

GLOSSARY OF SELECTED INNOVATIVE AND CONVENTIONAL FINANCIAL INSTRUMENTS AND MECHANISMS

The World Bank

Concessional Finance and Global Partnerships
Multilateral Trusteeship and Innovative Financing
(CFPMI)

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This glossary of innovative mechanisms and financial instruments includes implemented and proposed innovative as well as conventional financial mechanisms and instruments for development and global public goods.

The glossary is updated on an ongoing basis. Questions and suggestions for additions should be addressed to Johannes Kiess (jkiess@worldbank.org)

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.”¹ 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.”² Increasing the number of potential buyers, aggregating demand, and providing manufacturers with upfront 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 two percent share of proceeds of certified emission reductions (CERs) issued by the Clean 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 two 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

¹ <http://www.rhsupplies.org/>

² Reproductive Health Supplies Coalition and Dalberg Global Development Advisors (2008)

Advance 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 \$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: Kremer 2000; Kremer and Glennerster 2004; Kremer and Zwane 2005; Tremonti and Ministero dell'Economia e delle Finanze 2005b; Tremonti and Ministero dell'Economia e delle Finanze 2005a; Batson, Meheus et al. 2006; Ridker 2006; World Bank and GAVI 2006; Ernst R. Berndt 2007

Affinity Credit Cards

An affinity credit card is a blended value product offered to members of specific organizations or supporters of specific causes. The issuer makes an initial payment and/or turnover-related payments to the organization or cause. These payments encourage the affinity partner (the organization that receives the contribution) to promote the card and its members/supporters to use it. The organization or cause profits from a new source of financing.

See also: Blended Value Products

Reading: Schlegelmilch and Woodruffe 1995; Worthington 2001

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 co-payment to buyers to lower the price to a level comparable with less effective anti malaria alternatives. A core function of the AMFm, which serves both the public and private sectors, is the co-payment toward purchases of eligible antimalarials by first-line buyers. Through the co-payment, 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 expected that it will be operational in 2009.

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

Reading: Arrow, Panosian et al. 2004; 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.³

Reading: Brzoska 2004

See also: Global taxes

Auctioning/Sales of Emission Permits

One source of funds from cap & trade mechanisms is the auctioning or sales of emission permits. For example, EU Allowances (EUA) under the European Union's 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.⁴ 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 euro.⁵ 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."⁶ Also, the UK and Austria have auctioned emission permits.⁷ 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 2013-2020 period.⁸

Further information: http://www.bmz.de/en/approaches/bilateral_development_cooperation/approaches/joint-financing/innovative_funding_instruments/index.html

³ Brzoska (2004)

⁴ http://ec.europa.eu/environment/climat/emission/auctioning_en.htm

⁵ http://www.bmu.de/files/pdfs/allgemein/application/pdf/jahresbericht_kwf_08_en.pdf

⁶ http://www.bmz.de/en/approaches/bilateral_development_cooperation/approaches/joint-financing/innovative_funding_instruments/index.html

⁷ http://ec.europa.eu/environment/climat/emission/auctioning_en.htm

<http://www.defra.gov.uk/environment/climatechange/trading/eu/operators/auctioning.htm>

⁸ http://ec.europa.eu/environment/climat/emission/auctioning_en.htm

http://ec.europa.eu/environment/climat/emission/auctioning_en.htm

Reading: Cramton and Kerr 2002; Sandmo 2005; Hepburn, Grubb et al. 2006; Capoor and Ambrosi 2008; Konukiewitz forthcoming

See also: Cap & Trade

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.”⁹ A variety of tax bases have been proposed, including taxing aviation fuel, ticket values, and departure/arrival taxes.

Reading: Müller and Hepburn 2006; Keen and Strand 2007

See also: Solidarity Levy on Airline Tickets
Global Taxes

Beneficiary Pays Instrument

See: Payments for Services

Biodiversity Derivatives

Biodiversity derivative is a term for a proposed mechanism to finance species-recovery efforts – one that would help align the interests of landowners and conservationists and create a market-based incentive for private conservation. Future conservation and rehabilitation costs for an endangered species would be financed by sales of a bond or derivative whose performance is linked to the growth or decline of that species. The purchasers of the bond or derivative could improve the probability of a good payout through private conservation efforts.

See also: Indexed Bonds

Reading: Mandel, Donlan et al.

Biodiversity Offsets

Biodiversity offsets (also called mitigation banking and conservation banking) are conservation measures taken at one location to make up for, or offset, biodiversity losses at another. Offset credits can be traded between the entity that enhances biodiversity at one location and the entity responsible for land-disturbing activities that cause biodiversity losses at the other location. A well-established example is the system of wetland mitigation banking in the United States: project developers, who are legally required to offset their residual impacts on wetlands, can do

⁹ Keen and Strand (2007)

so by buying wetland credits from others. Biodiversity offsets are a form of payments for environmental services.

See also: Payments for Environmental Services

Further information: <http://bbop.forest-trends.org>

Reading: Kate, Bishop et al. 2004; Robertson 2004; Burgin 2008; Carroll, Fox et al. 2008

Bioprospecting

Bioprospecting can generate revenues for countries willing to provide access to their biochemical resources. Bioprospecting (also called biodiversity prospecting) is the scientific search of nature with the aim of discovering new chemical compounds, genes, proteins, microorganisms, and other things that might be used to develop pharmaceuticals, agrochemicals, cosmetics, flavorings, fragrances, industrial enzymes, and other products. The sharing of benefits from bioprospecting is governed by the Convention on Biological Diversity (CBD). The CBD “recognises the sovereign rights of States over their natural resources in areas within their jurisdiction. Parties to the Convention therefore have the authority to determine access to genetic resources in areas within their jurisdiction. Parties also have the obligation to take appropriate measures with the aim of sharing the benefits derived from their use.”¹⁰

Further Information: <http://www.cbd.int/abs/intro.shtml>

Reading: Artuso 2002; Carrizosa, Brush et al. 2004; World Wildlife Fund (WWF) 2009

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.¹¹ IBRD and IDA buy-downs are blending arrangements.

Further 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

¹⁰ <http://www.cbd.int/abs/intro.shtml>

¹¹ Development Committee (2004)

Blended Value Investing

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

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

Reading: Global Foundation Leaders Advisory Group 2005; Brainard 2006; 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 affinity credit cards such as 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.

See also (PRODUCT)RED
Voluntary Solidarity Contributions
Cause Marketing

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 buydowns the instrument 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%. 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 ~\$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 on compliance carbon markets (see also Voluntary Carbon Markets). Contingencies are set by a central authority such as a government or international body and can be either auctioned or sold, or allocated for free to emitters. A cap and trade mechanism sets a price on a negative externality, thereby internalizing 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 Sandmo 2005; Olsen 2007; Capoor and Ambrosi 2008

See also: Auctioning/sales of Emission Permits
Carbon Funds
Voluntary Carbon Markets

Carbon Funds

Typically, carbon funds work as intermediaries that purchase project-based greenhouse gas 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 greenhouse gas 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.”¹²

See also: Indexed Bonds

Carbon markets

See: Cap and Trade
Voluntary Carbon Markets

Carbon Tax

The carbon tax is a tax on greenhouse gas emissions that could be imposed by an international organization, a country or a sub-national governance body on the greenhouse gas 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.

Reading: Pearce 1991; Hoel 1992; Sandmo 2005

See also: Cap & 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 pre-disaster 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% on what each government would have paid had they negotiated individually through commercial insurance markets.”¹³

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 pre-specified

¹² <http://treasury.worldbank.org/Services/Capital%2bMarkets/News+for+Investors/CO2LBond.html>

¹³ <http://www.ccrif.org/main.php?main=9>

‘result’ or ‘goal’ *per se*.’¹⁴ 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.

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: Doherty 1997; Hofman and Brukoff 2006; Cummins and Mahul 2008

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

Cause Marketing

Cause marketing (also called cause-related marketing) is a term that describes blended value products, voluntary solidarity contributions, and other forms of marketing-related fundraising. Typically, it involves cooperation between a for-profit business and a non-profit organization for mutual benefit.

See also: Blended Value Product
Voluntary Solidarity Contribution

Reading: Smith and Alcorn 1991; File and Prince 1998; Polonsky and Wood 2001; Earle 2002; Berglind and Nakata 2005; Dyer 2006; Asongu 2007; Nelson, Kanso et al. 2007; Jungar and Salo 2008; Stole 2008; Nickel and Eikenberry 2009

¹⁴ Barder and Birdsall (2006)

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 US 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 not to be able to repay a loan due to falling oil prices.

Reading: Atta-Mensah 2004

See also: Indexed Bonds

Community Health Insurance

Community health insurance (also called community-based health insurance) is a small-scale health financing system for local communities. It can be established in settings with informal labor markets and limited institutional capacity, and relies on a strong sense of local community solidarity. Typically, community health insurance systems can mobilize some resources, but they often depend on subsidies and international assistance as well. “What emerges from the literature on community-based health insurance is that it is ‘better than nothing’ in low-income settings where the implementation of any kind of collective financing scheme is problematic.”¹⁵

Reading: Bennett 2004; Ekman 2004; Gottret and Schieber 2006

See also: Domestic Sources of Health Financing

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% discount rate in the present value calculation.

See also: Grant
Loan
Blending loans and grants

Concessions

A concession is a long-term license or contractual agreement between an entity (usually a government) that has the power to assign exclusive rights for a geographic area or facility, and a party, usually a private-sector entity, that is seeking land use, trade privileges, and so on. The concessionaire pays either a fixed sum or a percentage of revenue to the government.

¹⁵ Gottret and Schieber (2006)

Concessions are a widely used source of funding in conservation efforts, such as national park management.

See also: Public-Private Partnerships

Reading: World Wildlife Fund (WWF) 2009

Conditional Cash Payments (CCPs)

Conditional cash payments are a form of results-based financing awarded for the use of services. Generally, CCPs focus on creating incentives for the poor to demand services, whereas conditional cash transfers, or CCTs, (see below) focus on providing safety nets (not all of the literature draws this distinction).

Further information: <http://go.worldbank.org/UDQRQYSTF0>

Further reading: Eichler and De 2008

See also: Results-Based Financing
Conditional Cash Transfers

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: Rawlings and Rubio 2005; De Janvry, Finan et al. 2006; De Janvry and Sadoulet 2006; Skoufias, Di Maro et al. 2006; Heinrich 2007; Fiszbein, Schady et al. 2009

See also: Results-Based Financing
Results Based Instruments

Contingent Loan

A contingent loan (or contingent credit) is a financing instrument through which funding is provided after the occurrence of some specific pre-defined event *ex ante*. Deferred Drawdown Options on World Bank loans are an application of contingent loans. Also, the IMF Exogenous Shocks Facility provides financing contingent to exogenous macroeconomic shocks.

Reading: Cummins and Mahul 2008

See also: Deferred Drawdown Options
Cat Deferred Drawdown Options
IMF Exogenous Shocks Facility

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 a reduced grace period from 10 to 5 years. The remaining grace period would be used as an asset that the country can draw upon, when a bad shock occurs.

Reading: Cohen, Djoufelkit-Cottenet 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 first of all not for its potential revenues but to stabilize currency markets by imposing a tax that is 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.¹⁶

Currency Transaction Tax: At the financing for development conference in Doha in November 2008 a currency transfer tax has been proposed.¹⁷ The tax would generate significant revenues of about US\$ 30 to 60 billion per year but the proposed tax rate of 0.005% 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: Tobin 1996; Schmidt 1999; Spahn 2002; Nissanke 2005; Hillman, Kapoor et al. 2006; Spratt 2006b; Spratt 2006a; Schmidt 2007; Schulmeister, Schratzenstaller-Altzinger et al. 2008

See also: Global Taxes

De-Tax

De-Tax is a proposal combining two elements: (i) participating governments would waive the VAT by 1% on the overall price of any good or service sold by sellers associated with the

¹⁶ Spratt (2006b), Spratt (2006a)

¹⁷ <http://www.internationalhealthpartnership.net/pdf/IHP%20Update%2013/Taskforce/Stamp%20Out%20Poverty%20presentation%20-%20Doha%20Side%20Event.pdf>

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% of VAT from governments as well as related seller contributions.

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.”¹⁸ 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 NPV 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. The mechanism can work in one of two ways. An international non-governmental organization (NGO) may purchase debt titles on the secondary market and transfer the title to the debtor country (this is known as a commercial swap). Alternatively, a bilateral donor may cancel or discount sovereign debt (this is known as a bilateral swap). In exchange, the debtor country agrees either to carry out environmental policies or to finance local environmental and conservation activities.

Reading: Hansen 1989; Deacon and Murphy 1997; World Wildlife Fund (WWF) 2009

See also: Debt Swap

¹⁸ <http://stats.oecd.org/glossary/detail.asp?ID=558>

Diaspora Bonds

A diaspora bond is a sovereign debt instrument to raise financing from a country's overseas diaspora. Israel and India have raised \$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 Euro 50 million, Indonesia paid Euro 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, Renard 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 non-governmental organization (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.”¹⁹

Reading: Edwards 1992; Kaiser, Lambert et al. 1996

See also: Debt2Health
Debt Relief

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,

¹⁹ OECD Glossary of Statistical Terms: <http://www.imf.org/external/pubs/ft/eds/Eng/Guide/index.htm>

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.²⁰

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 sub-national 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-backed security

An eco-backed security (also called a forest-backed security, eco-securitization, and forest-securitization) is an asset-backed security or debt obligation that represents a claim on cash flows from the management of forests or other ecosystems. The sources of these flows can range from timber production to various public goods produced by an ecosystem, such as rainfall, carbon and biodiversity storage, and weather moderation. Funds are raised on the capital markets and repaid from these future flows. The challenge of creating eco-backed securities is to identify sustainable and low-risk revenues.

Further information: <http://canopycapital.co.uk/>

Reading: World Wildlife Fund (WWF) 2009

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.

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

²⁰ <http://treasury.worldbank.org/Services/Financial+Products/FAQs/Deferred+Drawdown+Option.html>

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

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

Environmental Mortgages

An environmental mortgage is a proposed mechanism that would combine microfinance with performance-based payments for the conservation of environmental assets, thereby creating long-term incentives for conservation as well as sustainable economic development. A community would provide an environmental asset, such as a forest, as collateral for a loan. A line of credit tied to the evolving condition of that asset would be extended to community members, who would thus have an economic incentive to protect the environmental asset.

Further information: <http://www.advancedconservation.org>

European Union MDG Contract

The European Union MDG Contract is a form of budget support launched in 2008 with three key features: 1. It is more predictable and provides longer term (six years) support; 2. 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 3. 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.”²¹

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

Fee for Service (FFS)

Fee for Service means that the provider receives a fee for each service rendered or product supplied. FFS differs from Pay for Performance (P4P) in that FFS strategies are supply-side oriented and do not have explicit performance targets.²² FFS can be considered a results-based financing mechanism.

Further reading: Eichler and De 2008

See also: Results Based Financing
Fee for Services

Fees

Fees (or user fees) – charges for a service rendered – are widely used to raise funds. Prominent examples are user fees for health care services. These are typically collected from the consumer at the point of service by the government health service or the service provider. In health, user fees are often criticized for preventing the poor from having access to health care. In the area of

²¹ http://ec.europa.eu/development/how/aid/mdg-contract_en.cfm

²² Eichler and De (2008)

conservation finance, user fees include protected area entry fees, recreation license fees, and hunting fees.

See also: Fee for Service

Reading: Shepard and Benjamin 1986; Newbrander, Collins et al. 2001; Duff 2004; Miles 2005; Depondt and Green 2006; Gottret and Schieber 2006; World Wildlife Fund (WWF) 2009

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

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.²³, 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

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.”²⁴

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

²³ Grant (2007)

²⁴ Eckhart (2004)

been proposed: (i) an international agency would organize a new and genuinely international lottery; or (ii) an international agency would receive a share of proceeds from national lotteries.

Reading: Moore 1996; Hu, Xu et al. 1998; Jha and Chaloupka 1999; Chaloupka, Hu et al. 2000; Gruber and Koszegi 2002; van Walbeek 2003; Remler 2004; WHO Tobacco Free Initiative 2004; Cnossen 2005; Jha, Chaloupka et al. 2006; World Health Organization 2008

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: 1. 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. 2. 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: Guillén and Tschoegl 2002; George Chacko 2003; Addison and Chowdhury 2005; Tufano 2008

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 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 it 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 two 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: Mendez 1992; Frankman 1996; wo and Wachtel 2000; Zedillo and High-level Panel on Financing for Development 2001; Development Committee 2004; Technical Group on Innovative Financing Mechanisms 2004; Boadway 2005; Development Committee 2005; 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.²⁵

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 non-performance. 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.²⁶ The terms of a guarantee can cover the whole or only a partial risk in the event of non-performance.

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.

Reading: Winpenny, Organisation for Economic Co-operation and Development. Development Centre. et al. 2005

²⁵ OECD: <http://stats.oecd.org/glossary/detail.asp?ID=1143>

²⁶ World Bank guarantees only cover debt (although under a “deemed loan” special scheme equity could be covered)

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

Health Insurance

Health insurance is a means of financing health services by pooling risk.

- Private health insurance is voluntary insurance paid for by individuals or their employers. It requires a certain level of commercial institutional capacity. Private health insurance, unless subsidized by the government, benefits only those citizens or businesses with the ability to pay.
- Social health insurance involves compulsory coverage under a social security system. It is financed by employee and employer contributions to nonprofit insurance funds, and includes both publicly and privately owned. It can be an effective way to generate resources for health and to reach universal coverage. However, in low-income countries, especially ones with stagnant economies and large proportions of workers in the informal sector, social health insurance might only reach a small part of the population, and exclude the poorest and most vulnerable.

Reading: Beveridge 2000; Carrin 2002; Sekhri and Savedoff 2005; Gottret and Schieber 2006; Pauly, Zweifel et al. 2006

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.²⁷

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

Reading: Bulir and Hamann 2006

See: Contingent loans

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.”²⁸ The difference to social responsible investing is that investors search for investment opportunities that

²⁷ <http://www.imf.org/external/np/exr/facts/esf.htm>

²⁸ http://www.rockfound.org/efforts/impact_investing/RIIC_recommendations_final.pdf

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 USD 500 billion.²⁹

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 the 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.

Information: http://www.rockfound.org/efforts/impact_investing/impact_investing.shtml
<http://www.blendedvalue.org/>
<http://www.globalimpactinvestingnetwork.org/>
<http://www.rootcapital.org/>
<http://www.acumenfund.org/> <http://www.mdlf.org>
<http://www.kiva.org>
<http://www.myC4.com>

Reading: Global Foundation Leaders Advisory Group 2005; World Economic Forum 2006; 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; Shiller 2005

See also: Biodiversity Derivatives
Carbon-indexed Bonds
Commodity-indexed Bonds
GDP-indexed Bonds
Inflation-indexed Bonds

²⁹ 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: Wrase 1997; Shiller 2003a

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 underpinning the issuance of bonds in the international capital markets, leveraging 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 change³⁰ and an IFF for mitigation adaptation and clean technology.³¹

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

Reading Development Committee 2004; HM Treasury 2004; Conceição, Rajan et al. 2005; 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 Immunization (IFFIm) is an IFF supported by long-term, legally binding grants from sovereign donors (the United Kingdom, France, Italy, Spain, Sweden, Norway and South Africa). IFFIm was established as a new supranational in 2006, with some \$5 billion in assets paid over 20 years. IFFIm's first triple-A rated \$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/>

³⁰ Tang and Yeoh (2007)

³¹ World Business Council for Sustainable Development and World Economic Forum (2007)

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

See also: International Finance Facility

Reading: Lob-Levyt and Affolder ; Development Committee 2004; Global Alliance for Vaccines and Immunization (GAVI) 2004; HM Treasury 2004; Karen Moore 2004; Conceição, Rajan et al. 2005; Mavrotas 2005; Barder and Yeh 2006; Tang and Yeoh 2007; World Business Council for Sustainable Development and World Economic Forum 2007

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.

Further reading: Plaut and Melnik 2003; Cordella and Levy Yeyati 2006

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 required³²

Local Currency Hedging

Currency risks can be mitigated by hedging against them (alternatively, they can avoid currency risk by borrowing in local currency, rather than in a foreign currency – see Local Currency Lending). Currency hedges such as currency swaps, options, and futures are widely available for major currencies, but are less common for the currencies of developing countries. Recently, a number of instruments and mechanisms have been developed that allow for the hedging of developing countries' currencies:

- The World Bank, IFC, and other development banks offer local currency hedges such as swaps.
- The Currency Exchange Fund (TCX) offers risk-management products for currencies that are not covered by regular market providers. It provides long-term local-currency and interest-rate derivatives in the currencies of developing countries on the OECD's DAC list. Between the start of its operations, in January 2008, and May 2009, TCX executed primary-swap transactions in 29 countries, totaling about US\$ 390 million. The TCX's shareholders and investors are 16 commercial and development banks.³³
- MFX Solutions is a fund that gives microfinance lenders tools to help them analyze and manage their currency risk. It focuses specifically on high-risk markets, such as Sub-Saharan Africa. MFX Solutions was conceived and funded by the microfinance industry

³² OECD: http://www.oecd.org/glossary/0,2586,en_2649_33721_1965693_1_1_1_1,00.html#1965544

³³ <http://www.tcxfund.com/smartsite.dws?ch=TCX&id=1617>

– networks, lenders, investors, raters, and foundations. It offers cross-currency swaps and forward contracts tailored to the needs of microfinance.

Further information: http://treasury.worldbank.org/web/pdf/english_hp.pdf
<http://www.ifc.org/ifcext/treasury.nsf/Content/LocalCurrencyFinancing>
<http://www.tcxfund.com>
<http://www.mfxsolutions.com>

See Also: Local Currency Lending

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: <http://www.ifc.org/ifcext/treasury.nsf/Content/LocalCurrencyFinancing>

Reading: Burger and Warnock 2006; Burger and Warnock 2007

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

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).

Further reading: Shiller 1993; Shiller 2003b; Gürkaynak and Wolfers 2005; Shiller 2005; Jakab 2006

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 non-government organizations ; cooperatives; community-based development; commercial and state banks; insurance and credit card companies; 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 to cover emergencies. Also, many microfinance providers have started to collect deposits.

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

Reading: Hardy, Holden et al. 2002; Pretes 2002; Armendariz de Aghion and Morduch 2005; 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: Pui Lee, International Labour Office. Social Security Dept. et al. 2000; Sabri 2003; Churchill, Münchener Rückversicherungs-Gesellschaft. et al. 2006; Matthäus-Maier and Von Pischke 2008

Millennium Challenge Corporation (MCC)

The Millennium Challenge Corporation is a United States financing facility which offers poor countries challenge grants. Grants are provided only on measurable success in or progress towards 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, most of which are located in Africa. The aim of this Multilateral Debt Relief Initiative (MDRI) was to reduce further the debt of HIPC countries 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.³⁴ 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

Odious Debt

Odious debt is a proposal (sponsored by CSOs) that sovereign debt incurred for purposes that do not serve the best interests of the people of a country should not be enforceable.

Further reading: Jayachandran and Kremer 2006; Nehru and Thomas 2008

Official Development Assistance (ODA)

“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].³⁵

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

³⁴ http://www.rollbackmalaria.org/partnership/board/meetings/ppt/15pbm/s4_1.pdf

³⁵ 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.”³⁶ 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 a weather insurance based on weather specific parameters such as rainfall.

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

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. Advance commitments to patent buy-outs can spur investments and research and development into new technologies.

Reading: Kremer 1998; Hopenhayn, Llobet et al. 2006; Outtersson 2006

See also: Prize
Advance 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.³⁷

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

See also: Patent buy-out
Prizes
Advance Market Commitment

³⁶ <http://www.gpoba.org/oba/index.asp>

³⁷ <http://www.unitaid.eu/index.php/en/NEWS/UNITAID-moves-towards-a-patent-pool-for-medicines.html>

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: Pagiola, Arcenas et al. 2005; Alix-Garcia, De Janvry et al. 2008; Antle and Stoorvogel 2008; Bulte, Boone et al. 2008; Bulte, Lipper et al. 2008; Graff-Zivin and Lipper 2008; Horan, Shogren et al. 2008; Pagiola, Rios et al. 2008; Wunder 2008; Zilberman, Lipper et al. 2008

Pay for Performance (P4P)

In a Pay for Performance (P4P) transaction, payment (monetary or non-monetary) is issued based upon achievement of a predetermined performance goal. Performance payments may target the supply side and/or the demand side. P4P can be considered a form of results-based financing.

Further reading: Eichler and De 2008

See also: Results-Based Financing

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)

Payments for Watershed Services

See: 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 Contracting (PBC)

“Performance-based contracting is a form of contracting that explicitly includes a clear definition of a series of objectives and indicators by which to measure contractor performance, collection of data on the performance indicators, and consequences for the contractor based on performance such as provision of rewards (such as performance bonuses or public recognition) or imposition of sanctions (such as termination of the contract or public criticism).”³⁸ Performance-based contracting can be considered a form of results-based financing.

Further reading: Loevinsohn and World Bank. 2008

See also: Results-Based Financing

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.”³⁹ The example of GAVI ISS highlights one of the problems with performance-based aid, results-based financing, 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.⁴⁰

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

Reading: Lim, Stein et al.

See also: Results-Based Instruments

Performance-Based Financing

This term is used mainly as a synonym for Pay for Performance and Fee for Services.

See also: Fee for Services
 Pay for Performance (P4P)

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

³⁸ Loevinsohn and World Bank. (2008)

³⁹ http://www.gavialliance.org/resources/ISS_evaluation.pdf

⁴⁰ Lim, Stein, Charrow and Murray

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.”⁴¹

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.”⁴²

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

See also: Results-Based Instruments

Performance-Based Incentives

See: Pay for Performance (P4P)

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 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

⁴¹ http://www.theglobalfund.org/en/files/about/replenishment/berlin/Global_Fund_Backgrounder.pdf

⁴² <http://go.worldbank.org/F5531ZQHT0>

and predictable funding flows.”⁴³ A Pledge Guarantee 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 \$17 billion from DAC donors in 2001 to \$34 billion by the US only (including faith based organizations and education at universities within the US) in 2007.

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

Policy Based Guarantees (PBGs)

See: Guarantees

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: Hopenhagen, Llobet et al. 2006; Stiglitz 2006; Leonardt 2007; Harford 2008

⁴³ http://www.rhsupplies.org/working_groups/systems_strengthening/global_financing_and_procurement.html

See also: Patent buy-out
Patent Pools
Advance Market Commitment

Pro Bono Activities

Often, the private sector is more effective by providing goods and services 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 one percent of its shares and is giving one percent of its profits to its foundation Google.org and encourages its employees to spend one percent of their time on charitable projects.

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

(PRODUCT)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/>

Reading: O'Manique and Labonte ; Richey and Ponte 2008; Ponte, Richey et al. 2009

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.”⁴⁴ 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

Product Development Partnership Financing Facility (PDPFF)

The Product Development Partnership Financing Facility (PDPFF) is a proposed mechanism that would finance Product Development Partnerships (PDPs) through government-guaranteed loans. Existing PDPs focus on health products for diseases of the developing world. “Proceeds from the sale of bonds in private capital markets would be used to support R&D and then repaid when

⁴⁴ <http://foundationcenter.org/getstarted/faqs/html/pri.html>

vaccines developed by the three PDPs came to market. The funds to repay bonds would derive from a combination of royalties on sales in high- and middle-income countries and donor-funded premiums linked to sales of PDP vaccines in low-income countries. To reduce risks to bondholders and allow PDPFF to borrow at low interest rates, the Financing Facility would back its borrowing with guarantees from donor governments and possibly foundations.”⁴⁵

Further reading: Aeras, IAVI et al. 2009

See also: Research and Development Financing

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.⁴⁶ 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 include 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: Osborne 2000; Yescombe 2002; Engel, Fischer et al. 2007; Yescombe 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.

⁴⁵ Aeras, IAVI and MVI (2009)

⁴⁶ <http://www.ppiaf.org/content/view/118/153/>

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

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 pre-determined actions or achieving a pre-determined performance goal.⁴⁷

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.”

Reading: Barder and Birdsall 2006; Oxman and Fretheim 2008

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

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)

Research and Development Financing

A number of financing instruments and mechanisms are specifically designed to finance research and development (R&D). They engineer financing for specific aspects of R&D by means that include incentives to invest, risk-sharing by partners, and reflows from investments and from resulting patents.

⁴⁷ <http://go.worldbank.org/04UNXY1MS0>

See: Advance Market Commitments
Patent Pools
Prizes
Product Development Partnership Financing Facility
Product Development Partnership Financing Facility (PDPFF)

Royalties

Royalties compensate countries for the extraction of oil, gas, minerals, and other natural resources from their sovereign territory. An agreement defines the terms under which a resource or property is licensed from one party to another. Royalties can be determined either as a percentage of gross or net sales derived from the use of the asset or as a fixed price per unit sold.

Reading: Otto and Andrews 2006

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, Ratha et al. 2001; Ketkar and Ratha 2004

Social Funds

“Social funds are multi-sectoral 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 ...”⁴⁸

Further information: www.worldbank.org/socialfunds

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

Socially Responsible Investing (SRI)

Socially responsible investing (or ethical investments, sustainable investments) 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 2003.⁴⁹

Further information: <http://www.socialinvest.org>

⁴⁸ www.worldbank.org/socialfunds

⁴⁹ Social Investment Forum (2008)

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

See also: Blended Value Investments
Impact Investing

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, 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 \$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: Truman 2007; Butt, Shivdasani et al. 2008; Reisen 2008

Special Drawing Rights (SDR)

"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."⁵⁰ 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

⁵⁰ <http://www.imf.org/external/np/ext/facts/sdr.htm>

them to fall back on them in case of immediate liquidity needs⁵¹; 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 asset recovery and thereby encourage and facilitate more systematic and timely return of stolen assets.

Also, 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 non-concessional 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/>

Trust Fund

A trust fund is a legal arrangement in which one party, the trustor, provides fiduciary control of funds to an intermediate party, the trustee, to be used for the benefit of a specific entity in need. In development finance, typically a donor provides funds to a multilateral development bank or other institution for a predefined use (public or private) in a sector, country, region, and so on.

More specifically, the World Bank describes trust funds as “financial and administrative arrangements between the World Bank and external donors under which donors entrust funds to the Bank to finance specific development-related activities. Formal legal agreements with donors designate the Bank as trustee and define the terms and conditions for use of the funds. The Bank channels trust fund resources to the intended beneficiaries in accordance with its agreements with

⁵¹ The IMF's reallocation of SDR and voting power, discussed in Mach 2008, would respond to this proposal.

the donors. Alternatively, donors may request the Bank itself to utilize the resources and carry out activities that bring about desired outcomes in developing countries.”⁵²

Further information: <http://go.worldbank.org/GABMG2YEI0>
<http://www.undp.org/mdtf>

Reading: World Bank Group 2008; Guder 2009; World Wildlife Fund (WWF) 2009

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.”⁵³ 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 Carbon Markets

Voluntary carbon markets include all carbon offset trades that are not required by regulation. Under this system, organizations and individuals purchase carbon offsets on a voluntary basis to make up for their carbon emissions. Emissions certificates may be traded according to a number of standards, including the Voluntary Carbon Standard (VCS), VER+, The Voluntary Offset Standard (VOS), and the Chicago Climate Exchange (CCX). Voluntary carbon markets, like compliance carbon markets, create benefits by financing climate-change mitigation and generating financial flows for developing countries that sell carbon credits to developed countries.

See also: Cap and Trade

Reading: Gillenwater, Broekhoff et al. 2007; Kollmuss, Zink et al. 2008

Voluntary Solidarity Contribution (VSC)

A voluntary solidarity contribution is a voluntary co-payment 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

⁵² <http://go.worldbank.org/GABMG2YEI0>

⁵³ <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.⁵⁴

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

⁵⁴ World Bank (2004)

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