierre Jacquet**, Chief Economist, Agence Française de Développement discussed three challenges for innovation: financial engineering, addressing new topics (e.g. climate change) and working with new stakeholders.

He explained that one of the particular features of poor countries’ economies is their volatility, due mostly to their dependence on commodities. He argued that this volatility is a prime factor behind the debt crises of the poorest countries. He indicated that the AFD is piloting a new lending instrument: the countercyclical loan (CCL). The key idea is to reduce the grace period of a typical concessional loan, from 10 to 5 years, and to keep the remaining grace periods as an asset that the country can draw upon, when a bad shock occurs. If no such bad shocks happen, or infrequently enough, the “floating grace”

is redeemed to the country at the end of the loan as a repayment in advance without penalties.

He also presented some other examples of innovative financing: Turkey: Environmental Credit Line; Durban Waste Dump Project; TCX fund- exchange rate risks insurance mechanism; KORA Africa/investment/risk capital fund; Burkina Faso-Cotton Price Risk Management Mechanism; Caribbean Catastrophe Risk Insurance Facility

He stated that development assistance is not only to provide resources using official development assistance (ODA) but it also to provide capacity building.

**Gargee Ghosh**, Senior Program Officer for Development Finance and Economic Policy, Gates Foundation shared her experience on how Gates foundation is partnering with innovative funders – development banks, corporations, and private/social investors - to reduce the costs in the delivery of health medicines and services for developing countries. She explained some of the innovative solutions in the search for vaccines, drugs, and other measures to address health problems in the poorest countries. She offered some views on how a new fund to deliver medicines for AIDS, TB and malaria was created. She highlighted the piloting a \$4 billion bond-financing mechanism to fund the purchase of childhood vaccines and the preparation of a blended-value private equity fund to invest in health care in Africa, to be launched later this year.

She noted that innovative financing mechanisms are complement and not substitutes for developing assistance.

**Dilip Ratha**, Lead Economist and Manager, Migration and Remittances Team, Development Prospects Group, World Bank, made a presentation on innovative market-based financing for development. He stressed that for long-term growth and poverty reduction, developing countries need additional, cross-border capital channeled to the private sector. In the current crisis situation, this can only be achieved by complementing innovative public financing mechanisms with innovative market-based financing instruments. Any increase in debt, however, must be accompanied by prudential debt management.

He stated that “preliminary estimates suggest that Sub-Saharan African countries can potentially raise \$5-10 billion by issuing diaspora bonds, \$17 billion by securitizing future remittances and other future receivables, and \$ 1-3 billion by reducing the cost of international remittances.” He also noted the following:

- Diaspora bonds can be useful for tapping into the wealth of the diasporas for financing infrastructure, housing, health and education projects in many developing countries. The governments of India and Israel have raised about \$40 billion dollars in the past, often in times of liquidity crisis. It is conceivable that reputable private companies can also consider issuing diaspora bonds. Besides patriotic reasons, the diaspora investor may be willing to offer a higher price, and demand a lower yield, for these bonds as they may have local currency liabilities in the issuing country and hence less aversion to devaluation risk compared to a typical international investor. Countries that can potentially consider diaspora bonds are Bangladesh, Colombia, El

Salvador, Ghana, India, Jamaica, Kenya, Mexico, Morocco, Nigeria, Pakistan, Philippines, Romania, Senegal, South Africa, Sri Lanka, Uganda, and Zambia.

- Securitization of future remittances and export revenue can be a friend in foul weather for many banks and commodity exporters in developing countries. This financing structure allows a sub-sovereign borrower to pierce the sovereign rating ceiling, thus reducing interest costs and extending the maturity of the borrowing. In the case of public sector entities in IBRD-client countries, such borrowing would trigger the IBRD “negative pledge”, but not in the case of private sector borrowers. Banks in Brazil, El Salvador, Jamaica, Kazakhstan, Mexico, and Turkey have raised over \$15 billion through the securitization of future remittances and diversified payment rights. Afreximbank has facilitated remittance-backed loans in Ethiopia, Ghana and Nigeria. Lebanon and Pakistan are actively considering remittance securitization deals with support from the EIB and the ADB. Other potential candidates include Albania, Bangladesh, Egypt, Jordan, Indonesia, Peru, Philippines, Senegal, Sri Lanka, Vietnam, and Zambia.
- Besides these financing tools, reducing remittance fees would increase remittances from abroad, and also encourage more flows through formal, banking channels. Encouraging more market competition, facilitating remittance technologies based on the internet and mobile phone, and avoiding over-regulation of the remittance market can potentially reduce remittance fees by 80 percent or more in many corridors.

### **Dr. Caleb Fundanga, Governor, Central Bank of Zambia**

He talked about the potential for the application of these innovative financing ideas in Sub-Saharan Africa. He said that the problems for Africa are the lack of bankable projects and the lack of financial instruments. He stressed that Dilip Ratha’s research on shadow rating has motivated Zambia to talk to ratings agencies about receiving a credit rating. He mentioned the importance for a country to capture all the flows including remittances. He also mentioned the need for putting in place some policies to use these new financing mechanisms (e.g. regulations for electronic remittances, securitization)

He stated that Zambia is looking at various alternative sources of funding for infrastructure investment such as mining royalties, landing fees and carbon credit. Zambia is very active in this emerging market. He argued that developing countries need more information on how to find a particular project in carbon credit and how you measures how much credit a company has earned. He said that it is important to ensure that developing countries have access to capacity building for carbon markets. There is need for more advice on project design and how to implement carbon emission based projects.

### **Implications for the World Bank**

In the Q& A section, participants asked about the role of the World Bank on these issues.

- Improving Ratings and counting all the relevant flows. The research conducted by the World Bank showed that not all unrated countries are basket cases. The

findings from this research influenced Zambia's government decision to be rated by a rating agency.

- Applying shadow sovereign ratings to sub-sovereign ratings. Some participants asked for the possibility of using this mechanism at the sub-national level. Dilip mentioned that he is finalizing a paper showing that it is feasible. He also stated that there is a need for a separate rating agency that could provide sovereign and sub-sovereign ratings. Many institutions have both ratings. However, it will be important to analyze the impact of sovereign ratings on sub-sovereign ratings.
- More support from the World Bank is needed on the use of these new innovative financing mechanisms. Participants stressed the importance to support countries in finding how to mobilize resources and how to provide funds to initiate some projects in these areas. What is needed is domestic investment. For that reason tapping to the diaspora, using diaspora bonds, and making collective investments could be very attractive initiatives. The World Bank can put together these tools to facilitate investments in infrastructure, health and education. The Bank could also advise on how to get ratings. The process for getting the ratings is expensive. The Bank can finance some of these expenses. In several countries, legal institutions are not so well developed so the WB and the IFC can facilitate some technical advice in these areas. The Bank can serve as a broker to the policy makers in developing countries and it can provide seed money.

Dilip Ratha noted that the World Bank Group can play an important role in promoting the use of these mechanisms by:

- Providing seed money for investment banking fees and rating costs
- Purchasing a part of the bonds, providing guarantees and risk mitigation
- Offering technical assistance on legal framework, structuring, pricing, and risk management; and in the design of projects financed by innovative instruments
- Producing reliable and timely data
- Facilitating public-private partnerships

Overall, there was an excellent response on the panel discussions and eagerness to continue to work with us in the future.