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Innovative Financing for Development: A *Deus ex Machina* for Funding Post-2015 Development Agenda?

Financiación Innovadora para el Desarrollo: ¿un Deus ex Machina para financiar la agenda de desarrollo post-2015?

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Abstract

In this paper we critically analyze the reasons to implement innovative mechanisms for international development finance, and the most relevant innovative instruments applied by the moment. We also show how, in the international financing for development (IFfD) system, innovative financing is just another link in the chain and not a magic solution for solving all IFfD problems. Thus, innovative financing should be analysed in connection with the system's other basic elements, such as traditional financing instruments and the structure and functioning of the international economic and financial system through which these resources flow. Hence, a systemic approach to international financing for development (SAIFfD) is needed. The main conclusion is that, although current innovative instruments should be welcome, there is a need to accelerate the launch of new innovative mechanisms and to develop some important accompanying measures basically related to both the reform of traditional instruments of IFfD and the international financial architecture.

Keywords: Systemic Approach to International Financing for Development; International Financialisation; Global Public Goods; Post-2015 Development Agenda; Official Development Aid; External Debt; Private Capital Flows.

Resumen

En este artículo se analizan críticamente tanto las razones que han provocado la necesidad de implementar mecanismos innovadores de financiación para el desarrollo, como los principales instrumentos innovadores aplicados hasta el momento. En este sentido, se muestra cómo la financiación innovadora es una pieza más en el engranaje del sistema de financiación internacional para el desarrollo, y no la solución mágica para todos sus problemas, por lo que debe ser analizada en conjunción con los otros elementos básicos del mismo, tales como los instrumentos tradicionales de financiación, y la estructura y el funcionamiento del sistema económico y financiero internacional (por medio del cual estos recursos son canalizados); esto es, es preciso adoptar un Enfoque Sistémico de la Financiación Internacional para el Desarrollo (ESFIpD). La conclusión fundamental del trabajo es que, si bien los mecanismos innovadores implementados hasta el momento deben ser bienvenidos, es necesario acelerar el lanzamiento de nuevos instrumentos innovadores, así como aplicar importantes medidas de acompañamiento, fundamentalmente relacionadas con los instrumentos tradicionales de financiación para el desarrollo y con la reforma de la arquitectura financiera internacional.

Palabras clave: Enfoque sistémico de financiación internacional para el desarrollo; Financiarización internacional; Bienes públicos globales; Agenda de desarrollo post-2015; Ayuda oficial al desarrollo; Deuda externa; Flujos privados de capitales.

Clasificación JEL: O16, F02, F63, H87, E44.

1. Introduction

The need to guarantee acceptable levels of completion for the traditional objectives of development (such as the Millennium Development Goals) still constitutes a priority for academics and practitioners on development issues. There is a similar need for long-term "non-traditional" objectives, such as economic and financial stability, the prevention of climate change and its differential impact on developing countries, exclusion and inequality, or other objectives to be included on the post-2015 agenda. Furthermore, the current model of globalisation (that together with neoliberalism and international financialisation constitutes the triumvirate of post-fordist capitalism)[1] has shown the importance of (the unequal and inefficient provision of) global public goods (GPGs) for all economies, and specifically for developing economies and least developed countries (LDCs), and the well-being of their citizens[2].

These challenging objectives, i.e., long-term structural development and the efficient and equitable provision of GPGs, demand intense reforms in the international financialisation process and, more specifically, in the architecture of international finance (Garcia-Arias, 2013, 2014), and require that international (private and official) capital flows be focused, at least partially, on the service of human development[3]. The stagnation of the *traditional instruments of international financing for development* (TIIFDs) funds (private international capital flows, official development aid –ODA– and external debt, mainly), together with the problems that typically characterise these mechanisms, has generated a growing interest in recent years on the proposal and application of so-called *innovative instruments of international financing for development* (IIIFDs).

Nonetheless, after more than a decade of innovative financing implementation, the outcomes are far from satisfactory. In this paper, we briefly review

[1] See Duménil and Lévy (2011).

[2] See Kaul et al. (1999, 2003) for a seminal analysis of GPGs, and Sandler and Arce (2007) or UNIDO (2008), among many others, for the connection between GPGs and development. From our point of view, GPGs must be one of the main issues to be included on post-2015 development agenda, and the same could be said on sustainable development or international economic and financial stability. On the relationship between GPGs and economic, currency and financial (in)stability, see Garcia-Arias (2002).

[3] The estimate of needs varies greatly depending on the study source, the concrete objectives to be financed and the calculation method. However, at least an additional annual sum ranging between 100 and 500 billion US dollars appears to be required (Atkinson, 2005; Sachs, 2005; TFIHF, 2009; United Nations, 2010; World Bank, 2010; Unesco, 2011).

the experience with IIIFDs, we analyse the fundamental reasons why such instruments have been, and presumably will continue to be, incapable of resolving the problems that face international financing for development (IFfD), as well as the steps that should be adopted to change these mechanisms into truly useful tools for funding human development. Therefore, our hypothesis is that although IIIFDs represent a generally useful (but partial) approach to the problems that confront IFfD as one of the main elements of post-2015 agenda[4], we must view the IFfD issue holistically; that is, we need to adopt a systemic approach to international financing for development –SAIFfD– (Garcia-Arias, 2013, 2014). This article shows how this perspective could help correct some of the problems in the operation of the current IFfD system and will facilitate the use of established innovative instruments and the introduction of new financing mechanisms that will be capable of generating substantial, predictable and stable resources for funding post-2015 development agenda.

The present paper is organised as follows: in the second section, we briefly review the reasons for the design and application of IIIFDs. Next, we analyse the major developments that have occurred in this context and discuss the fundamental deficiencies of the already implemented innovative instruments. In the fourth section, we address the need to adopt a more integral approach to IFfD, and we also discuss some structural reforms in the international financial system that should accompany these steps. The article's final section presents our conclusions and some economic policy recommendations.

2. Why do We Need Innovative Instruments on the IFfD System?

If guaranteeing reasonable long-run development objectives and an adequate provision of GPGs demands a significant, growing, stable and more efficient volume of financial resources, then the first option for meeting this need should involve increasing the quantity and quality of resources obtained via the TIIFDs.

This solution is, however, problematic. At the beginning of the twenty-first century, the Monterrey Consensus (MC) –endorsed, consolidated and expanded at the Doha Summit of 2008 and Busan Forum of 2011– attempted to address various aspects that were neglected by the TIIFDs in the preceding decades. Specifically, (i) the strong decrease in the volume of the ODA from the 1960s, its dubious effectiveness on development[5], and its reversibility and spatial concentration in middle-income countries and in China; (ii) the volatility and the contagion that affected international private capital flows –especially in terms of portfolio flows and bank loans, and less intense in terms of foreign

[4] It seems trivial to state that no long-term structural-development objectives could be reached without the appropriate financing system.

[5] The specific debate on aid effectiveness is beyond this paper's scope. See Dalgaard, Hansen and Tarp (2004) and Minoiu and Reddy (2010) for an analysis of the positive relationship between aid and growth, Rajan and Subramanian (2011) for a defence of the opposing view, and Arndt, Jones and Tarp (2010) and Temple (2010) for a survey.

direct investment (FDI) flows; and (iii) the high levels of foreign indebtedness that, together with the well-known structural adjustment reforms driven by the IMF and other international financial institutions, have mortgaged the growth and development opportunities of many developing economies and LDCs (Garcia-Arias, 2008; Macías Vázquez 2010).

Although the MC implied some theoretical improvement on those points[6], the main problems exhibited by TIIFDs persist almost a decade later[7]. Regarding ODA, the commitment made by some of the main donors to increase, at least until the current economic and financial crisis occurred, its absolute and relative levels is clear, as are the accrued effects of this effort. Nevertheless, persisting problems include ODA's relatively small size, its composition (mostly debt relief and technical cooperation), its conditionality and spatial concentration, the high number of aid agencies and institutions involved, its linkage (on a business-as-usual *quid pro quo* basis) with the "internationalisation" (on the aid recipient countries, mainly) of donors´ domestic companies, and the disproportionate participation of bilateral aid to total ODA.

In relation to indebtedness, although foreign debt in some regions (for instance, in Latin America and the Caribbean) showed a tendency to diminish after the MC –basically because the main debtors opted to prioritise the payment of their debt as a result of the greater cash flow and the more stable conditions in international financial markets–, none of the initiatives implemented to date (among them, the *Heavily Indebted Poor Countries Initiative* –HIPC–, the *Multilateral Debt Relief Initiative* –MDRI, and the *Debt Sustainability Framework* –DSF–) have definitely addressed the problem, which continues to impede development (Macías Vázquez, 2010).

Regarding the role of international private capital flows to developing economies and LDCs, even though there are great differences within the types of international private capital (e.g., between FDI and portfolio flows or bank loans), with respect to the different donor and/or destination countries, and within the different periods, when considered in an aggregate form, evidence shows[8] that these international private flows have been scarce (for instance, in contrast to the volume of private resources daily exchanged in international finance markets), procyclical, highly reversible, volatile, and sensitive to group behaviour and contagion, and have shown a clear tendency to exclude the most impoverished countries. Furthermore, instability, volatility and herd behaviour are inherent behavioural elements of internationalised, liberalised and deregulated financial markets (Agüera Sirgo and Garcia-Arias, 2000).

[6] For instance, it (semantically) encouraged the implementation of specific measures to manage development financing problems, emphasising that the current model of globalisation presents significant flaws, or establishing that to truly evolve toward a more equitable and inclusive global system it is critical to face the issue of development funding and to adopt an approach that encompasses the national, international and structural dimensions.
[7] See, for instance, Soederberg (2005) for a more critical analysis of the MC.
[8] See Garcia-Arias (2008, 2013) and the references listed there.

Thus, at least in the short term, TIIFDs will likely not allow the generation of significant additional resources for financing post-2015 development agenda. In fact, the first task of these traditional mechanisms probably should be to reorient their operation and to face the numerous problems that affect them, before they have the capacity to generate additional funds.

Furthermore, both the supply and the demand for additional resources has been affected by the current crisis, which has increased the financing needs in the developing economies and LDCs (Allen and Giovannetti, 2011; Sen, 2011; Stewart, 2012; Nudelsman, 2013), while simultaneously imposing additional budgetary restrictions on the developed countries by stimulating strong punitive structural adjustment policies that imply the bounding of the traditional funding flows. All of the above factors make the operation of new instruments for generating international resources to finance development indispensable.

3. The Implementation of Innovative Financing for Development

3.1. A Short Review of the Main IIIFDs

Although the need to develop innovative financing mechanisms for development is a long-standing issue, its recent history covers scarcely more than a decade. As is well known, the point of departure for the current situation was the designation in the year 2000 of the *High-Level Panel on Financing for Development* under the auspices of the United Nations. Headed by Mexico's ex-president Ernesto Zedillo, the panel was tasked with reviewing financing mechanisms for development and presenting recommendations for improvement. The report of the Experts Group, which was presented and thoroughly discussed at the 2002 Monterrey Conference and integrated into the MC, concretely established the need to consider new sources of funding. Among these sources, taxes on international financial transactions and on fossil-fuel consumption (Zedillo, 2001) were specifically (and strongly) recommended.

As pointed out, development financing using innovative instruments is a relatively new idea, but its introduction into the language and practice of Development Economics –and particularly in the IFfD topic– has been fast. In fact, there is a growing literature on IIIFDs despite the absence of a standard definition of innovative financing. This lack of a commonly accepted and unambiguous definition has resulted in the term IIIFDs being used to designate different, and occasionally contradictory, ideas.

For example, it would seem reasonable to suppose that a key element of innovative financing would be novelty. However, certain international agencies consider additional funds obtained from traditional sources –such as ODA– to be IIIFDs, whereas for others, the indispensable requisite is that the mechanism to be created *ex novo*. In the first group, we can find, for example, the Taskforce on Innovative International Financing for Health System, which defines IIIFDs as "*non-traditional applications of ODA, joint public-private mechanisms, and* *flows that either support fund raising by tapping new resources or deliver financial solutions to development problems on the ground*" (Nostrom, 2009: 20), or the World Bank (2009), which uses a very similar definition. In the second group, we find the Organisation for Economic Cooperation and Development (OECD) and its Development Aid Committee (OECD, 2011), as will be discussed.

Similarly, certain authors conceive broadly of innovative financing to include not only newly developed instruments but also instruments that could modify or improve traditional instruments with or without the participation of public initiative.

For example, Girishankar (2009) establishes four major groups of possible innovative mechanisms in terms both of the funding sources and the use of these funds. In his opinion, these mechanisms include the following types: (i) *private mechanisms*, that is, financing flows between private agents based exclusively on market instruments; (ii) *solidarity mechanisms*, which result from country-to-country sovereign flows or from a public agency donor to another public agency recipient; (iii) *public-private partnership mechanisms*, which require the use of public resources to mobilise additional private resources to finance public works projects; and (iv) *catalytic mechanisms*, in which public resources are used to create and develop private markets or promote the entry of private agents into existing markets. In addition, he believes that innovation could occur in any type of "financial engineering", which could mean the development of completely new instruments, products or services, or simply new approaches to the problems of traditional financing instruments.

This view of IIIFDs, that could be termed as "cosmological" or "ecumenical", considers nearly all financial instruments to be innovative, do not require international elements or public participation and includes, for example, credit, donations, grants, concessional loans, additional financing sources, and financial engineering products derived from private capital flows.

In opposition to this view is another, more accurate in our opinion, which is represented by, for example, the Leading Group on Innovative Financing for Development. This line of thought requires the application of more stringent requirements in the definition of instruments such as IIIFDs, e.g., the generation of additional –or at least complementary to the traditional mechanisms– resources, long-term stability, consistency with the generally accepted criteria of international cooperation and development financing, and the ability to correct certain elements of the contemporary globalisation model[9].

As mentioned above, recent outcomes by other international organisations also indicate the need to proceed in this direction. For instance, the OECD requires the presence of four defining elements for a development financing instrument to be regarded as *innovative* (OECD, 2011): (i) public participation (not necessarily by mobilising funds but including, for example, technical assis-

[9] See http://leadinggroup.org.

tance, consulting, and establishing guarantees); (ii) the mobilisation of a substantial volume of additional resources; (iii) innovative practices, which means that the instruments should be new proposals that have been implemented or are about to be implemented and, where not yet implemented, technically feasible and possessing solid political support for their application; and (iv) internationality, which implies a transnational resource flow, whether through international donations, the participation of international capital markets, or trans-border transactions.

From the above, it follows that there is a large disparity of views regarding what should be considered an IIIFD. A means to resolve this disparity could be to establish a broad definition that does not relinquish the idea's essential elements. Based on Sandor, Scott and Benn (2009), IIIFDs would be defined as mechanisms of long-term development-goal funding and of providing GPGs that satisfy the following criteria: (i) be additional or complementary to (and not a substitution for) existing TIIFDs; (ii) generate predictable and stable long-term resources (by means of multi-annual commitments, new taxes or other permanent funding sources); (iii) imply international resource flows; (iv) address some of the negative effects of the globalisation process and, in particular, improve the provision of GPGs in terms of efficiency and equity; and (v) be compatible with the principles established in the Paris Declaration of 2005 and the Accra Agenda for Action of 2008.

Although the establishment of IIIFDs reaches back to the MC itself, the implementation of innovative mechanisms has increased considerably in recent years, which makes a more precise analysis of these instruments possible. In the interest of a better systematisation, and following the OECD (2011), the IIIFDs could be grouped into four divisions[10].

Firstly, there would be the *new resource-generating IIIFDs, with exclusive or majority public participation,* which generate new available income for international development funding and are established by one or more donor governments and/or international organisations[11]. The most important of these are the Solidarity Levy on Airline Tickets (SLAT), the Auction or Sale of Greenhouse

[10] In fact, the OECD (2011) establishes three major IIIFD categories: new public revenue streams, debt-based instruments, and frontloading and public-private incentives, guarantees and insurances. In our opinion, the proposed classification into four groups reflects in a more accurate and disaggregated manner the character of the IIIFDs. See Landau (2004), Addison, Mavrotas and McGillivray (2005), Atkinson (2005), European Commission (2005), Ketkar and Ratha (2009), Girishankar (2009), Nordstrom (2009), Sandor, Scott and Benn (2009), TFIHF (2009), World Bank (2009) and OECD (2011) for a more detailed analysis of the different IIIFDs implemented, their main characteristics and their potential for resource generation, and for other classifications of innovative financing mechanisms.

[11] Probably, understood in its most benign sense, this section could also include what the DAC calls "other flows of official financing", i.e. public funds –for example, support for the company's internationalisation– and which, with a shift in direction to its objectives and allocation criteria, could help to achieve the development objectives set in the global agenda. To delve deeper into the true nature of this trend of combining a country's official aid with internationalisation processes and the penetration of its (multi)national companies into the developing companies that receive those "official" funds would require a separate article to this.

Gas Emission Permits, and the Share of Proceeds from Certified Emission Reduction Units (CERs).

Regarding SLAT, several countries that participate in the Unitaid initiative have established a levy on the purchase of air tickets for international flights, which is progressively imposed on individual passengers. The levy is managed and applied nationally and voluntarily by the countries. The initiative is coordinated internationally, and the income is partially destined to finance the International Finance Facility for Immunisation. In the European Union's (EU) Emissions Trading Scheme, rights to emit greenhouse gases can be sold or auctioned, and the funds obtained can be designated for financing international development projects. Similarly, a percentage from the income obtained from the Certified Emission Reduction (CRE) units of the Clean Development Mechanism of the Kyoto Protocol can be designated to finance (through the Adaptation Fund) projects to reduce emissions in developing economies[12].

The second major group would consist of the *IIIFDs related to debt administration, concession funding and/or advanced funding*, which include mechanisms that link debt administration with additional funding or that commit or anticipate future tendencies in donor resources (public, with the collaboration of public-private institutions) to developing economies. This group includes, for example, the International Development Association (IDA) or International Bank of Reconstruction and Development (IBRD) Credits (or loans) Buy-Downs, the International Finance Facility for Immunisation (IFFIm), or the Debt2Health program.

Regarding the first elements of this group, before a developing country can receive an IDA or IBRD credit for a specific development project, a donor must commit to covering completely or partially the repayment of the principal sum of (or the interest on) that loan if the development project satisfies a set of pre-established criteria. This measure increases the concessionality of loans and strengthens the link to delivering outcomes. In turn, the IFFIm is a system to advance development resources; this system increases the leverage forecasting of flows by issuing bonds on international capital markets to obtain resources for immediate use in programmes of immunisation (e.g., vaccination and vaccine purchases and reserves) in developing economies through campaigns developed by the Global Alliance for Vaccines and Immunisation (GAVI). These bonds are guaranteed by the donors, who commit to make future payments to the system for the following 20 years. Meanwhile, the Debt2Heath programme transforms resources from the cancellation of sovereign debt into investment in health projects, which is channelled through the Global Fund to Fight AIDS, Tuberculosis, and Malaria. In this programme, through an agreement facilitated by the Global Fund, an official creditor cancels bilateral debt of a developing economy on the condition that the debtor transfers a portion of the cancella-

[12] See http://www.unitaid.eu/, http://www.iffim.org/, http://ec.europa.eu/clima/policies/ets/index_en.htm, http://adaptation-fund.org/about and http://cdm.unfccc.int/ for additional information on the operation of these IIIFDs, income generated, the actors involved, and so on.

tion (typically 50%) to the Global Fund, which invests it in health projects in the debtor country[13].

A third group of instruments would consist of *IIIFDs related to public-private alliances, the concession of warranties or insurance,* which include mechanisms that employ public funds to create investment incentives in development for private agents, for instance, by providing public insurance or encouraging private scientific-technical research. The most important of these are the Caribbean Catastrophe Risk Insurance Facility (CCRIF), the Pneumococcal Disease Advance Market Commitments (AMC) or the Affordable Medicines Facility-malaria (AMF-m).

The CCRIF is one of the few examples of innovative financing based on mutual insurance. The governments in question (small nations from the Caribbean), with the additional participation of donors, provide one another with mutual insurance in case of natural disasters through a common budget, risk management on international reinsurance markets, and swaps on catastrophes. With regard to the pneumococcal disease AMCs, the donors commit in advance to finance a specific AMC for a future vaccine that meets certain requirements. When a company has a vaccine candidate, an independent expert committee evaluates whether this vaccine meets the requirements. If the vaccine is approved, GAVI subsidises the vaccine's purchase for developing countries. This approach is used to incentivise the research and production of an anti-pneumococcal vaccine. Additionally, donors make payments to the World Bank, which manages the financial risk and transfers the funds to GAVI. The AMF-m is managed by the Global Fund to facilitate access to effective malaria treatment, such as artemisinin combination therapies (ACT). The donors transfer resources to the Global Fund, which negotiates the price of the ACT with the pharmaceutical companies and subsidises a cost reduction for the treatment's final suppliers (public or private agents, development NGOs,…)[14].

Finally, a heterogeneous group of financing mechanisms combines the *IIIFDs related to voluntary private contributions controlled by public or public-private channels,* which gather innovative private funding mechanisms that enjoy the backing of international organisations or countries with regard to their issuance or commercialisation. This group includes Product (RED), Eco-3Plus Notes, Green Bonds, or the MassiveGood initiative.

A number of well-known international corporations (American Express, Apple, Bugaboo, Converse, Dell, Emporio Armani, Gap, Nike,…) manufacture specific products that display the Product (RED) logo. The corporations donate part of the income from the sale of such products to Initiative (RED), which is then transferred to the Global Fund for use in specific programmes to combat HIV/AIDS. Green Bonds are part of the World Bank's Strategic Fra-

[13] See http://www.worldbank.org/ida/, http://www.worldbank.org/ibrd/, http://www.iffim.org/, http://www.gavialliance.org/ and http://www.theglobalfund.org/ for additional information on these IIIFDs.
[14] Visit http://www.ccrif.org/, http://www.gavialliance.org/funding/pneumococcal-amc/, http://www.worldbank.org/amc, and http://www.theglobalfund.org/

mework for Development and Climate Change. In this initiative, the World Bank issues bonds, which are distributed and managed in collaboration with banks and other financial institutions. The income from these bonds is designated for financing World Bank projects related to the fight against climate change. Finally, MassiveGood consists of a private and voluntary micro-donation made by individuals who buy a plane ticket or reserve a hotel. The donation is transferred to the non-profit Millennium Foundation, which finances projects in developing countries (principally related to HIV/AIDS, malaria, tuberculosis, and the improvement of mother-infant health) in cooperation with Unitaid, the Global Fund, UNICEF and the Red Cross[15].

3.2. Findings and Discussion

From the range of IIIFDs that have been implemented, we can extract a number of findings. Undoubtedly, IIIFDs design and application has improved considerably, and they have been applied through a number of different agents (nation-states, supranational institutions, international organisations and institutions, private foundations, …), with different instruments (from the channelling of *ex novo* resources, insurance and advance payments of future donations, to the employment of highly sophisticated financial instruments), and following different objectives (partial cancellation of debt, stimulus for scientific and technical research, prevention of climate change, responses before natural catastrophes, and so on). This diversity of actors, objectives and instruments must be welcomed and shows both the need and the enormous potential of international innovative funding in the pursuit of relevant long-run development goals. In addition, we should not forget the inherent difficulty associated with any type of supranational operation that demands the coordination of agents from different backgrounds, affiliations and countries, with different criteria and visions. And we should also take into account that the current moment of crisis is not the most conducive for the generation of additional funding resources in any economy.

However, even though it is clear that improvements have been made in the implementation of IIIFDs, we must also understand that the innovative instruments applied at this time are tangential and anecdotal. Even more, they pursue disorganised objectives, are excessive in number, disjointed and internationally segmented. For example, only very few countries currently implement the SLAT (Unitaid, 2011); to date, few European countries have employed the Greenhouse Gas Emission Permits with relevant effects (European Commission, 2009); the Buy-Downs have only generated commitments of advanced payment from China and Botswana (OECD, 2011); in regard to the IFFIm, up until 2011, only eight countries had committed resources that allowed the issue of

[15] Visit http://www.joinred.com/, http://treasury.worldbank.org/cmd/htm/WorldBankGreenBonds.html, http://www.massivegood.org/, and http://www.millennium-foundation.org.

"vaccination bonuses" in the London and Tokyo markets (Pearson et al., 2011). Within the Debt2Health program framework, between 2007 and 2010, only Germany and Australia had annulled their debt (and exclusively with Indonesia, Pakistan and the Ivory Coast) to finance Global Fund projects in these countries (Global Fund, 2011)[16]. In regard to the Pneumococcal disease Advance Market Commitments, only a few countries and the Bill & Melinda Gates Foundation have committed resources to the GAVI, which is the entity in charge of administering the instrument (Cernuschi et al., 2011); within the 2006-2011 period, Product (RED) has generated resources for the Global Fund that has financed programs against HIV/AIDS exclusively in Ghana, Lesotho, Rwanda, South Africa and Swaziland (Global Fund, 2011).

Additionally, those IIIFDs generate a small collection volume (when compared to the needs and to the TIIFDs resources) and a marginal impact on the long-term development objectives and the provision of GPGs[17]. And for some of the instruments, and at least at the present time, the marketing far surpasses the funding impact (MassiveGood, Product (RED), ...). In the case of instruments that use the standard channels and modes of operation of the internationalised financial markets (Debt-for-Education Swaps, Green Bonds, Debt-for-Nature Swaps, ...), the design and application present questionable elements in regard to the alleged educational or environmental value and/or imbrications in what has been called (apparently non-ironically) "banking ethics" and "corporate social responsibility", which could be related to the habitual behavioural problems of the financial markets (Cassimon, Essers and Renard, 2011; Cassimon, Prowse and Essers, 2011).

Another significant finding is that only the IIIFDs with public agents involved –understood in the broad sense of the term (e.g., nation-states, supranational institutions, and international organisations)– or strongly consolidated private institutions (Bill & Melinda Gates Foundation), have been able to generate significant resources. In this light, it seems necessary to fortify the design and application of IIIFDs with a strong resource-generating potential, either

[16] See Cassimon, Renard and Verbeke (2008) for a detailed analysis of the programme and its results.

[17] For example, between 2006 and 2010 Unitaid, the institution in charge of managing the SLAT, received 1.3 billion US dollars from its members (Unitaid, 2011); the EU estimates that the income for 2001 to 2012 from the sale of Greenhouse Gas Emission Permits will range between 2.2 and 2.9 billion US dollars (European Commission, 2009); the income from the Proceeds from Certified Emission Reduction Units (CERs) has been estimated by the EU to be approximately 152 million US dollars for the period of May 2009 to April 2011 and between 310 and 420 million US dollars between May 2011 and December 2012 (Unitaid, 2011); regarding the Buy-Downs and AIF credits, the donors have provided advance payment commitments up to the year 2010 worth 150 million US dollars, and for BIRF credits, the donors have provided advance payment commitments worth 125 million US dollars (OECD, 2011). In terms of generated income, the results for the private initiatives are more disheartening; for instance, in the period for 2006 to 2011, Product (RED) generated resources worth 170 million US dollars for the Global Fund (http://www.joinred.com/), and MassiveGood received, during 2010, 200.000 US dollars in voluntary micro contributions (http://www.massivegood.org). See United Nations (2011) or United Nations Development Program (UNDP) (2012) for additional data on the collection of different IIIFDs.

by establishing traditional public funding mechanisms (such as taxes) or by encouraging private global philanthropy to adopt a much more involved role in innovative development funding[18].

With regard to the destination of resources, most IIIFDs established to date revolve around the health and environmental funding axes[19]. Other key matters related to human development, such as extreme poverty, education, gender or malnutrition, have not received as much attention from innovative funding, and this fault in the system would appear to require a correction in the near future by channelling additional resources to other ends.

Finally, various agencies articulate the application process for the vast majority of IIIFDs (the World Bank, the Global Fund, Unitaid or the GAVI Alliance), whereas the primary funding continues to be provided by traditional donors (the nation-states and the supranational agencies), as well as by some private foundations and specific micro-donors. These institutions have already demonstrated the capacity to perform their tasks relatively well, and their role needs to be promoted. However, it would be advantageous to impulse the participation of other relevant international actors so that, aside from having a role as catalysers (UN, OCDE) or donors (EU), they can also play decisive roles as promoters of new IIIFDs. It might even be convenient to analyse the need to establish a new international organisation to study, design, apply and jointly manage existing and future IIIFDs (LGIFD, 2010; Garcia-Arias, 2013), or at least to analyse the possibility of creating a specific Task Force for these matters within the United Nations system.

On the other side, a large number of the IIIFDs with larger resource endowments and which are further defined by the introduction of considerations of efficiency and effectiveness (for example, those managed by the Global Fund) are sustained by official funding sources, which raises serious questions regarding the additional character of the funds (Godal, 2005). Furthermore, the emphasis on efficiency and effectiveness, ex-post conditionality or results-based financing (all of which are characteristic of public-private alliances and the new "market-friendly" stance of mainstream IFfD orientation) have begun to cause agency problems and increase transaction costs during the negotiation and implementation of development projects (Martens, 2005).

Additionally, another finding is obtained from the analysis of the existing situation regarding innovative instruments: there is a need to further the progress on this topic and to accelerate the launch of new IIIFDs. In this regard,

[18] The extremely interesting debate on philanthrocapitalism and on the role (enthusiastically) assigned (by the mainstream) to philanthropy and public-private alliances on the IFfD system, is beyond the scope of this article. Anyway, interested readers could see Partzsch and Fuchs (2012) or Thorup (2013).

[19] The SLAT, the Greenhouse Gas Emission Permits, the CERs, the Buy-Downs, the IFFIm, the Debt2Health program, the Pneumococcal disease Advance Market Commitments, the AMF-m and the Green Bonds, among many others, are clear examples of this phenomenon.

there are many proposals on the table[20], although, for different reasons, not all have the same relevance. We believe that demands should be made to establish at least three requirements before a new IIIFD could be seriously considered: (i) technical feasibility*,* i.e., whether the instrument can be (with greater or less difficulty) implemented from a technical point of view; (ii) political and academic support*,* i.e., whether the mechanism has a high academic as well as a (at least apparent) growing political consensus; and (iii) strong potential resource generator*,* i.e., whether the instrument is able to generate a sufficient, stable and predictable volume of financial resources. Under these premises, the list of available funding instruments is drastically reduced and would be strictly composed, in our opinion, of supranational taxation instruments and, more specifically, by a tax on CO_2 emissions and a tax on foreign currency transactions[21].

4. The Need for an Integral (Systemic) IFfD Reform

Given the previous discussion, the issue of guaranteeing sufficient, predictable, stable and permanent international development resources, is not only complex but, if an optimal solution is desired, also requires the adoption of a holistic, integral perspective, that is a SAIFfD (Garcia-Arias, 2013, 2014). Thus, it is not possible to design an international funding system that guarantees long-term development objectives and optimal GPGs provision levels by means of a single measure or a small group of them. In fact, the opposite is true.

Hence, we not only need, as we have previously set, innovative financing to be expanded and redesigned in the aspects indicated in the previous section, but also additional measures in at least two different ways: TIIFDs and the reform of the international financial system.

Firstly, reformed and reinforced traditional financing mechanisms are needed. Specifically, it is necessary to reform ODA, which would involve increasing the total amount of funds and establishing commitments to sustain them, while reducing volatility and unpredictability. Furthermore, this reform must prioritise the use of ODA to provide GPGs related to poverty, fairness, gender equity and empowerment, and human rights. Moreover, all of these measures require a guarantee that the considerations of efficiency and effectiveness that characterise the current provision of IFfD do not serve as an excuse to reduce the total quantity of aid or to enable the political-technocratic elites (local or donor) to unilaterally establish the priorities and development strategies of ODA beneficiaries.

Regarding private capital flows, the empirical evidence for the supposed

[20] Some studies have accounted for more than 100 proposals for IIIFDs. Please see Atkinson (2005), Ketkar and Ratha (2009), Nordstrom (2009) or OECD (2011) for an analysis of some of these proposals.
[21] See Garcia-Arias (2013) for a detailed analysis.

positive relation between the availability of private foreign capital and growth, development, and poverty reduction is at best ambiguous (Arestis and Caner, 2010; van der Laan, Moreira Cunha and Wickstrom Alves, 2010; Garcia-Arias, 2014). Therefore, it is imperative to regulate, tax and, in specific cases, restrict the entry of some international private capital flows characterised by its lack of stability and its tendency toward reversibility. This goal can be achieved through selective capital controls and by accompanying the process of capital account liberalisation (where desirable) with the implementation of an adequate institutional and legal framework, solid financial regulations, and the development of local financial markets that should be as efficient, transparent, and deep as possible.

Finally, regarding indebtedness, the financial crisis has made clear that the structural problems of the concessional financing programmes (Macías Vázquez, 2010), which hypothetically increased financial aid to debtor countries and made such aid more flexible, did not establish clear incentives for the LDCs to adopt development models that would strengthen the internal mechanisms of savings and investment generation (UNCTAD, 2010). The economic and financial crisis and its virulent consequences have enabled us to observe clearly that the supposed models of debt sustainability were little more than a simple architecture of financial services. Therefore, it is necessary to establish a transparent, inclusive, fair, and global mechanism to manage this problem. This mechanism should be based on fair distribution between debtors and creditors, which, when unfair, hampers the growth of many developing economies and LDCs. Furthermore, the concept of debt sustainability based principally on financial indicators should be reframed. The sustainable debt model should combine at least three elements (Macías Vázquez, 2011): (i) a preventive (and not adaptive) character, (ii) financing lines that strengthen the structural quality of the economies, and (iii) financial and political conditions adapted to the realities of the LDCs. Moreover, it seems essential to establish an international court of bankruptcy and suspension of payments (Garcia-Arias, 2008, 2014).

Secondly, we also need other accompanying measures regarding the functioning of the international financial system. That is, those that can make the channelling of funding easier and more stable, and that improve the efficiency of resource management without disrupting or destroying what is already difficult to build in terms of innovative and traditional instruments. Such funding should allow for the positive synergies to meet the basic objective of increasing the collective well-being of the developing economies and LDCs.

It is therefore critical to radically modify the international financialisation process and, more specifically regarding the topics covered in this article, to reform the international financial architecture and to regulate the behaviour of international financial markets. Indeed, it is important not to forget that the financial markets, similar to the rest of the markets integrated in the globalized and financialized contemporary economy, are not an end in themselves, but are simple instruments to aid the real economy to reach specific economic objectives. Theoretically, financial markets basically channel excess savings wherever they are needed, distribute capital in an efficient manner and manage financial risks. However, the disheartening past experience and the more recent economic crises[22] have left no doubt that the current model of international financialisation is a permanent source of global instability (Agüera Sirgo and Garcia-Arias, 2000; Garcia-Arias 2014), and that it is therefore necessary to reform the structure of the procedures, uses and norms that determine the dimension, organisation and functioning of international financial markets. In other words, it is necessary to establish a development-oriented New International Financial Architecture (NIFA) (UNCTAD, 2010; Ocampo, 2011).

Although the NIFA covers very different dimensions that cannot be discussed in detail here, there is a clear link between the necessary reforms of the international financial architecture and IFfD that deserves some consideration[23]. First, it is necessary to establish a clear regulation of tax havens, both for general reasons (increase in systemic risk; erosion of tax systems and the collection capacity of the states; increases in quantitative and qualitative tax burden distribution inequity; and reduction of the Pareto efficiency) and, more specifically, for the case of developing economies and LDCs (Schjelderup, 2009). For instance, some estimations establish that the annual capital flight from developing economies (channelled for the most part by means of tax havens) fluctuates between 640 and 980 billion US dollars (Kar and Cartwright-Smith, 2008), i.e., a resource volume between 5 and 8 times higher than the ODA flows that these same economies receive.

Additionally, it is necessary to regulate the behaviour of transnational corporations with regard to transfer prices and to apply the recommendations established by the United Nations and the OCDE regarding this issue (OECD, 2009).

Furthermore, increased international cooperation in taxation issues is necessary, for instance, to further the implementation of coordinated tax reforms, to establish international mechanisms against tax evasion, to coordinate the establishment of an international taxation system, or to prevent harmful tax competition between jurisdictions.

It is also urgent to solve some of the international financial system imbalances, which not only underlie the recent economic and financial crises but also provoke strong dysfunctional tendencies in the developing economies and LDCs. For instance, the role of the US dollar as an anchoring currency for the system motivates those countries to accumulate reserves in strong currencies, which, in the end, causes the net flow to move from them to the developed countries and not the other way around[24].

[22] See Garcia-Arias, Fernandez-Huerga and Salvador (2013) for an in-depth analysis of the recent episodes of crisis.
[23] For a detailed analysis of these matters, please see Garcia-Arias (2013) and the references indicated therein.
[24] See, for example, Hudson (2010) for an analysis of the issue and of the different available solutions.

Finally, it is necessary to adopt in-depth reforms of the international monetary system and of its main institutions, particularly the IMF, by addressing issues related to the distribution of power, the asymmetry of relationships and the empowerment of medium- and low-income nations.

Based on the preceding discussion, the proper management of global issues of this magnitude requires a paradigm shift in the global governance of globalisation and the international financialisation process. This shift will inevitably require the serious consideration and definitive establishment of international financial institutions such as those proposed by Eatwell and Taylor (2000), Griffith-Jones (2009), Eichengreen (2010) or Garcia-Arias (2013).

5. Conclusions

IFfD is a key element for guaranteeing the attainment of structural development objectives. Current attempts to make IIIFDs a source of additional funding for substantial, stable and predictable resources have not borne fruit, and future expectations are not extraordinary promising. Consequently, it is critical to adopt a systemic approach to international financing for development (SAIFfD) that would imply that, at least, three elements are taken into consideration.

First, regarding traditional funding there is a need to reform and reinforce the existing TIIFDs. Specifically, the ODA is quantitative and qualitatively poor, biased in its commitment to debt relief, technical cooperation and humanitarian aid, highly conditional, strongly concentrated (usually by historical, political or cultural affinity criteria) and excessively bilateral. Within the field of foreign debt, it is essential to face the resolution of the problem for developing countries and LDCs as a whole, by establishing sustainable long-term debt strategies. In the case of international private capital flows, it is necessary to establish clear differences among the different types of capital to promote the arrival of stable flows that are linked to long-term growth, poverty reduction and endogenous development, and that can generate wealth and quality employment; and, at the same time, discourage, regulate, tax and, in some cases, restrict the massive arrival of speculative, strongly volatile and reversible international capital flows, especially given the enormous capacity of these flows to destabilise the receiving LDCs and developing economies.

Second, regarding innovative financing some (but not all) of the already developed IIIFDs should be promoted, and the implementation of new instruments should be encouraged by taking into consideration that it is much more effective to develop fewer mechanisms that are technically feasible, have sufficient political and academic support and exhibit the capacity to generate a substantial, stable and predictable resource flows, than it is to implement myriad funding instruments that are small, disjointed, disconnected and (in terms of generated resources) have little relevance. In this regard, supranational taxation is one of the few available candidates for “new” IIIFDs.

Third, few results can be expected in terms of net resource generation, the achievement of structural-development objectives and GPGs financing if the reform of some of the key elements of the world economic system and the international financialisation process are not addressed in a decisive manner. A NIFA must be implemented, as its impact on the quantity and quality of the net available resources for IFfD is essential.

In sum, international innovative instruments represent an opportunity not only to establish additional mechanisms for financing development but also to undertake a structural and integral reform of the IFfD system. In addition, such systemic approach will (hopefully) enable us to rethink the model of international financialisation, which in its current form is far from contributing to overall human development and well-being.

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