

Innovative Financing for Development

Innovative Financing Mechanisms for Agriculture, Food Security and Nutrition

Annotated list

1. Innovative Financing mechanisms

Innovative Financing Mechanisms (IFMs) are new instruments for raising funds for eradicating hunger and poverty and for development. The mechanisms are supplementary to official development assistance. They should also be predictable and stable. They are aimed at correcting the negative effects of globalization.

Since 2002, some extra 6 billion dollars have been raised through a number of widely differing mechanisms, such as loans and bonds raised in markets guaranteed by governments, for use in the health sector (for example on vaccines) as well as debt management methods and others. However, innovation is needed in seeking especially from the sectors that most benefited from globalization, such as finance, communication and transport. The primary themes which have been included since 2006 in the sectors to benefit from innovative financing are: health, education, financial transactions and since last year, food security, migrants' remittances, illicit financial flows and tax avoidance, climate issues.

Which innovative development financing mechanisms already exist?

There are three major health-related innovative development financing mechanisms in existence today: UNITAID and the solidarity contribution on airline tickets, the IFFIm/GAVI and the Advance Market Commitment for pneumococcal vaccines.

[UNITAID](#), which is primarily financed by a very small levy on airline tickets, is a drug purchase facility intended to make HIV/AIDS, malaria and tuberculosis treatments more affordable. It works in partnership with other organisations to purchase drugs, distribute them and negotiate large price reductions.

[The IFFIm](#) is a very large facility funded by government-guaranteed bonds issued on international capital markets. The funds raised are used to establish the most urgently needed immunization programmes in the poorest countries.

[The Advance Market Commitment](#) for pneumococcal vaccines is a pilot project based on a partnership contract between donors and pharmaceutical companies. It ensures that research on pneumococcal vaccines moves forward and that, once the research is completed, the vaccines will be sold at prices that the target population can afford.

[A summary table on IF](#) practices and players is attached.

2. Approach regarding agriculture and food security

The approach that the **Committee of experts on Innovative Financing for Agriculture, Food security and Nutrition, mandated by the Task Force of the Leading Group on Innovative financing for development**, favours is the one according to which Innovative financing mechanisms can be characterized as: (1) **innovative in source**, i.e. fundraising of incremental capital either from **new funders or existing funders in new ways**, or leveraging private capital, and mobilizing public resources; and (2) **innovative in use**, i.e. changing the way in which existing capital is deployed or spent, and introducing financial solutions to increase its efficiency, effectiveness and overall impact within both the public and private sector.

Table 1 lays out a list, by all means not exhaustive, of potential innovating mechanisms to finance agricultural development, food security and nutrition based on this proposed classification. ¹ As it can be seen, most mechanisms refer basically to taxes, with all technical and political implications. The Expert Committee is focusing on different types of financing mechanisms, but it was felt that a list of the major proposals should be shared.

Table 1 Agriculture and Food Security Goals

Type of Innovation	Mechanisms	Potential goals supported
Public-Only Innovation	<p><u>Global taxes</u></p> <p>Tax on transfer of high quality farm land out of agricultural use</p> <p>Tax on industrial deforestation</p> <p>Tax on soybean / maize purchase for industrial meat production in developed and transition countries</p> <p>Tax on biofuel purchase (excise tax or import tariff)</p> <p>Tax on petrol that goes towards environmental sustainability</p> <p>Tax on Food markets</p> <p>Tax on processed or sugary foods</p> <p>Currency transaction levy</p>	<p>Emergency funds for food security</p> <p>Nutrition initiatives</p> <p>Women and girls programs</p> <p>Water and irrigation infrastructure</p> <p>Production of food crops</p> <p>Alternative livelihoods production</p> <p>Environmental sustainability</p> <p>Price volatility</p> <p>Climate change /agriculture links</p>
<p>Public-Private Innovation</p> <p>• Innovative use of ODA and</p>	<p><u>Global solidarity levies</u></p> <p>Expansion of voluntary corporate contributions</p> <p>Expansion of voluntary individual contributions</p> <p>National lotteries</p> <p><u>Blended value investing</u></p> <p>Value Chain Financing</p> <p>Risk Management Tools</p> <p>Credit Delivery Mechanisms</p> <p>Remittances matching programs for agricultural development</p> <p>Channelling remittances through agricultural</p>	<p>Women's financial empowerment</p> <p>Nutrition initiatives</p> <p>Production, food security</p> <p>Safety nets/price surges</p> <p>Smallholder and SME financing</p> <p>Capital and insurance market development</p> <p>Agriculture – Climate Change linkages</p>

¹ In particular, good references are provided in Girishankar 2009 and the Taskforce on Innovative International Financing for Health Systems 2008. See also Dalberg Global Development Advisors: report on Consultancy for the Food and Agriculture Organization of the United Nations (FAO).

Type of Innovation	Mechanisms	Potential goals supported
private capital	diaspora bonds Agricultural Investment Exchange Regional Bond Fund for Farm Credit <u>Incentives for R&D</u> Prizes to incentivize agricultural innovation Advanced Market Mechanisms	Water and irrigation infrastructure Capital formation Capital formation/ investment Productivity increases

Distinguishing between innovative use and sources may not be easy and not always helpful. For example, new taxes could still be considered as ODA; but using ODA to guarantee prices of vaccines could be seen as a new source or as ODA combined with private entrepreneurship.

A simple way to categorize innovative mechanisms could perhaps be based on the resources involved and **their combination in relation to the problem and gaps to be addressed**. **Public-only innovation** mobilizes and deploys public sources, while **public-private innovation** combines public and private resources to increase scale, sophistication and sustainability of funding.

The proposals that the Committee of experts would like to propose to the Leading Group in the coming months will privilege **public-private innovation** in an effort to maximize the efficiency of existing and new resources.

3. A preliminary short list of Innovative Financing Mechanisms in Agriculture, Food security and Nutrition (more could be identified by the contributions of the FSN Forum)

The list of ideas for innovative mechanisms in the existing literature mentioned above include mainly taxes of various nature, the political and operational feasibility of which is sometimes dubious.

At the level of the Committee of experts on Innovative Financing for Agriculture, Food security and Nutrition, work is underway to identify ideas for **public-private partnerships** (without excluding any other option). **A preliminary list would include:**

- Value Chain Financing : Value chain ensuring small holders are fully integrated (including decent employment).
- Risk Management Tools (index base insurance on crops) : Risk mitigation for private investment. Insurance guarantees capacity development.
- Remittances matching programs for agricultural development : Diaspora investments
- Payment for environmental services, involving local authorities.
- Funds that leverage private investments in the agricultural sector by taking or sharing the investment risks (e.g. Africa Agricultural and Trade Investment Fund (AATIF))
- Mechanisms for the involvement of new stakeholders (civil society and local governments). It is relevant to have an integrated approach at local level.

Ideas to illustrate these mechanisms or other mechanisms may be identified by the FSN Forum participants.