



## **Marketplace for innovative financial solutions for development**

4-5 March 2010

The Agence Française de Développement (AFD), the Bill & Melinda Gates Foundation and the World Bank co-hosted the Marketplace on Innovative Financial Solutions for Development on March 4-5, 2010 in Paris. The Marketplace sought to bring together and encourage new ideas on financial solutions for development, including innovative financial mechanisms for better mobilizing, channeling, and using funds. Twenty finalists were chosen to present their innovative financial solution ideas at the Marketplace following a call for proposals during the autumn of 2009. Five of them received a grant of 100 000 Euro to develop their projects. The event was attended by an international set of development practitioners, donors, philanthropists, social entrepreneurs, policy makers and academics as well as representatives from a range of financial institutions and civil society.

Moderated by Jean-Michel Severino, Director of the AFD, the event opened with an address by Bernard Kouchner, French Minister of Foreign and European Affairs. Mr. Kouchner welcomed the event as the accomplishment of a long-term goal. He noted the urgent need to eradicate poverty by putting the economy at the service of people and creating financial services for development, and voiced his support for a tax on financial transactions in order to increase development aid (0.005% on financial transactions to be levied by banks). The initiative was also welcomed by Robert Zoellick, President of the World Bank, for its creative thinking approach. He considers that donors need to find partners in the private sector to engage aid in new ways.

During the event, discussions focused on development priorities, the risks of using financial instruments, and what matters most in financial innovation. Geoffrey Lamb, Managing Director of Public Policy Operations at the Bill and Melinda Gates Foundation, stated that emphasis should be placed both on eradicating poverty and helping under-served communities, efficiency can grow out of the diversity of partnerships and funding mechanisms. The concept of the Marketplace for Innovative Financial Instruments should not only be to call for novel instruments, but also to make existing mechanisms applicable to development financing.

Discussing progress in development, His Highness the Aga Khan, Founder of the Aga Khan Development Network (AKDN), considers that until now it has been too slow. While there is a need to accelerate performance, he recognized that the capacity for risk prediction has to be increased – ‘predictability has to become a priority’. He further indicated that the nature of the development process has changed, citing the increased importance of civil society organizations, the effectiveness of public-private partnerships in development projects, the new focus on a multi-input approach to development, the recognition of strength in diversity, and increased quality of life assessments.

Christine Lagarde, French Minister of Economic Affairs, Industry and Employment, congratulated the finalists and voiced her commitment to support development aid. The main challenges according to Ms. Lagarde will be to sustain private sector initiatives for development and to generate sustainable aid.

Insurance agencies could also be central for mitigating financial risk in development financing, which means that projects have to become more economically interesting for private actors. Projects should also be structured so that they are results-based and not only centered on profit.

### **Long-term effects of the global financial crisis**

Governments' budgets are likely to diminish over the years to come. Therefore, one of the challenges faced by the international community is to continue to sustain and mobilize funds – innovative financial solutions for development have to complement development aid and not replace it. Ngozi Okonjo-Iweala, Managing Director of the World Bank Group, pointed out that traditional financing instruments are simply not enough. Private sector and government resources have to work together to provide solutions to problems such as access to electricity in Africa. The role of the private sector in service provision in developing countries also has to be explored. Domestic resource mobilization is an important aspect often neglected in development discussions. Jacques Attali, CEO of Planet Finance, interjected that developing country governments should be encouraged to save. However, in order to do so, they have to be provided with confidence-building measures in regard to financial institutions.

The financial crisis has accentuated the importance of risk in development finance. Developing countries are highly vulnerable to shifts in global financial markets, which is why local banks should benefit from guarantees as a counterweight to the risk they take when financing projects. Axel van Trotsenburg, Vice-President of Concessional Finance and Global Partnerships at the World Bank, explained that the Bank is currently doing well in helping middle-income countries with loans. On the other hand, aid-dependent least developed countries are disadvantaged because aid funds were substantially decreased during the economically difficult times. Therefore, in addition to developing innovative financial mechanisms, donor countries have to do their best to stay behind their aid commitments.

Discussants generally recognized the limitation of traditional financial mechanisms, especially in reaching some of the developing countries that need them most. Financial instruments have to be mainstreamed so that they can access even the poorest. International financial institutions can provide more targeted information on country markets to encourage the private sector to invest in developing countries.

In his closing remarks, René Carron, Chairman of Crédit Agricole SA and Grameen CA Microfinance Foundation, observed that innovation is valuable only when it serves a purpose. Ideas have to actually reach people in order to make a difference – the need to put concepts into practice is imminent.

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