Innovative Funding Mechanisms for Alternative Development
Broadening the options for sustainable, cost-effective and successful AD

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Introduction

Ambitions and confidence are being renewed around Alternative Development potentialities as both a key ingredient of balanced and comprehensive drug control and a driver of sustainable development. Considering emerging challenges related to illicit crop cultivation, but also increasing positive results of AD programs in particular in Thailand and Peru, there is today a growing demand for AD initiatives and renewed alliances: “traditional actors” such as Colombia, Bolivia, Peru, Afghanistan, Thailand are joined by “new stakeholders” from new interested countries (Myanmar, Morocco, Russia or India, and private sector notably in Thailand). The recent adoption by the U.N. General Assembly of the *Guiding Principles on Alternative Development* (UNGPAD) reflects that AD *constitutes today a pillar of policies and programs for efficiently reducing drug production, but is equally “an important component of enhancing development in States affected by, or in some cases at risk of, the illicit cultivation of crops used for illicit drug production and manufacture, and plays an important role in national, regional and international development policies and in comprehensive policies of poverty reduction and cooperation”* (UNGPAD, General provisions, para.1). Interested stakeholders have further endorsed that AD is “intrinsically linked and complementary to the recently adopted 2030 Sustainable Development Agenda as its implementation can contribute and create conditions conductive to achieving all the Sustainable Development Goals” (ICAD 2 Outcome document, para.37).

As a global debate took place on the future of drug policies under the auspices of the Special Session of the United Nations General Assembly on the world drug problem (UNGASS) in April 2016, the international community as represented in the Commission on Narcotic Drugs has repeatedly noted that efforts to achieve the Sustainable Development Goals (SDGs) and to effectively address the world drug problem can be “complementary and mutually reinforcing” (Joint Ministerial Statement 2014; Contributions UNODC March 2016; General Assembly Draft resolution 14 April 2016 A/S-30/L.1). The nexus between drugs, drug control policies and sustainable development has been increasingly recognized. The UNGASS took the discussion a step further by integrating drug-related socio-economic and development concerns into a set of operational recommendations towards the adoption and implementation of comprehensive, sustainable development-oriented drug policies (UNGASS 2016). Today, AD interventions can be designed and used as pivotal strategic instruments in that regards.

Now, to fulfill renewed ambitions, adequate, if not greater means are needed - and therein lies the rub. **Despite a broader political momentum around AD and the need for a more development-oriented drug policy, international funding for AD remains rather limited and still reaches only a minor percentage of communities and households involved in illicit drug crop cultivation on a global level.** Historically confined to a small niche of policy intervention (Hynes and Alimi 2015), AD portfolios highly depend on external assistance. However, AD represents only 0.2% of overall development assistance commitments (ODA) for the period 1998 and 2013. Whereas on an increasing trend for a decade and despite a general rise of ODA flows, ODA commitments to AD started to decrease in 2008, counting for
0.1% of ODA share—back to its 1998 levels in percentage (UNODC 2015). Several Member states of the Commission on Narcotics Drugs have raised concerns over the modest levels of overall financial support to AD and are urging for enhanced and better coordinated financial assistance to tackle long-date and emerging illicit cultivation challenges (CND resolution of 22 March 2016 E./CN.7/2016/L.10/Rev.1).

Yet, AD interested stakeholders lack sufficiently evident-based instruments to attract long-term, flexible and smart funding from governments, international organizations and other possible contributors such as the private sector to implement AD interventions in a more sustainable way. In the development assistance sector at large, traditional forms of financing for development-related interventions are losing stream. Governments face budgetary pressure while the economic crisis is still impacting on global financing capacities. Donors are increasingly integrating development assistance into foreign and trade policies hence targeting the economic sectors in middle-income countries. Despite a stable outlook, aid is expected to decline in lower-middle income countries (OECD 2014a, pp.249-256; OECD 2014b p.20). Overall, it remains pretty unsure how far governments, international organizations and other possible contributors are willing to take the risk to invest in AD and more broadly in development-oriented drug policy. So what can be done to mobilize long-term, flexible and smart funding to match up to AD ambitions?

**Matching up to renewed ambitions**

International expertise underlines that AD “works best when it complements mainstream objectives, including governance, security, health, education and infrastructure investments” (UNGASS Roundtable 5 Background document p.7; UNODC 2015). It has been also strongly supported that AD success depends largely on its mainstreaming within global and national development strategies such as rural development, governance strengthening or environment protection (UNGPAD; ICAD 2 Outcome). Policy links can thus be drawn between AD and other sectors of the broader development agenda such as agricultural support, food security, land and market access, or climate change. Concurrently funding mechanisms require generating increased volumes of revenues to fulfill costly ambitions. At the image of the policy links made, financial support to mainstreamed AD thus also needs to be thought in terms of sustainability, cost-effectiveness and flexibility.

As a recent GIZ study shows (GIZ 2016), the global funding situation for AD seems to be evolving. Despite critical lack of funding and remaining challenges, domestic public investments in AD tend to be stabilized or on the rise, demonstrating enhanced ownership of AD interventions. Moreover, new funding avenues are being engaged, even though on a still modest and slow pace. Interested stakeholders are increasingly sharing the costs of AD and taking the risks of sustainability - both in terms of engagement and impact. AD interventions and their financing are being envisioned as bridges towards improved economic development, social integration, environmental protection, and possible creation of market niches centered on AD products. Although bumpy and often deviated due to resource shortages - among other challenges, such financing avenues appear to entrench further AD into a sustainability rationale, and as such, open up new windows for more flexible and long-term financing opportunities.
There is thus a need to broaden the reflection and rethink available funding options for AD beyond traditional patterns of financing. To that end, policy silos must be broken: drug and development policy communities of practice must learn from each other and direct efforts to jointly articulate policy and financing measures to respond to their interlinked concerns in an efficient and cost-effective way.

Over the past few years, the international community has been exploring heterogeneous sets of innovative sources and funding mechanisms for development-related interventions to better anticipate the consequences of the economic crisis and respond to its ambitions for the post-2015 era. Most notably under the auspices of the Leading Group on Innovative Financing for Development (LG), the international community has been reflecting on “innovative financing for development” - a complex myriad of technical mechanisms- to mobilize new resources, share the financial burden of development and catalyze multi-stakeholder investments, especially in the health and environment sectors (inter alia new taxes, carbon emission trading, development bonds, but also risk management tools, innovative credit instruments at all levels, global funds, smart subsidies, and private finance at close to market terms).

**A fresh look to funding options for AD**

As AD programming is being mainstreamed into broader development policies, and given the clear links between the SDGs and alternative development, associating AD funding to wider development finance schemes may constitute a relevant option to garner additional financial support for AD programs. In that perspective, exploring “innovative financing mechanisms for development” may help bridging the gap between what is available, what AD interventions can reach, and what instruments can be applied. On behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ), the GIZ “Global Partnership on Drug Policies and Development” (GPDPD) has launched a two-study project on the global funding situation and options for AD. In an effort to reflect on how broadening the spectrum of funding possibilities for AD, this study is a first attempt to map out and analyze existing innovative funding mechanisms used in other sectors of development-oriented policies (climate change, public health, emergency relief), in order to provide some insights into the strength and limits of these different mechanisms, identify potential new avenues and contributors, and test the viability and feasibility of such instruments in the field of AD. The main objectives consist in:

- **Providing interested stakeholders with a catalogue of options** to be used as a first tool for generating new ideas on how to find alternative resources and encourage their development into concrete initiatives;
- **Broadening the landscape of possibilities for AD funding** with the view of determining cost-effective, flexible and secure mechanisms that can ensure the scaling up, continuity and sustainability of AD interventions;
- **Strengthening the scientific basis for drug policies** as a whole, to better respond to emerging priorities and risks for future development.
Considering the vast palette of possible mechanisms discussed in the different sectors of international cooperation, this research provides an overview of such mechanisms and focuses mainly on the most relevant and feasible ones identified for AD. Data gathered through desk research have been analyzed in the light of perceptions and materials collected from interviews with key representatives from main AD donors and national governments investing in the field of AD, but also with experts from international organizations such as the OECD, involved in the international discussions on innovative funding mechanisms for development-related activities. This report therefore asks how the links between AD and “innovative financing for development” can be explored. It examines what kind of mechanisms could be relevant, where can be situated potential entry points for AD financing, and how far innovative financing for development may be scaled up or replicated in the field of AD. At a time of drug policy reshaping open with the UNGASS, the aim of this report is not to provide economic models of possible replicates, nor push for preferred mechanisms, but to open up some lines of discussion in the view of providing policy makers with new ideas to re-engineer and retool the existing financial framework for AD interventions.
I. Exploring the links: AD, development goals and innovative financing

Budgets for AD are highly constrained and limited. The dedicated ODA is on the decrease, and the levels of national funds to AD remain difficult to document (GIZ 2016). However, interestingly enough, the funding situation for AD is evolving: increased national support and cost-sharing mechanisms have been noted, while the spectrum of possible contributors is widening beyond traditional OECD donor countries. Nevertheless, AD does not represent a homogeneously and sustainably constituted portfolio. Considering implementation needs and challenges, interviewed AD practitioners appeared highly concerned over the lack of adequate volumes of revenues. They were also looking for expanded, flexible resource options and diversified partners. Now, despite recent efforts, it seems rather unsure how far the international community will be able to levy the needed funds out of traditional resources and funding mechanisms, which have tended to be more restricted and unpredictable in times of economic crisis as ours. So, how can additional resources be attracted?

This first section proposes to think outside the box of traditional AD funding. AD financing challenges resonate with those faced by the development sector at large: to meet current realities and ambitions for the future, renewed thinking about the means of action is needed. In this first section, the existing policy links between AD and sustainable development will be thus explored from a financing perspective. The ongoing international discussions on “innovative financing for development” constitute an interesting entry point in that regard. After a brief presentation of that debate, specific criteria will be suggested to determine how far such innovative avenues could apply to AD. Section II will later on detail a selection of innovative mechanisms and provide a first assessment of their potentialities for AD.

A. Mainstreaming AD: a path towards smarter financing

Funding providers tend to embark on AD projects with certain levels of reluctance. In addition to the climatic, price and market risks concomitant to any other rural development activities, AD counts on the competition of often violent, criminal organized groups that tighten the access to land and alternative livelihoods to their good-will and own rules of the game. As stressed during the interviews and recognized by interested stakeholders and experts (Outcomes of international seminars on AD 2016, CND 59, E/CN.7/2016/13 para.41), the absence of conclusive results and sufficient impact-assessment tools cultivates further the idea among fund providers that AD is unlikely to generate high enough returns, and enhances potential contributors’ reluctance.

Over the past five years, the approach to AD has increasingly been mainstreamed within a development-oriented rationale. Whereas AD has long been disputed, particularly on the grounds of its mixed records and misfits to local realities (Mansfield 2002; Thoumi 2003; Mansfield and Pain 2005; Vargas 2010; Buxton
lessons from experiences in Peru, Colombia, Thailand or Afghanistan, have been drawn. Increased dialogues among practitioners, experts and interested stakeholders, including state representatives, civil society organizations, producers’ organizations and academics, have contributed to refine AD away from a one-size-fits-all approach, towards plural and context-tailored models of interventions on the ground. Technical tools and guidance (UNODC 2008, 2010; GIZ 2011) have been developed taking into greater consideration the multi-functional role that illicit crops play in the socio-economy of the households. The missing links between the objectives of reducing the levels of illicit cultivation of crops used in the production of narcotic drugs, and the developmental imperatives to provide producers of illicit crops with sustainable economic alternatives are being filled (GIZ 2013; ECMDDA 2014; UNODC 2015). More and more, stakeholders intend to target the underlying factors and root causes of illicit cultivation and communities’ persistence in the illicit drug economy such as poverty, lack of infrastructure, poor access to land and market, weak rule of law, conflict and criminal actors’ violence, or else environmental threats (CND resolution of 22 March 2016 E/CN.7/2016/L.10/Rev.1). Despite the persistence of various interpretations of AD, reinforcing farmers’ capacities and resources is becoming a shared concern.

Beyond being an integral part of balanced drug policies, AD also links today with sectors of the broader development agenda (agricultural support, food security, land/market access, climate change). AD’s success depends largely on its mainstreaming within global and national development strategies such as rural development, governance strengthening or environment protection. Fifty per cent of the 14 countries that responded on the alternative development section of the CND annual report questionnaire declared having a national alternative development strategy as part of their national economic development plan (Report of UNODC Executive Director to CND59, 2016, E/CN.7/2016/6, para.49; UNODC 2015, pp.88-89). In the case of most active and interested stakeholders, AD is being indeed apprehended as a strategic component for the achievement of national development plans and a potential instrument to advance the SDGs in drug-affected areas. Certainly, this articulation of AD into wider development roadmaps implies greater diversification of costly activities (inter alia damaged soil rehabilitation, reforestation projects, infrastructures construction, social services provision, legal support). Considering that member states reported no significant change in the allocation of national budgets for alternative development programs in 2014-15 (ibid, E/CN.7/2016/6, para.53), one can wonder how far stakeholders will be able to match to their policy objectives.

Under such circumstances, thinking outside the box is necessary. The search for new funding mechanisms may be coupled with efforts to mainstream development oriented drug control in broader national and international assistance programs. As underlined during the UNGASS preparation, “in spite of its mandated crop reduction focus, certain components of alternative development must be viewed through the lens of broader rural and agricultural development,” governance strengthening and environmental protection (UNGASS roundtable 5 background p.8). **Mainstreaming AD can also encourage smarter funding and transform the gaps associated with composite AD portfolios into entry points for greater flexibility.** New evidence shows (GIZ 2016) that renewed strategies for AD have drawn smarter financing avenues betting on drivers of sustainability. Increased national support and cost-sharing mechanisms in some countries have been noted, while the spectrum of contributors to AD is widening. International support to AD is being diversified and energized from both OECD and non-
OECD donor countries, including in addition to the United States and the European Union, countries like Germany, Finland, the Netherlands or else Canada and Japan. New countries have expressed interest in AD support such as Russia, China and India. At national levels, the volume of public resource allocation has been on a steady, increasing trend such as in Thailand, Colombia, Peru and Bolivia. Some existing partnerships and funding mechanisms have further demonstrated that smart distribution of sustainable funds and sequencing of context-and community-tailored activities have potentials in achieving visible outcomes and attract new types of resources (UNODC 2015). There is potential to build on these new practices and common understandings to broaden the spectrum of financing possibilities.

Aligning AD policy outcomes to broader sustainable development goals can thus open new windows of opportunity to also venture investments within a broader development finance rationale and tap resources into innovative revenues streams. In other words, the policy linkages made between AD and broader development strategies can also be translated into potential financial solutions. In line with the policy nexus, synergies can also be generated between AD and development finance.

B. Opening up the reflection: Innovative financing for development

Although imperfect in its conceptualization and measurement, official development assistance (ODA) has been the main global instrument to share the costs of development and measures available volumes of concessional resources since its origins in the 1960s (OECD 2011). Under the Millennium Development Goals (MDG) agenda, ODA, combined with domestic resource mobilization, constituted the main source of funding for development-related interventions, reducing the finance rationale to a North-to-South approach. For example, as some interviewees underlined, in the early ages of AD, some forms of “aid dependency” happened to alter the way alternative development was interpreted and implemented. In limited cases, donors’ political interest happened to be prioritized over operational requirements on the ground.

Since then however, progressively the global landscape for development and development-related intervention has shifted and new realities needed to be reflected also in the way of thinking financing. In a pragmatic response to the limitation of ODA but also with the growing conviction that development is everybody’s business, many stakeholders have encouraged the transformation of development finance to respond to global realities and development challenges which embrace and interconnect global economic, social and environmental dimensions. Many forms of cooperation and supports have arisen from technical assistance to concessional funding and South-South cooperation models. The ODA concept is being more and more questioned and adapted. Measurements of development support take into greater account new types of flows and contributors: non-OECD countries have become one of the largest provider of ODA in relative terms (compared to the gross national income) and many so-called “recipient” countries are today both providers and hosts of development cooperation (Severino and Ray 2009, 2010; Greenhill and Prizzon 2012; World Bank 2013; WEF 2013; Hynes and Scott 2013; OECD 2014a).
With the adoption of the 2015 Sustainable Development Goals Agenda, there has been a broad recognition that there is no one-size-fits-all solution and that increased funding will be needed to meet global challenges (UNTT 2013). Multiple approaches are now possible and can be customized to the demands of a goal or program and to the specific context of intervention. Despite the fact ODA remains vital for sustainable development it does not constitute a unique and never-ending source of funding. Development support is increasingly sustained domestically and involves a wider range of contributors and resource streams. As underlined by the World Bank Group, the IMF and multilateral development banks in a Joint Statement on Financing for Development (April 16, 2015), the international community needs “to move from ‘billions’ in official development assistance to ‘trillions’ in development investments of all kinds: public and private, national and global” to meet the proposed sustainable goals. In this line, the agreement reached in the recent Financing for Development Summit in Addis Ababa (July 2015) encouraged to build the capacity of national taxation systems and to create an enabling environment to attract greater investments from the private sector. A follow up meeting of the Addis Ababa Action Agenda took place on April 18-20, 2016 to refine the concrete implementation of then-decided measures. Considering emerging challenges in the field of AD and anticipating UNGASS as a possible milestone for drug policy and its objectives, the same line of thinking may apply: AD financing needs to be dramatically reenergized, renewed and retooled in an innovative and coordinated way.

ODA certainly plays a key role in development finance, including in the field of AD where in some countries more than 80% of available funds for AD are external. Nevertheless, ODA is highly volatile and fragmented, and does not constitute the most reliable instrument available to support development interventions (Desai and Kharas 2010). The OECD has rigorously documented the relative weight of ODA and how foreign direct investments, portfolio investments and other forms of private finance are outpacing ODA growth. With USD 135 billion in 2013, ODA represents only 28% of all official and private flows to development. The sources of “external finance” for development are becoming increasingly varied. In addition, distribution of ODA needs to be rebalanced towards those countries whose funding capacities are the weakest, notably the “least developed” and “fragile” state groups according to OECD typology. If between 2000 and 2011, ODA grew by 63% overall, it has been indeed unevenly distributed across countries, preferably targeted to middle-income countries (OECD 2014a, pp.41-44).

In an effort to equilibrate development finance and overcome the multi-faceted challenges of global development, the international community started in the 2000s to reflect on how to raise additional and alternative sources of funding – an effort further stimulated by the constraints imposed by the global economic and financial crisis. In particular under the auspices of the Leading Group on Innovative Financing for Development (LG), multiple dialogues have taken place with development partners as a means to exchange experiences and find new ways to attract and raise steady, predictable and concessional funding (Sandor 2009). After the 2002 International Conference on Financing for Development in Monterrey where the notion of “innovative financing mechanisms” was introduced, pilot initiatives were first proposed in the form of an international solidarity taxation system by Brazil, Chile and France in 2004 with the support of the United Nations Secretary General to generate increased resources for the fight against HIV/AIDS (Landau 2004). Strong political support and international leadership led in September 2005 to the endorsement by 79 countries of the Declaration on Innovative Sources of Financing for Development, co-
sponsored by Algeria, Brazil, Chile, France, Germany and Spain. The Leading Group on Solidarity Levies (later renamed the Pilot and then Leading Group on Innovative Financing for Development) was created to conduct advocacy and technical work in that regard. Since 2006, the Leading Group (hereafter referred as LG) brings together 66 countries, private and multilateral agencies, and non-governmental organizations to develop practical proposals. Rapidly, the concept of “innovative financing for development” has become further integrated in the development discourse and new ideas have abounded and continue to flourish. Innovating financing has been promoted in multiple international cooperation forums at the UN, the World Bank or G8 or EU summits. By the end of the 2000s, several multi-stakeholder taskforces and leading working groups (such as the High Level Taskforce on Innovative International Financing for Health Systems co-chaired by the World Bank and the United Kingdom) had elaborated new and expanded forms of financing.

A wide set of innovative sources and instruments of development finance have thus been explored to enhance national funding capacities, to better anticipate the consequences of the economic crisis and respond to its ambitions for the post-2015 era, including climate change challenges. New taxes, carbon emission trading, development bonds, but also risk management tools, innovative credit instruments at all levels, global funds, smart subsidies, and private finance at close to market terms have been conceived to share the financing burden and broaden funding options for development interventions (Figure 1).

Some have been proven, others are still developing and new ideas are underway. Well-known examples include international solidarity levy on air tickets, the International Finance Facility for Immunisation (IFFIm), or the Advance Market Commitments (AMCs). According to recent studies, bonds and guarantees constitute so far the most employed innovative mechanisms (Figure 2).

**Figure 1 - Landscape of the main innovative financing mechanisms (2014)**

In the field of environmental protection for example, since the 1990’s a **complex global climate finance architecture has emerged**, both within and outside the United Nations Framework Convention on Climate Change (UNFCCC) financing structure, to support mitigation and adaptation efforts to the impacts of climate change. A proliferation of bilateral, regional, multi-stakeholders mechanisms - pooling public and private funds, is included under the ill-defined term of “climate finance”. Funding channels, objectives and governance structures are multiple whereas the types of climate finance available vary from grants and concessional loans to private equity and guarantees, offering a wide array of innovative, yet at times ill-coordinated, possibilities to access and support climate change initiatives (Figure 3).
While there is no internationally agreed definition of “innovative financing for development” (IFD), the palette of options developed can be classified into two main categories i.e. how the funds are raised and how the funds are spent. Accordingly, are differentiated initiatives and ideas generating new, sustainable revenue flows – “innovating sources” – and those optimizing the use and impact of traditional funding sources through creative and transparent spending instruments – “innovative mechanisms”. In addition to stressing on the importance of the complementary of IFD to traditional ODA, the LG prescribes that IFD must be thought with the view of correcting the negative effects of globalization and be aligned with the principles of aid and development effectiveness as coined in the 2005 Paris Declaration, the 2008 Accra Agenda for Action and the 2011 Busan Partnership for Effective Development Cooperation (LG 2014).

Several international bodies such as the World Bank, the OECD and the United Nations have also engaged in this debate, nuancing the normative and qualitative definition of IFD proposed by the LG, and offering various perspectives notably on the idea of “additional” funding. From one institution to another, the term
refers to extra resources for development, including or not increased levels of ODA, but also to flows beyond ODA eligibility criteria – creating measurability difficulties (OECD 2014a, p. 179). For instance, the World Bank refers to innovative financing as approaches that help (i) to tap new funding sources through budget outlays or bonds, and to engage new partners (e.g. emerging donors, private sector); (ii) to reduce the transaction costs and time, and thus ameliorate public and private flows efficiency; and (iii) to deliver result-oriented financial solutions linked to the specific development problems on the ground (World Bank 2009).

Giving greater prominence to beyond-traditional measures, the OECD considers a set of main criteria for mechanisms to stimulate actions in support to development: mobilization of new revenues streams (new tax, charges, fees, bond raising, sale proceeds or voluntary contributions schemes) earmarked to developmental activities, and not more effective use of existing funds; adoptions of instruments that are operational and offer new incentives to address market failures or scale up ongoing development activities; and use of mechanisms that involve cross-border resource transfers and the official sector (Sandor 2009; OECD 2011). Moreover, the United Nations includes mechanisms that share all the following characteristics: “(a) official sector involvement, including the use of public sector resources, as well as arrangements in which official financing plays a catalytic role in leveraging private sector and/or philanthropic resources; (b) international cooperation and cross-border transfer of resources to developing countries; and (c) innovation, in the sense that mechanisms are used in a new context or incorporate innovative features with respect to the type of resources or the way they are collected, or their governance structures” (United Nations 2012, p.ix).

The concept of IFD does not allow separating clearly funding, allocation and spending, and constitutes in itself a broad catalogue of options. Despite various interpretations and subsequent difficulties in measurement and identification of “innovation”, stakeholders nevertheless agree on the idea that innovative financing, when complementary to ODA and in compliance with aid effectiveness principles, can help to leverage alternative sources of funds while stimulating multi-stakeholder partnerships from various economic sectors. Perceived as a pragmatic response to the consistent volatility of aid and the negative effects of globalization, IFD mainly translates a shift in development finance thinking to better address highly risky and costly collective-action challenges. In the same line, as a new cycle for drug policy is being opened at the UNGASS, it appears timely to imagine how innovative financing could also be applied to renew AD thinking.

C. Determining criteria for applying IFM to AD

Although on a changing trend, AD still appears as a highly risky investment environment to many potential contributors especially to private actors. On the one hand, ODA resources have proved not to be sufficiently predictable for the programming of long-term Alternative Development projects (GIZ 2016) while the lack of AD impact assessments nourished further donors’ reluctance to endeavor AD spending. On the other hand, as stressed by interviewees, practitioners and producer communities are struggling to catalyze private funds. As any other agricultural sector, AD presents important price risks, especially due to the small volumes of possible production and the lack of stocks. The difficulty of having collaterals for credit and organizing producer cooperatives that would be providers of services and key actors to partner with
investors, in particular private banks or firms, fuels further counterpart risks. The costly entry to AD, the uncertain sustainability of AD production and the continuous competition of criminal groups widen the scope for market failure risks. Under these circumstances, IFM looks appealing. Imagining and applying IFM to AD could not only encourage policy-makers and practitioners to reduce the levels of risks to attract new resources, but also couple AD budgeting with wider financing systems such as development or climate finance and thus link financially AD with sustainable development objectives.

IFM presents numbers of benefits. It has the potential to transform AD finance from an unpredictable, vertically flowing financing system to a multi-flow and more flexible system. Developing innovative mechanisms for AD would allow stakeholders to:

- Help bridging the gap between available funding and required investments beyond traditional patterns of financing;
- Catalyze new types of investments such as private flows that could help bringing AD products to markets, and pool private and public investments in mainstreamed AD projects;
- Tap in new revenue streams such as bond raising, taxes, sale proceeds or voluntary contributions;
- Building up an environment favorable to fresh investments, develop incentives and alleviate the constraints for those who invest.

However, the added-value of those mechanisms resides in the way they will be selected, developed and implemented. Determining a set of specific criteria for applying IFM in the field of AD is essential to guarantee future financing to be inclusive, transparent and efficiently directed. Even though the discussions around a common and comprehensive definition of IFM and its forms of measurement and evaluation are underway, some generic criteria have already been coined. As clearly stated in the UN General Assembly resolution 65/146 of 2010, IFM should “supplement and not be a substitute for traditional sources of financing” and should “be disbursed in accordance with the priorities of developing countries and should not unduly burden such countries”. Key recommendations have been formulated by engaged international bodies aiming for efficient application and use of IFM (UNDP 2012; OECD 2014a). In addition to the criteria for assessment and evaluation of traditional resources, the Leading Group reiterated the imperatives for IFM to “complement traditional aid and be more stable, predictable, and reliable on the long-term and sustainable. Transparency, replicability, justice and equity as well as ability to create change can also be used as important assessment criteria” (LG 2013, point 8).

Some fundamental considerations have been underscored to ensure IFM delivers resources properly and efficiently which include country ownership and capacity strengthening, complementarity and effective coordination between initiatives, impact and leverage effects of funding. Regarding AD application, the criterion relative to the selection of resources and the utilization of funds from innovative mechanisms for sustainable agriculture development, food security and nutrition, as well as those for biodiversity and climate change as developed by the Leading group will be used as a starting point (LG expert group 2012, 2014). The expert group anticipates a set of specific considerations for the selection of IFM for agricultural support, stressing on:
The importance of estimation of needed amounts and resource mobilization costs so the transaction costs/fees do not surpass financial contributions;

Probability of impact and leverage effect on small farmers and low-income rural populations with regards to food security;

Fund management and implications on program governance (the inclusion of private actors in program design, planning and co-management would need to be taken with cautious so equilibrium is found between private interests and primary developmental objectives).

Alongside these criteria, three main perspectives will need to be particularly taken into account with regards to evaluating potentialities of IFM for AD:

- **Acceptability and feasibility**: The selection of IFM should be done on a voluntary basis and be engaged as part of an overall AD strategy integrating broader developmental and environmental considerations, so the selected mechanisms respond to beneficiaries’ needs while contributing to national development objectives. Considering IFM at the earliest stage of AD program design would further contribute to best orient selected mechanisms and develop program targets and objectives in consultation with all interested contributors. However, selected IFM structure and governance modalities would need to correspond to the funding and fund management capacities of interested stakeholders to ensure ownership of interventions, accountability and reduced transaction costs.

- **Suitability and relevant linkages**: IFM selection can only have sense if it is thought in terms of cost-effectiveness and development results. To that end, proper targeting of most relevant expected outcomes and new contributors is essential. Funding additionality comes indeed with objectives complementarity: rehabilitation and protection of soils, value chain activities, and farmer economic self-sustainability could be driving objectives. Regarding contributors, interviewees underlined that partnerships with and investments from private sector still lay way behind their potential. To achieve self-sustainability of communities, forms of market-integration cannot be overlooked. Efforts to link AD products with some forms of market demand (whether in the form of a market niche, perennial cash crops production, value-added products) are thus needed. In that perspective, reaching out to private actors and boosting private investments can multiply the chance to anchor AD beneficiaries further into the licit economy.

- **Win-win relationship**: Beneficial effects of mobilized resources and positive externalities of their use in terms of stakeholders and achievements are central. For example, a mechanism that would foster AD value chain while permitting environmental protection is a good fit. From a beneficiary point of view, contributors’ interests (private and public) would also need to be balanced and to not overlap or interfere with both the overarching goal of sustainable development and the definite exit of the illicit economy. It is thus central that the voice of beneficiaries – farmers and producers’ communities – is heard throughout AD planning and implementation process, so the financing can be directed in a coherent way and according to their needs, skills and future projects.
II. Opening up AD financing to innovative funding mechanisms

So what can be the potentialities of IFM for AD? Based on a review of the main innovative mechanisms available, this section provides a mapping out of innovative financing options in the perspective of injecting new ideas and informing policy debates over how can AD be best financed. Before exploring entry points for AD, let us start by recalling that the novelty of IFM is quite relative. For more than a decade, a complex myriad of technical mechanisms - as shown before - has been developed to mobilize new resources and catalyze multi-stakeholder investments, especially in the health and environment sectors. In the field of AD, as it will be noted, a rising number of countries have also been already engaged in various pilot projects involving innovative mechanisms. Although it is still too early in the process to evaluate the pros and cons of such mechanisms, these pilot projects are concrete examples of the possibility of a more flexible financing system for AD.

While the IFM potential is still largely untapped\(^1\) and their classification needs to be refined (UNDP 2012; OECD 2014), lessons are being learned and a catalogue of innovative options is therefore available and to some extent, applicable to AD. For clarity purposes, four main categories have been identified as well as a set of thematic criterion based on the mapping out rationales used by the World Bank (2009), the OECD (Sandor 2011; OECD 2014a) and UNDP (2012):

- International solidarity via fiscal instruments and voluntary contributions
- Frontloading and debt-based instruments
- Public-private incentives and market-based mechanisms
- Specific opportunities in Climate Finance

Under each category, examples of existing mechanisms will be detailed in order to illustrate their strengths and limits in optimizing the use of traditional and non-traditional sources. Their feasibility and adaptability will be indicatively assessed based on suitability, resource mobilization leeway and predictability, feasibility and governance management (including flexibility of implementation), probability of impact (here the social impact dimension is privileged), and win-win criterion. Entry points to the field of AD will be suggested and when possible, existing experiences of innovative instruments mobilization in the field of AD will delineate the potentialities of innovative finance.

\(^1\)Based on OECD estimates (2014a) the resources mobilized by such initiatives amount on average to USD 2 billion every year. This is an underestimation considering that only OECD definition of IF (not the UN or World Bank ones) is taken into consideration. The UN (2012) estimates underline that over USD 600 billion could be mobilized every year, i.e. five times as much as ODA.
A. **International solidarity via fiscal instruments and voluntary contributions**

The basic principle of international solidarity mechanisms consists in making the global capital work in a non-painful way. These mechanisms include fiscal instruments such as national taxes or international levies on globalized activities (transportation, travel, industrial revenues, financial transactions, carbon reduction, etc.) and voluntary contributions from private actors (local and transnational firms or philanthropic organizations). Under the first group of instruments – taxes and other charges on globalized activities – a small amount is levied from a purchase or a specific activity in a transparent and equitable way upon a sovereign decision. Under the second group– voluntary contributions – states, citizens (as consumers) and/or private actors decide to donate a determined amount, a small sum of a purchase or a small share of the profits made on marketed goods sales to a development fund or initiative. Voluntary contributions such as fundraising or charitable giving are evolving into larger ‘solidarity’ schemes involving citizens’ and corporate social responsibility. Contrary to fiscal instruments, the share dedicated to development interventions is not imposed and remains at the discretion of the interested stakeholders.

**Examples of existing instruments**

One of the first initiatives to be implemented and which became emblematic of innovative financing success was the **“International solidarity levy on air tickets”**. Launched in 2006 by France, Brazil, Chile, Norway and the United Kingdom, a micro global tax on air tickets has been levied on passengers of ten countries and channeled into UNITAID to sustainably fund medicines, diagnostics and prevention for HIV/AIDS, malaria and tuberculosis. The novelty resides in the fact that, in an unprecedented way, a tax would not be paid back in the country where it was levied but elsewhere and for the benefit of a specific development objective for the world poorest. It further underscores North-South but also South-South solidarity: passengers from 10 out of 29 UNITAID member countries, including Cameroon, Chile, Congo, France, Guinea, Madagascar, and Mali are charged at the time they purchase their tickets as a supplement to other airports taxes in the country of departure. Applied to all airlines, the levy can however range from USD 1 for economy-class tickets to USD 40 for business and first class travels according to the country. Since its inception in 2006, air ticket levy revenues have represented more than half of UNITAID’s fund over the past 5 years, 62% in 2014 (UNITAID 2014). Such instrument collects USD 224 million every year (OECD 2014a; UNITAID 2014) whereas France announced in 2013 to have collected close to USD 1 billion since 2006. By leveraging market dynamics, UNITAID’s funding contributed notably to reduce by 50% the price of AIDS drugs around the world and reduce by half the number of deaths caused by malaria since 2000 by expanding access to drugs (UNITAID 2014; Ban Ki Moon 2009).

The experience has been recently replicated to create cost-effective solutions to combat malnutrition with **UNITLIFE**. Launched right after the SDGs adoption, this new instrument introduces a micro-levy on each barrel of oil sold. The Republic of Congo is the first country to implement a tax of USD 0.10 per barrel. The Innovative Finance Foundation (2014) who developed the concept estimates that when expanded to 8 African countries, a 10 cents micro-levy would generate between USD 100 and 200 million annually,
depending on the portion of oil sales included. If all the world’s oil producing countries joined in, over USD 1, 64 billion a year could be raised.

Under the voluntary contribution group, one emblematic example is the **Product (RED) Initiative**. This instrument is based on the idea to create products and use parts of the generated benefits to fuel a multilateral fund or specific projects on the ground. In the case of (RED), credit card, iconic brands and other companies willing to contribute to development efforts have agreed to give a share of their profits on goods marked with the (RED) trademark to the Global Fund to fight AIDS, Tuberculosis and Malaria. Created by Bono and Bobby Shriver in 2006, (RED)-branded products and services trigger corporate giving to support the Global Fund HIV/AIDS grants in eight countries mainly in Africa to “AIDS free generation” by 2020. A division of the ONE Campaign, (RED) counts on the partnerships of transnational firms like Gap, Starbucks, Coca-Cola or Apple, and is seducing a growing number of other companies. Last January, the Customer Success Platform Salesforce announced a new partnership and a $5 million commitment to the Global Fund. According to RED website (2014), the initiative has generated over $350 million since its launch. In Tanzania, (RED) money contributed to provide more than 830,000 people with ARV prophylaxis treatment. Other examples of voluntary contributions include the Global Digital Solidarity Fund inaugurated in 2005 to enable marginalized people and countries to join the information society and MASSIVEGOOD that offered to travelers the option to make a micro-contribution of $2, €2 or £2 when purchasing a plane ticket. Launched in 2010 to support UNITAID and other global health causes, it was stopped one year later.

**Potentialities**

<table>
<thead>
<tr>
<th>Fiscal instruments</th>
<th>Voluntary contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Suitability and linkages</strong></td>
<td><strong>Strong</strong> – The basic principle of international solidarity through fiscal instruments can be expanded to a wide range of activities such as gas or mineral industries (Innovative Finance Foundation 2014) or natural resource management. For instance, France has pushed for a tax on financial transactions to raise climate funds. In discussion since 2011 within the European Commission, the proposal (EC 2013) has not been endorsed yet. Small tax rates are under consideration- between 0.1% or 0.01% - to be applied on equities and certain derivatives in the first instance. The implementation foreseen for 2016-2017 is still uncertain.</td>
</tr>
<tr>
<td><strong>Resource capacity and Predictability</strong></td>
<td><strong>Potentially strong</strong> – Depending on the number of participating countries and the sector of activity chosen and its particular environment of competition.</td>
</tr>
</tbody>
</table>

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2Created in 2004, the ONE Campaign is an international, advocacy and campaigning organization that fights extreme poverty and preventable disease.
**Feasibility and flexibility of implementation**  
**Strong** – Contributes to put the global capital at work in a non-painful way but constrained by consensus among interested stakeholders and public opinion.  
**Strong** – Can be implemented as part of a company marketing and demand/market creation strategies.

**Impact probability**  
**Potentially strong** – Depending on the sector of activity chosen and the effectiveness of the distribution system.  
**Variable, possibly limited** – Depends on a brand success and on companies’ capacity to redistribute the funds to the ultimate beneficiaries – no clear oversight available.

**Win-win relationship**  
**Strong** – Redirection of tax to a global development objective can help reduce the possible negative externalities of the chosen activity.  
**Potentially strong** – Participates to enhanced corporate social responsibility and citizen global solidarity as long as involved actors are willing to play the game.

### Possible entry points for AD:

- A small-levy could be decided on a series of relevant products such as fats/sugar products, including sodas using herbal products or coca/poppy as ingredients; on tea or coffee in tea/coffee producing or consuming countries; on fertilizers in agricultural countries providing the tax remains small enough not to affect farm income or agricultural activity and levied at the retail level - a measure being considered in the sector of agriculture support and food security (Abuja Declaration 2006). Depending on the targeted product, a national tax could be decided or discussions could be engaged with private companies selling targeted products to encourage voluntary contributions. It would demand increased efforts in making the case for AD. Arguments would need to be framed in a way so they reach the widest public as possible, and resonate to “global” concerns such as disrupting the drug trade chain and its negative consequences.

- Reflection could be broaden around the possible creation of an (AD) trademark or stamp for specific products originating or not from AD activities such as inter alia, handcraft, chocolate or coffee production. Companies could also select relevant products and brand them to reverse a share of their profits to a fund for AD, or partner with states to channel funds to specific projects on the ground.

*In the same line of thinking…*

Ecuador proposed at the 54th Session of the CND in 2011 to create a global stamp for products stemming from AD and voluntary certification to support the sustainability of alternative development products. At the image of the Fairtrade certification, such mechanism has been imagined to increase visibility of AD products on the market and ameliorate market access and commercialization of AD products through preferred tariffs systems and commercial partnerships. Nevertheless, this approach did not convinced many AD stakeholders and has been widely criticized, considering that AD products would need to be judged and sold on the same basis as any other products, i.e. their quality. As some interviewees underlined, AD products should be marketed “based on their quality and history. AD is about market, not special treatment”. In that perspective, in Thailand, the Mae Fah Luang Foundation made the choice to “tell the story of the product” and added, in addition to a UNODC logo, a mention of the specific origins of the materials used and of techniques that served to the confection of AD marketed products. At the difference of a global stamp, it does not put AD products aside, but place them at the same level of competition as the other products. It further encourages the development of a unique savoir-faire to be translated and ameliorated in the final production.
B. Frontloading and debt-based instruments

Frontloading finance consists in making funds (usually ODA or diaspora revenues) available earlier than usual. The idea is to leverage funds on international and domestic capital markets by issuing legally-binding bonds that are backed by long-term pledges from donor governments. For example, the World Bank has issued a number of “sustainable investing” bonds (World Bank 2009) targeting investors willing to maximize both social goods and financial returns. Financial firms such as BlackRock and Goldman Sachs Group are also launching investment products that take into account environmental, social and governance (ESG) factors (Davidson WSJ 2016). Diaspora bonds enter also under this category. First used by Israel, India, Lebanon and Sri Lanka, they consists in debt-instruments issued by a country to its own diaspora abroad to tap in their wealth in their host country, and be repaid in the future. Nevertheless, frontloading finance mainly entails converting future ODA commitments into bonds sold to the market and counts as ODA when donors repay bonds at a future date. It allows to make higher levels of funds available more rapidly and thus to give an initial push to urgent causes like disease outbreaks.

Other debt-based instruments include debt swaps. Contrary to frontloading instruments that create a new debt to advance the availability of funds, debt swaps convert existing debts into increased expenditures on development interventions under an agreement with the creditor. Reducing the debt burden while allowing up-front availability of funds, these instruments bind the debtor to invest the equivalent amount of the debt relieved in an approved development program or to a fund like the Global Fund to fight AIDS. Such instruments have been used in the health and education sectors, first on an ad hoc basis (UNESCO 2011). Debt instruments are innovative in the way they optimize the use of existing funds, but do not represent an additional source of funding per se as debt conversion is reported most of the time as ODA by donors.

Examples of existing instruments

The International Finance Facility for Immunization (IFFIm) is a proven effective innovative financing mechanism of frontloading finance. Conceived as a pilot program in 2004 and pioneered by the UK, IFFIm allows selling “vaccine bonds” in capital markets backed by 20-year pledges from 9 countries providers of aid. It accelerates the availability of funds – eligible under ODA criteria –for the public-private partnership Global Alliance for Vaccines and Immunization (GAVI) immunizations programs. Thanks to a “buy now but pay later” approach, IFFIm has risen more than USD 5 billion since its creation – nearly doubling GAVI’s funding to increase children’s access to vaccines in 70 countries and reduce the price of those vaccines. The World Bank acts as its treasury manager and funds are channeled through GAVI. IFFIm has also engaged non-traditional investors in global development, for example through a “Sukuk” issuance complying with Islamic law. The GAVI’s IFFIm has been recognized as an instrument ensuring greater predictability (Ban Ki Moon 2009). The Addis Ababa Summit of 2015 encouraged the expansion of such instrument to other global issues.

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3“Sukuk” generally refers to the Islamic equivalent of bonds. As opposed to fixed-income and interest-bearing conventional bonds, which merely content ownership of a debt, Sukuk grants the investor a share of a portfolio of eligible existing or future assets, along with the commensurate cash flows and risk.
In 2007, a **Debt2Health** initiative was launched under the Global Funds to Fight AIDS, Tuberculosis and Malaria. Bilateral debt conversion agreements are decided and the Global Fund is used to channel and disbursed the reallocated funds. For the first time, debt swaps are carried out through trilateral arrangements to reinvest debt repayment into health. Five agreements have been concluded so far, according to the latest available data (Global Fund 2016; World Bank 2011a): Germany and Indonesia for €50 million, Germany and Pakistan for €40 million, Australia and Indonesia for AUD 75 million, Germany and Côte d’Ivoire for €19 million; €6.6 million between Germany and Egypt.

### Potentialities

<table>
<thead>
<tr>
<th></th>
<th>Frontloading</th>
<th>Debt swaps</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Suitability and linkages</strong></td>
<td>Average – As it has been designed essentially for relatively urgent and quick disbursement needs.</td>
<td>Strong – Considering that debt money can be disbursed on a wide range of development projects, upon mutual agreements between interested parties.</td>
</tr>
<tr>
<td><strong>Resource capacity and Predictability</strong></td>
<td>Potentially strong – Secures the immediate availability of larger volumes of funds and allows higher value for money; but depends on continuous donors’ commitments and interest, and on market conditions.</td>
<td>Variable – Often an exceptional and negotiated agreement used on a short-term basis.</td>
</tr>
<tr>
<td><strong>Feasibility and flexibility of implementation</strong></td>
<td>Potentially strong – May function with a limited number of committed stakeholders.</td>
<td>Strong to variable – May lead to complex processes and high transaction costs as debt conversions involve multiple stakeholders and negotiations.</td>
</tr>
<tr>
<td><strong>Impact probability</strong></td>
<td>Potentially strong to average - As long as flows are targeted to a precise objective and channeled accordingly; allows rapid scaling up. However <strong>may not be a good fit for agricultural-related activities</strong> that demand longer-term commitments more that urgent picks of disbursements.</td>
<td>Strong – Effective earmarking of budgetary funds and smart reallocation of funds can enhance country-ownership of intervention and increase the chance implemented programs respond at best to beneficiaries’ needs.</td>
</tr>
</tbody>
</table>
Win-win relationship

**Potentially strong** – Provides a market-based interest rate for donors contracting the new debt, a socially responsible return and counts as ODA.

**Strong** – Enhances the convergence of financial and social/development interests; foregone debt is counted as ODA.

Possible entry points for AD:

- **“Debt2AD” schemes** could be developed between debtor and creditor countries that are already engaged in AD cooperation. It would need to be carefully considered and applied in countries where there is already a wider debt-restructuring process underway. This type of schemes might be used on a project-basis and may not fit for a long-term AD strategy since they often rely on an exceptional and negotiated agreement used on a short-term basis. Nevertheless, it would allow greater flexibility and free up funds for AD interventions.

In the same line of thinking…

In 2010, a debt swap agreement has been signed between the Governments of Peru and Germany to finance the **“Tocache Uchiza II – PRODATU II” project** for an amount of approximately €10 million (Peruvian government decree 215-2010-EF, published in the Official Journal of October 29th 2010). PRODATU II aims at generating new income avenues for the communities outside of the illicit coca cultivation business, and promoting environmental preservation in the Tocache Province (San Martin Department) and Cholón district (HUánuco Department). The project contributes to fulfill three main objectives: strengthening producers organizational and association capacities through the promotion of investments in product processing and marketing; stimulating productivity notably through the development of infrastructures and environmentally sustainable practices; and supporting better management of natural resources. As part of the projects achievements, between January and October 2014, 8 business plans have been developed with producers’ organizations of cocoa, coffee and livestock to access financing from AGROIDEAS – a public compensation Program of the Peruvian Ministry of Agriculture to increase competitiveness in the rural sector.

C. **Incentivizing private investments: risk-mitigation and market-based mechanisms**

Interviewed development assistance and AD stakeholders emphasized the important role of private investments for securing sustainable funding in key sectors such as infrastructures, value-chain activities and strengthening of beneficiaries’ economic integration. In the field of AD, reaching-out strategies are being explored notably in Thailand, Colombia and Peru. Now, long-term time horizons attached to development-related interventions, problems related to asymmetric information or else the lack of adequate legal or guarantees frameworks contribute to raise unattractive risk-return profiles of many development investments, including for AD. In addition to associated market failures, development investments are perceived as highly costly and risky, considering that many private investors operate on the basis of annual performance schemes and tend to have limited experience or
knowledge of development-type activities and corresponding investments environments. Mitigating the risks attached to development interventions, and finding the right combination of risk and returns remain critical to attract private capital (World Bank 2013, pp. 23-28). Incentivizing private investments thus demands increased attention from public actors and investors to reducing the risks attached to development intervention and finding ways to tie social outcomes to financial returns. To enhance private actors’ confidence in, and the viability of development-related investments, a wide range of negotiated financial solutions have been elaborated, including pull mechanisms, guarantees, insurance products and securitization schemes.

**Pulling mechanisms** are result-based incentives (or ex-post rewarding) designed to encourage private capital investments and innovation. It brings advanced projects to targeted beneficiaries (for example technologies, technical innovations, vaccines, pharmaceuticals etc.) by providing assured public funding for tailored goods and securing the demand for those goods in an environment subject to market failures. Advanced market commitments (AMC) represent one of the main mechanisms used under this category. Other mechanisms include standard prizes (reward achievements in a technology development contest), proportional prize structures (reward innovation according to their impact and benefits), and patent buyouts (transferred ownership of an existing patent to the public domain). In particular, AMC are being explored to reduce the risks attached to agricultural activities and support (World Bank 2012; AgResults 2016).

**Index-based insurance schemes** are also progressively being developed to mitigate the specific risks associated to agriculture notably climate hazards (IFAD 2011). Complement to other risk-mitigation instruments and one of the many existing agricultural insurance products, weather and/or crop index-based insurances can cover farmers without the need for loss assessment and assist them in improving their ability to borrow, and in return to pretend to higher returns. The development of a specific parameter measurement system is required which imply implementers to have specific skills and capacities to that end. The insurance can protect against too much or too little rainfall, for instance. The indemnity system is structured around the realizations of a specific weather parameter compared to a pre-specified threshold, and is paid based on a pre-agreed sum. Often technically challenging, particularly regarding the need for accurate and reliable data for establishing the index and the conduct of risk-layering and assessment exercises, these instruments demand heavy financial and policy support from governments and remain difficult to successfully scale-up at the farmer level (World Bank 2011b; IFAD 2011). Nonetheless they are worth attention considering that i) they reduce the administrative costs attached to traditional insurance schemes based on individual evaluations sometimes difficult to conduct in developing rural areas, and ii) they can be used to protect against both catastrophic and daily operational risks.

Facilitating access to credit through public/private incentives can also help to stir entrepreneurship and value-chain activities, and promote the development of local capital. Yet, banks lack sufficient guarantees to secure loans, especially in the agricultural sector. Small-scale farmers are often unable to provide information on their creditworthiness due to insufficiencies of appropriate accounting records and collateral. **Credit guarantee schemes** (CGS) may help identifying the lending risks (Levitsky 1997). They have been initially
developed for small and medium size enterprises, and have been well-experienced in India and used by the European Bank for Reconstruction and Development (EBRD) in its agricultural financing activities. **CGSs are designed to limit the risks of lending to small organizations: guarantee funds are created to cover a share of the default risk of a loan without relieving the banks from their credit responsibility.** In the agricultural sector, CGSs involve, on the one side, commercial banks or microcredit institutions and, on the other, guarantee providers – a development or central bank, or a specialized institution, with a guarantee fund able to cover the possible losses in case of a default payment from the borrower. Nevertheless, knowledge regarding the impact of guarantee schemes remains limited (Mirabile et al. 2013).

To further tie social outcomes to financial returns, an innovative type of bond has been imagined: development impact bonds (DIB). Based on the social impact bonds' model, **development impact bonds are outcome-based mechanisms that provide upfront funding by private investors for a specific development project or outcome in return of remuneration by donors or host-countries when the targeted and achieved programs meet pre-agreed outcomes** (Figure 5). Repayments are contingent of verified progress and results. Designed to foster innovation and flexibility, DIB appear as a new “business model” based on a “pay for success” approach (CDG 2013). They present the opportunity for investors to fulfill their objectives of returns while financing a program intended to have a social impact (delivering social services and outcomes); for service providers to leverage early volumes of working capital for development and use the skills and expertise of private investors to improve service quality and delivery effectiveness (given that investors assume the financing risks, they are likely to develop the necessary tools to increase program’s chance of success); for governments and donors as outcome funders to repay investors only if targets are met, and to shift the risk of failure to investors.

**Figure 5 - Making development interventions "investible opportunities": Development Impact Bonds**

![Diagram of Development Impact Bonds](image)

Source: Center for Global Development (2014) Development Impact Bonds Briefing Note, April, p.1

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4First launched by the UK-based Social Finance Ltd. in 2010, a social impact bond is a mechanism where investors pay for a set of interventions with social objectives and is repaid plus a return for the financial risk by government commissioners once the social outcome is achieved.
An enabling business environment with regulatory frameworks, clear tariffs and transparent bidding processes, reliable payment mechanisms, is however needed for all these market-based mechanisms to be effective (OECD 2014a, pp. 145-156). Developing management capacities, securing quality project preparation, including economic, financial, technical and environmental feasibility studies taking into consideration all stakeholders’ needs and capacities, and promoting linkages between foreign affiliates and local enterprises are critical to guarantee sustainability, predictability and effectiveness of such mechanisms. In this line, promoting social entrepreneurship at local levels may efficiently incentivize private sector to engage and mobilize resources, and eventually achieve a win-win situation of profitability and development outcomes.

Examples of existing instruments

Advanced Market Commitments (AMC) constitutes a successful instrument to encourage private sector engagement. Developed as a response to market failure in research and development for new vaccines against malaria, tuberculosis and HIV in Africa (Kremer 2001), an advance market commitment creates the incentives to catalyze market creation and development. The Advanced Market Commitments (AMC) for pneumococcal vaccines launched in 2007 by Canada, Italy, Norway, Russia, the United Kingdom and the Bill and Melinda Gates Foundations encourage companies to invest in the development of affordable vaccines tailored to the needs of targeted beneficiaries by securing a market through a legally binding agreement. Donors commit upfront to buy vaccines that are needed but unaffordable for those in demand, at a set price once those vaccines will be available. Companies receive the committed funds to develop and produce at needed volumes a product that otherwise would not have been commercially viable. Once the initial decided amount of sales is reached, subsidized manufacturers are legally obliged to continue selling the vaccines at the set or affordable price to developing countries, or to license their technology to other manufacturers. Donors collectively pledged of a total of USD 1,5 billion to guarantee the price of vaccines and GAVI an additional USD 1,3 billion of its own funds through 2015. Supply contracts were awarded to GlaxoSmithKline and Pfizer Inc. This demand-driven mechanism is now in its sixth year of implementation and contributed to the procurement of 133 million doses of pneumococcal conjugate vaccine (PCV) in 2015, a 33% increase from 2014 (GAVI/AMC 2015). Despite an apparent easy functioning, the management structure of AMD can be complex and imply a wide range of stakeholders: the World Bank and the GAVI Alliance are providing financial and programmatic support, while the criteria for vaccine safety are set by the World Health Organization, and their procurement and distribution by UNICEF.

In the agricultural sector, following the encouragements of the parties of the 2010 G20 summit in Toronto, Canada, the United States, the United Kingdom, Australia and the Bill & Melinda Gates Foundation with the support of the World Bank launched the Agricultural Pull Mechanism (AGPM) Initiative to developed practical, pilot proposals to enhance smallholder farmers’ welfare and food security through better access and adoption of agricultural technology and innovation (World Bank 2012). Renamed AgResults after the G20 Summit in Los Cabos, Mexico, in June 2012, the USD 118 million multilateral initiative develops pilot projects to promote widespread adoption of agricultural technology that would improve productivity, income and nutrition of smallholder farmers, and test the effectiveness of pull mechanism in the agricultural sector.
sector (AgResults 2016). Prizes of multiple natures are rewarded based on results achieved and verified at the end of a competition. Different projects are being piloted in Kenya (Kenya On-Farm Storage Pilot, April 2014) or in Vietnam (Vietnam Greenhouse Gas Emissions Reduction Pilot, September 2015, USD 3.6 million). Besides prizes, AgResults has also launched the Brucellosis Vaccine Pilot (targeting livestock animals) last January on an Advance Market Commitment scheme – an initiative quite unique in this sector.

To date, only one pilot model of DIB is under test: the **Educate Girls Development Impact Bond** in India – a joint project between the Children’s Investment Fund Foundation (CIFF), the India-based NGO Educate Girls and the UBS Optimus Foundation. This project is designed to increase enrollment for girls and learning for children in the district of Bhilwara in rural Rajasthan, India. UBS Optimus acts as the investor, financing the project implementation, while CIFF pays for enrollment and learning outcomes as ascertained by IDinsight, an independent evaluator. This three-year project (2015-2018) managed by Instiglio works as followed: for every increase in girl enrollment, the outcome funder — the Children’s Investment Fund Foundation — pays the investor – UBS Optimus Foundation a portion of a return on its investment but assumes the first loss risk if pre-agreed objectives are not fulfilled.
### Potentialities

<table>
<thead>
<tr>
<th>Suitability and linkages</th>
<th>Pull mechanisms and Advanced Market Commitments</th>
<th>Guarantee and insurance tools</th>
<th>Development impact bonds</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Potentially strong</strong> – The scaling up and expansion of such instruments has been slower than expected but the G20 encourages their developments in other sectors.</td>
<td><strong>Potentially strong</strong> – Designed to increase access to credit and to protect against high or catastrophic perils</td>
<td><strong>Average</strong> – Can be extended to different development sectors but depends on long-term commitments</td>
<td></td>
</tr>
<tr>
<td><strong>Resource capacity and Predictability</strong></td>
<td><strong>Average</strong> – Depend on donor’s resources to lower the price of the goods and capacity-development of partner countries given that they are expected to assume the costs later on</td>
<td><strong>Variable</strong> – Depend on risk-assessments and central banks and financing institutions’ willingness to take a share of the default risk.</td>
<td><strong>Potentially strong to average</strong> – Despite a strong leverage capacity, such mechanism depends on long-term commitments and investor’s willingness.</td>
</tr>
<tr>
<td><strong>Feasibility and flexibility of implementation</strong></td>
<td><strong>Average</strong> – Considering AMC management structures can be complex.</td>
<td><strong>Variable</strong> – Demand strong technical skills, capacities for risk-assessments development and reliable information.</td>
<td><strong>Strong</strong> – Management is independent and can be hosted by existing structure</td>
</tr>
<tr>
<td><strong>Impact probability</strong></td>
<td><strong>Potentially strong to average</strong> – AMC funds are earmarked and demand driven, but depend on donor’s financial contributions, private actors’ willingness to participate and adequate planning and market assessments.</td>
<td><strong>Potentially strong</strong> – If well designed, can improve creditworthiness and create incentives for activity intensification.</td>
<td><strong>Potentially strong</strong> – Given that financial returns are tied to achieved social results, incentives are created to focus on outcomes and maximize impact</td>
</tr>
<tr>
<td><strong>Win-win relationship</strong></td>
<td><strong>Potentially strong</strong> – If commitments are fulfilled once the start-up phase has passed.</td>
<td><strong>Average</strong> – Considering the constraints posed by a small-scale production environment.</td>
<td><strong>Strong</strong> – Favor the alignment of interests of all parties - private investors, public service providers, governments and donors; stimulate the achievement of mutually agreed outcomes.</td>
</tr>
</tbody>
</table>
Possible entry points for AD:

- Limited access to credit and incapacity to pay high interest rates entailed to private loans prevent communities to exit sustainably from illicit crop cultivation and invest in new products and activities (UNODC 2015, pp.93-96). **Innovative (micro-) credit tools** would incentivize the constitution of saving schemes and stocks. Adapting a “warehouse receipts system” to small scale AD cultivation may reduce the marginalization of communities, guarantee existence and availability of products and increase access to credit. The mechanism consists in depositing storable, non-perishable goods in a warehouse against the delivery of a receipt. This receipt provides a guarantee to lenders and can be used as collateral for credit. In fine, such mechanism may contribute to infuse funds into value chains activities and foster producers’ initiatives. However, it might not be applicable at the early stages of AD or to any alternative crops developed as it demands to have secured the basic conditions enabling producers to constitute some levels of stocks – a very complex task when testing the viability of alternative crops.

- Risk reduction schemes could be relevant to mitigate the costs and investments hazards of AD. Although the AMC concept is still under development and tested in the field of agricultural support (LG expert group 2012), one entry point could be to adapt and recalibrate the approach to the field of AD. Considering that AMC intend to **create a market where it does not exist yet**, its use could help testing for example a private seeds market and securing its development upon results. Experimental fields could be allocated to private companies to test new crops. Government would allocate the research field and human resources while the private company activities would contribute to bring innovative on-farm equipment and diversify activities and revenues opportunities for local producers. The arrangements would however work only if the company manages to build up a stable market once the start-up period is over, and a careful assessment of beneficiaries’ cultivation conditions and projects is conducted.

- Being pro-active in creating conducive environments to attract **private funds/actors at the earliest stages of AD planning** and developing public-private partnerships is critical to sustain AD outcomes. On the one hand, public-private partnerships might broaden the palette of resources streams to share the costs of needed equipment and infrastructure. For example, as used in the renewable energy sector for plants constructions, leasing agreements could be contracted between public and private agencies for the construction of irrigation systems on the basis of a “build-own-operate contract”: private capital is invested for the construction of the irrigation structure that will be purchased by the government once built, reimbursing the loans to the entrepreneur. The structure is leased back to the entrepreneur who then operates it. On the other hand, such partnerships would also contribute to taking over AD products on the market place and maximize the value chain. Thinking AD in terms of social entrepreneurship could enhance private actors’ interest and contributions to AD interventions.

In the same line of thinking…

Increased private sector participation has been noted in Thailand, Peru, Colombia and is being initiated in Myanmar. It is however worth underlining that the nature of private engagement varies according to the stage of AD implementation and the specific context of interventions.
In Peru, DEVIDA as part of the PIRDAIS program (2016-2020), links cacao production in the Amazon region directly with European importers of high-quality cacao. In addition, DEVIDA promotes the participation of producers of the departments of San Martín, Ayacucho and Huánuco to national, regional and international fairs - from the Salón del Cacao y Chocolate in Perú to the Salon du Chocolat of Paris - to bring AD products to the market and demonstrate local product quality and added-value at such events. The participation to those events contributes to build a positive image of the product and in turn boost its position on existing markets.

In Thailand, as part of the Doi Tung Development Project of the Mae Fah Luang Foundation, AD is apprehended under a social entrepreneurship model. Producers’ traditional skills are identified and integrated throughout the value-chain. Market studies are fully integrated to the planning phase and product potentials are examined in the light of local, national and sometimes regional demand or possible needs assessments. Products are developed with the idea that they must generate a certain return on investment and be attractive to incentivize private engagement. For Doi Tung practitioners, the plus of AD products resides in the story with which they come and in the unique savoir-faire of communities that produce them – hence the development of a specific branding. Under this model, AD programs integrate business plan components to be sustainable and ask what can AD brings to the world and its markets, in addition to the development outcomes associated to the exit from illicit crops cultivation. The Mae Fah Luang Foundation has therefore developed reaching-out strategies to involve Thai, Japanese and international companies in AD value-chain. Companies like Ikea or Muji are now supporting AD notably through the development of special lines of products sold at a price translating the high quality and the added-value of the product. In addition to gained social returns, private sector participation widens local producers’ outlook in production, marketing and commercialization and allows constant improvement in products’ quality and standard to meet and further stimulate demand.

D. Climate Finance instruments

The international architecture for global environmental issues is complex and fast-evolving, as mentioned in section I. Proliferating financial mechanisms and tools take a variety of forms including pool funds, carbon finance, credits, fiscal instruments, equities or else crowd-funding. These instruments have been elaborated to meet the objectives set in the climate change conventions established since the 1992 Rio Earth Summit. The recent agreement reached at the Conference of the Parties (COP 21) in Paris in December 2015 broadens further the way public and private investors can engage in climate finance. The recognition of the existing synergies between environmental and developmental actions that are at the core of the SDGs has been translated into a more holistic approach to finance where environmental considerations are integrated in all relevant development-oriented activities and investments. Participating to the “greening of ODA”, multi – and bilateral pooled funds such as the Global Environment Facility, the Green Climate Funds or the Adaptation Fund – the financial mechanisms of the UNFCCC, provide new revenues to a wide range of earmarked development and environmental activities (OECD 2014a pp.211-213). Moreover carbon finance has created a new globally traded commodity - the purchase of greenhouse emission reductions in developing countries to compensate emissions by governments and firms in developed countries. Under this category, the Clean
Development Mechanism (CDM) for example allows emission-reduction projects in developing countries to earn saleable credits, each equivalent to one ton of CO2, to be traded by industrialized countries to meet parts of their emission-reduction targets under the Kyoto Protocol. Noting the vast palette of options offered under climate finance, this section will however present only a small sample of them, with a focus on those that are directed to relevant objectives for AD i.e. land management, reforestation and/or sustainable agricultural practices in marginalized rural areas.

Climate finance tools are becoming increasingly relevant for activities related to global agricultural support (LG expert workshop 2014), and can be recalibrate to the field of AD. Although not fully established and fix yet, a new concept - “climate-smart” agriculture (CSA)–is being developed. This approach aims at (re)orienting agricultural systems to effectively support development, food security and increase agricultural productivity in a changing climate, while building communities’ resilience to evolving environments (FAO 2010). Local needs and potentialities are explored in the first place to meet specific agricultural and climate challenges encountered in targeted areas. It could be an interesting perspective to consider reframing the approach of AD financing given that it would embed AD interventions in both sustainable policy and financing frameworks and add flexibility to project funding.

Examples of existing instruments

Financing mechanisms that combine scaling up of climate change adaptation with agricultural support are flourishing. Payments for Ecosystem Services (PES) tools like the Reducing emissions from deforestation and forest degradation initiatives (REDD+) in particular, offer clear incentives and financial rewarding to farmers, landowners and governments in beneficiaries countries that take remedial actions to protect or manage their land in a way that effectively reduce degradations. Developed by Parties to the United Nations Framework Convention on Climate Change, REDD+ has created a “financial value for the carbon stored in the forests” - restoring the value of standing forests over the value of activities and products derived from deforestation and degrading land practices. Benefiting 48 countries, USD 1.3billion has been approved for REDD+ activities since its creation in 2008, with a 21% increase last year. 59% of approved funding targets Latin America and the Caribbean (ODI/HBS 2015). Several institutions including carbon multilateral funds are contributing to REDD+ finance – USD 2.89 billion has been pledged since its creation to five multilateral climate funds that support efforts to reduce emissions from deforestation and degradation and support conservation and land management. REDD+ is increasingly supporting developing countries to move beyond capacity building and readiness towards demonstration programs and emission reductions with payments based on verified results.

Born from a private initiative, the Livelihoods Funds - the Livelihoods Carbon Fund and the Livelihoods Fund for Family Farming (or Livelihood 3F) - created in 2011 as an expansion of the Danone Fund for Nature are another example of how innovative financing mechanisms may reinforce the interlinks between environmental and agricultural support. The Funds enable investors to get a tangible return in the form of high-quality carbon offsets (that can be sold on the carbon market later) when investing in projects of forest restoration, agro-forestry and rural energy - all projects being co-designed with private investors. Currently open to new investors, the Livelihood 3F fund includes transnational companies, public institutions, and
non-governmental organizations. Starting with an initial capital of €120 million, the Fund’s projects are designed to provide small farmer communities with free training, support and equipment to implement agricultural practices that increase their productivity and incomes. Project developers benefit from increased resources and technical support while private investors test and implement large-scale sustainable sourcing projects connected to their own supply chain, and public actors gain access to a platform of partners.

Potentialities

<table>
<thead>
<tr>
<th>Payments for Ecosystem Services</th>
</tr>
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<tbody>
<tr>
<td><strong>Suitability and linkages</strong></td>
</tr>
<tr>
<td><strong>Strong</strong> – Combine in a synergetic way public and private funds toward pooled efforts on climate change adaptation and development/agricultural support; nevertheless imply a shared approach of land management between all stakeholders – a pre-condition that can be difficult to meet considering differing politically entrenched positions among countries on that issue.</td>
</tr>
<tr>
<td><strong>Resource capacity and Predictability</strong></td>
</tr>
<tr>
<td><strong>Potentially strong</strong> – May channel fast-track financing to agriculture support, but lack of coordination and increasing proliferation of tools make it difficult to accurately monitor the flows of climate finance instruments and measure their impact on a sector basis.</td>
</tr>
<tr>
<td><strong>Feasibility and flexibility of implementation</strong></td>
</tr>
<tr>
<td><strong>Average</strong> – Can be difficult to set up as well as to manage given that such instruments imply multiple actors, resource flows and complex administrative structures.</td>
</tr>
<tr>
<td><strong>Impact probability</strong></td>
</tr>
<tr>
<td><strong>Potentially strong</strong> – Funds are earmarked, but their impact yet depends on adequate planning and sequencing of funded projects.</td>
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<tr>
<td><strong>Win-win relationship</strong></td>
</tr>
<tr>
<td><strong>Potentially strong</strong> – Safeguard implementation of projects designed to promote smart productivity through environmental and socially sustainable use and conservation of land and forest resources.</td>
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</tbody>
</table>

Possible entry points for AD:

- Entrench into and synergize AD interventions with rural development/environment strategies such as REDD+ or other forest or land protection mechanisms – a win-win instrument allowing to work productively the land and to protect a global good. Mainstreaming environmental considerations into AD national and international strategies may have a positive rebound effect on its financing. It would open up more flexible and cost-effective options while incentivize policies for regulating “global environmental bads” while securing local alternative livelihoods and sustainable agricultural practices.

In the same line of thinking…

Since 2013, Colombia, Germany, Norway and the UK have teamed up for an ambitious program that supports the goal of zero-net deforestation in the Colombian Amazon by 2020. To achieve this goal, the Colombian Amazon Vision Program and national strategy for REDD+ have been developed in an effort to incentivize policies for reducing deforestation and promoting development in a more streamlined and comprehensive manner. In the context of REDD+, donors committed around USD 100 million to result-based finance to be implemented through the German initiative Early Movers Program (REM). AD components are well-integrated into the agri-environmental development pillar - one of the five key pillars of the policy. Focusing on improved environmental zoning and land-use planning instruments, the policy
Aims at improving the well-being of local communities and productive development. It promotes sustainable practices and value addition across the productive chains and aims at ameliorating market access and alternative livelihoods while preventing deforestation. Based on the “do no harm” principle, the initiative foresees 60% of funds to benefit local actors.

Although not specifically targeting illicit drug cultivation zones alone, the United States Agency for International Development (USAID) in Colombia has developed in 2011 a BIOREDD+ portfolio made of 14 REDD+ projects on Colombia’s Pacific Coast totaling over a million hectares (1,101,535 has) to tackle forest degradation and deforestation, which arise largely from selective, illegal logging and the conversion of forests to agriculture and livestock. Grouped into four REDD+ Nodes, each with similar forest types and different but related deforestation drivers, the 29 collective territories targeted belong to ethnic Afro-Colombian and indigenous communities who have voluntarily agreed to participate to REDD+ projects and who detain land titles and property rights recognized and protected by Colombian constitutional law. Investors in BIOREDD+ will have 50% of their investments in both the carbon and productive elements of the project guaranteed by the US Government’s Development Credit Agency (DCA) (Reddesk 2013).
Conclusive remarks

This study provided an overview of existing innovative financing mechanisms for development in the perspective of broadening the financing options for sustainable, cost-effective and successful AD. The objective was not to prescribe any specific mechanism but to present various tools of innovative thinking that have been used in a number of sectors of development cooperation with the view of building greater synergies between drug and development policies and related practices. Innovative financing mechanisms represent a broad catalogue of possible options to garner additional financial support for AD programs and optimize the use of traditional resources. Recalibrating and applying some of these tools to AD may contribute to reduce and share the costs and risks associated with development-related intervention financing. It may further maximize the efficiency and impact of existing resources and leverage additional funds to reinvigorate AD and scale up interventions.

Although offering relevant entry points for the future of AD, IFM must be nevertheless considered with caution. Despite their appeal, IFM still remain a small component of development support. While interest is growing and initiatives are flourishing, many of these instruments are still at a piloting phase. It continues to be difficult to precisely measure how much additional resources can be generated through IFM and how far funds can be raised in a stable and predictable manner. Often complex and engaging a wide range of stakeholders, the administrative costs of deploying such instruments should also be taken into consideration given that all potentially interested stakeholders may not have the appropriate means or capacities to that end.

Despite remaining barriers, IFM present an opportunity to open up AD to smarter financing schemes that contribute to further mainstream AD into a broader sustainable development rationale while ensuring exit objectives from illicit economy are viably reached. Now, interested stakeholders should keep in mind that:

- **IFM cannot be applied to all types of AD interventions and contexts nor at any stages of AD implementation.** Their efficient scaling up and application to AD depends on contexts, program’s objectives and planning and partners’ capacity to properly direct and manage the funds.
- **The effective implementation of the UNGPAD remains critical** to create enabling conditions to build AD viability and reduce the risks nourishing investors’ reluctance.
- **The choice to open up AD to IFM should not neglect the imperative to integrate farmers and producers of illicit crops participation** and voice to all stages of AD programming and financing design in order to have fit-for-purpose mechanisms.
- **AD as a development-oriented approach is not to be privatized,** and that IFMs are supplements not substitutes to existing funding, which also present some limits. Caution is needed with the merging of development objectives and commercial interests: support to AD must not be fully tied to external interests but centered around the needs of producers and farmers. Beneficiaries’ interests come first and private considerations should be aligned with commonly agreed development and social outcomes.
Broadening the spectrum of AD finance to integrate IFM instruments and actors further supposes for stakeholders to:

- **Be politically courageous and innovative** to learn from other sectors, take stocks of funding options and harness creative partnerships possibilities;

- Continue working toward the design of **context-tailored, mainstreamed projects and evidence-based instruments** demonstrating AD economic viability;

- Develop an **updated, shared definition of AD** that would better correspond to progress and realities on the ground and serve as a basis for aligning AD, development and environmental objectives;

- Use **clear data, and planning and financing criteria** to manage and direct efficiently resources, and in fine be able to establish co-managements and collective decision-making;

- Develop **knowledge and learning capacities of IFM** at national and international levels and **share the lessons of first pilot IFM uses in AD** so best fits can be identified depending on contexts of interventions;

- Decide of the **political feasibility** of innovative instruments to ensure acceptability and ownership at local and national levels of the funded program’s implementation;

- **Tailor the concept of IFM to AD**, also taking into consideration how specific revenues of drug policy such as recovered illicit financial flows from the drug trade or funds from programs with limited success could be recovered and redirected in an innovative way to AD programs and more broadly to support the implementation of a balanced development-oriented policy to drug problems;

- Establish **international and national multi-stakeholder working groups or platforms** bringing together experts and practitioners of the field of AD with development practitioners, development finance experts and economists to increase dialogue and possibly develop new pilots and models of IFM for AD.
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### IFM Category: International solidarity via fiscal instruments and voluntary contributions

**Basic functioning principle**
To levy a small tax on a large-scale of globalized activity such as travel or industrial revenues.

**Existing mechanisms examples**

| **UNITAID International solidarity levy on air tickets** - Launched in 2009, UNITAID has collected USD 224 million every year through a levy currently charged to each passenger from 9 out of 29 UNITAID member countries to sustainably fund medicines, diagnostics and prevention for HIV/AIDS. The experience has been replicated with **UNITLIFE** just launched after the SDGs adoption, to raise funds to combat malnutrition by using a micro-levy on Africa’s extractive industries generating almost USD 150 billion per year. |
| **Product (RED) Initiative** - Credit card and other companies willing to contribute to development have agreed to contribute a share of their profits on goods marked with the product (RED) trademark to the Global Fund to fight AIDS. Created by Bono and Bobby Shriver in 2006, (RED) has generated over $350 million for the Global Fund. |

**Potentialities**
- Making the global capital at work in a **non-painful way**
- **Possible entry points for AD:**
  - Engage with private companies to decide on a small levy for example on fats/sugar products such as sodas using herbal products; **tea or coffee products** in tea/coffee producing countries.
  - Reflect on a possible creation of an **(AD) trademark or stamp** for products *inter alia* handcraft, chocolate or coffee.

### IFM Category: Frontloading and debt-based instruments

**Frontloading** consists in converting future ODA commitments into bonds sold to the market and counting as ODA when donors repay bonds at a future date. **Debt swaps** converts existing debts into increased expenditures on development interventions under an agreement with the creditor, binding the debtor to invest the equivalent amount of the debt relieved in an approved social or environmental program. It also entails ameliorating access to **(micro)credit and credit guarantee schemes** implying commercial banks or credit institutions, and development banks willing to take a share of the default risk.

**The International Finance Facility for Immunization (IFFIm)** allows selling “vaccine bonds” in capital markets backed by long-term pledges from aid providers. Launched in 2006 by six donor countries, IFFIm resources are channeled into the public-private partnership Global Alliance for Vaccines and Immunization (GAVI).

**Debt2Health** of the Global Funds to Fight AIDS, Tuberculosis and Malaria reallocates resources from debt repayments towards investments in health. Four agreements have been concluded so far.

**Possible entry points for AD:**
- Making larger volumes of funds immediately available on a “buy now but pay later” logic, allowing higher value for money.
- Smart reallocation of funds; enhanced country-ownership

**Possible entry points for AD:**
- Debt for AD agreements could be developed between debtor and creditor countries that are already engaged in AD cooperation.
- At local levels, **innovative (micro) credit tools** such as warehouse receipts would incentivize the constitution of stocks to further use them as collateral for credit and thus infuse funds into value chains.
Range of negotiated financial solutions that leverage public funds to create incentives for the private sector through, for instance, guarantee schemes, insurances (such as weather insurance) or loans, in order to correct market failures.

An enabling business environment with regulatory frameworks, clear tariffs and transparent bidding processes, reliable payment mechanisms, is needed for these mechanisms to be effective.

**Advanced Market Commitments (AMC)** for pneumococcal vaccines encourage companies to invest in the development of affordable vaccines tailored to the needs of the targeted beneficiaries by securing a market through a legally binding agreement. It creates an incentive to develop a product that otherwise might not be commercially viable for those in demand.

Based on social impact bonds model, **development impact bonds** are outcome-based mechanisms that provide upfront funding by private investors in return of remuneration by donors or host-countries when the targeted and achieved programs meet pre-agreed outcomes.

- Reducing and sharing the investments costs and risks
- Stimulating social and private returns
- Contribute to create conducive environments and attract private investments for development

**Possible entry points for AD:**

- Encourage risk-reduction schemes such as weather insurance or AMC schemes: experimental fields could be allocated to private companies to test new crops for the development of a private seed market. Government would allocate the research field and human resources while the private company activities would contribute to the diversification of revenues for local producers. Some countries implementing AD are already thinking about this option.

- Be pro-active in reaching to private funds/actors at the earliest stages of AD planning to take over AD products on the market place and maximize the value chain.
IFM Category: Specific Progress in Climate Finance

Series of financial commitments and tools (taking a variety of forms such as pool funds, carbon finance, credits, fiscal instruments, equities or else crowdfunding) elaborated to meet the objectives set in the climate change conventions established since the 1992 Rio Earth Summit.

Carbon finance in particular – the purchase of greenhouse emission reductions in developing countries to offset emissions by governments and firms in developed countries – has created a new globally traded commodity.

The Clean Development Mechanism allows emission-reduction projects in developing countries to earn saleable credits, each equivalent to one ton of CO2, to be traded by industrialized countries to meet parts of their emission-reduction targets under the Kyoto Protocol.

Payments for Ecosystem Services (PES) tools like Reducing emissions from deforestation and forest degradation initiatives (REDD+) offer financial rewarding to farmers, landowners and governments in beneficiaries countries taking remedial actions to protect or manage their land in a way that effectively reduce degradations. Benefiting 48 countries $1.3 billion has been approved for REDD+ activities since 2008 with a 21% increase last year. 59% of approved funding targets Latin America and the Caribbean. REDD+ is increasingly supporting developing countries to move beyond capacity building and readiness towards demonstration programs and emission reductions with payments based on verified results.

- Help promote environmental and socially sustainable use and conservation of land and forest resources as part of development strategies
- Benefice sharing /shared responsibility models and safeguards implementation

Possible entry points for AD:

- Entrench into and synergize AD interventions with rural development/environment strategies such as REDD+ or other forest or land protection mechanisms– a win-win instrument allowing to work productively the land and to protect a global good.