MARKETPLACE ON INNOVATIVE FINANCIAL SOLUTIONS FOR DEVELOPMENT 2010

COMPETITION GUIDELINES

The Agence Française de Développement (AFD), the Bill & Melinda Gates Foundation and the World Bank will co-host an international Marketplace on Innovative Financial Solutions for Development (MIF), to be held in Paris on March 4-5, 2010. The 2010 MIF will be dedicated to innovative, smart, fine-tuned financial mechanisms for mobilizing, channeling, and spending funds dedicated to development.

A key feature of the MIF will be a competition to garner fresh ideas for financial solutions aimed at reducing poverty and sustainably improving livelihoods through addressing market or government failures. Grants will be awarded for up to five proposals in a two step selection process entrusted to a special jury. In the first phase, approximately 20 finalists will be selected. The on-line proposal form for the first phase application is available on the website www.fininnov.org and includes detailed instructions. The 20 finalists will be required to submit more detailed proposals. The winners will receive pilot grants to implement their proposals, with the goal that successful pilots would be scaled up and replicated broadly.

Other innovation awards or prizes may be announced in the months leading up to the MIF or at the event itself.

MIF OBJECTIVES

The MIF's key objectives are to:

a) advance the agenda on innovative financial solutions for development;
b) facilitate knowledge-sharing and learning, including South/South learning, about which approaches work, which don't, and how to design solutions to maximize impact and cost-effectiveness; and
c) spur the evolution of cutting-edge projects that apply innovative financial mechanisms to development challenges.

To advance these aims, the organizers of the MIF are calling for project proposals that use innovative financial solutions to address concrete development problems.

BACKGROUND: WHAT ARE INNOVATIVE FINANCIAL SOLUTIONS FOR DEVELOPMENT?

In the current global environment, the development community needs to intensify its search for ways to increase the volume of financial flows contributing to development and to enhance their impact on the ground. Innovative financial solutions for development are ways to (i) increase the pool of available sources of development funding (ones that go beyond traditional sources such as budget outlays from established official aid organizations, conventional bonds issues by development banks or common ways to call for donations) or (ii) better tailor financial instruments to development needs, at the level of households/individuals, firms or governments.

Development finance has become increasingly complex over the past decade or so. This period has seen an expanding number of ways to finance development, some targeted at global priorities, such as climate change, health, and migration, and others targeted at specific regional or country or local needs, such as catastrophic-risk insurance, infrastructure financing, and food security. These solutions typically involve a mix of both financial engineering and institutional innovation and can be facilitated by technological advances.
Institutional innovation has played a growing role in international development finance over the past decade, with new actors and funding channels appearing in several fields, most notably in health financing. The rise of large philanthropic foundations and of a vigorous social-enterprise sector has increased funding for social and environmental issues. This new institutional landscape has stimulated innovative financial engineering to complement traditional ways of doing business. At the same time, innovative financing mechanisms, such as microfinance, have also emerged at the grassroots level. Financial engineering has helped channel funds dedicated to development and disburse them more effectively through implementing entities--institutions, governments, civil society organizations, and private-sector groups.

WHAT SPECIFIC TYPES OF INNOVATIVE FINANCIAL SOLUTIONS ARE THE FOCUS OF THIS COMPETITION?

We are seeking proposals that are designed to help **manage risk** and/or **improve financial incentives** for development, through innovative, creative project proposals.

In some ways, managing risk and improving incentives represent two sides of the same coin: mechanisms that reduce exposure to risk can themselves incentivize the mobilization of larger and more efficient flows of development finance. Reducing risks or improving incentives through financing mechanisms in turn may allow the mobilization of additional resources and/or make funding available in a manner that is more timely, predictable and responsive to specific development needs. For example, public-private partnerships can contribute to a better allocation of risks between the public and private sectors, thereby leveraging private resources and improving the delivery of infrastructure or other basic services.

Financial tools, such as output-based aid, can also be designed to embed mechanisms to improve incentives for specified development results, beyond incentives derived from risk management. For example, flexible lending tools may provide interest-rate or maturity bonuses if specified development results are attained. This can apply both to public and private sector finance, although it may be of particular relevance to public finance, which is often criticized for focusing on inputs rather than linking financial incentives to results. Smart financing mechanisms tied to measurable results can contribute to more effective use of public-sector resources and more efficient implementation of public policies.

We ask that proposals focused on managing risks and improving incentives be oriented specifically towards the following three types of development challenges:

1. Solutions to Address Volatility and Improve Efficiency of Public Sector[1] Finance

Managing risks affecting development efforts:

Developing countries face the real risk of unpredictable capital flows that can hamper long-term budget planning and investment. Commodity price shocks or natural disasters may suddenly deplete a government's main source of revenue just when its citizens need assistance most. Development assistance may vary from year to year, or may not be flexible enough to accommodate changing needs. Governments often have little flexibility to address volatility of financial flows at the national level.

Financial instruments can help stabilize capital flows and mitigate aggregate risks. For example, counter-cyclical tools, such as forward contracts and specific types of debt, guarantee, and insurance instruments can serve as hedges.

[1] "Public sector" refers here to the central governments, local authorities and other public administration bodies of developing countries, and official aid agencies

As an illustration, the Caribbean countries have developed a regional climate catastrophe risk insurance mechanism. Malawi has mobilized financial weather derivative instruments to help manage the effects of weather on agricultural production and food security. These derivatives provide farmers with insurance against the risk of drought. A number of other countries, mainly middle-income countries, have piloted innovative programs to manage macroeconomic shocks. These include bonds indexed to GDP, commodity prices, and inflation; counter-cyclical loans whose terms (maturity, grace period or interest rates) can be easily adjusted in response to export shocks; local currency bonds; and currency swaps. Mexico and Colombia, to give just two examples, have used strategies such as asset liability management, commodity hedging, local currency and contingent financing to help weather the current financial crisis.

The MIF seeks project proposals that would, for example, help governments/public entities hedge against specific risks and volatility through the use of innovative financial instruments such as specific types of debt, guarantees insurance mechanisms or forward contracts.

Promoting incentives for development results:

Project proposals in this area could involve the use of innovative financing mechanisms to help public entities achieve greater impact, and improve incentives for the public sector to achieve better results, in particular, for programs benefiting the poor.

2. Solutions for Catalyzing Investment by and for the Enterprise and Private Sector:

Private sector investment plays an important role in developing economies, providing essential goods and services and stimulating growth. However, enterprises operating in developing countries often face severe hurdles in financing their activities. This is true of a range of players, including Small and Medium Enterprises (SMEs), larger corporations, non-profits, social enterprises, community organizations, and local NGOs. Enterprises also often lack incentives to invest in products whose demand is limited to developing countries – for example, vaccines for tropical diseases, crops for tropical climates, and technology adapted to local infrastructure. They may be challenged by real or perceived barriers, such as operational risk, political risk, and lack of a sizeable market. Innovative financial mechanisms may help companies overcome some of these barriers.

Tailored financial instruments can provide incentives for private sector-led development results, for example through smart equity funds, guarantee or insurance mechanisms.

An example of global level mechanism responding to such challenges is the pilot Advance Market Commitment (AMC) for pneumococcal diseases which was recently launched. It is targeted at a global market failure: the reluctance of the pharmaceutical industry to develop and produce vaccines against diseases that primarily affect those in poor countries. It was designed specifically to accelerate the creation of a viable market: it provides a financial commitment to pharmaceutical companies to subsidize the future purchase of vaccines needed in poor countries. The AMC is funded by long-term donor grants and enhanced by an IBRD guarantee. It only applies to vaccines that meet the needs of developing countries and is explicitly “country-owned.”

Another example is the recently launched Africa Health Fund, set up with contributions from development or philanthropic institutions. This fund provides new sources of equity to SME health care businesses targeting the poor in Sub-Saharan Africa. Fund managers’ compensation is based on two bottom lines: the fund’s financial return, and whether the businesses receiving funds meet specified targets for reaching the poor.

Proposals on this theme could seek to utilize innovative financial instruments to help create incentives for firms to provide goods and services for the poor and to increase the comfort level of private players investing in risky political environments, for example, through the use of guarantees.

3. Financial Solutions to Improve Livelihoods of Poor Households:

Unpredictable and irregular incomes, coupled with little cushion to absorb the impact of unexpected events are among the challenges poor households face. As a consequence, many poor households struggle to have cash when they need it, to pay for the things that are most important to them, whether it be daily needs like food and shelter, taking advantage of opportunities including education and investment in productive enterprise, or managing during illness or natural disaster. The World Health Organization estimates that as many as 5 percent of families worldwide are pushed into poverty each year by sudden health calamities. Making incomes more predictable, enabling households to manage their financial resources more efficiently and mitigating risks related to unplanned expenditures could help smooth cash flow, which is as critical at to households as it is to the public sector.

In recent years, microfinance, including microinsurance, has helped protect poorer households from income shocks and improved their access to finance. Initiatives have been launched to facilitate the flow and to reduce the costs of financial transfers, including migrants remittances.

Project proposals in this area could include the provision of safe, high quality, low-cost and accessible financial products to help households or family-based economic activities from the farming and informal sectors counter a precipitous drop in household income from shocks caused, for example, by price shifts, a death, accident, disease, drought, flood, or other unexpected, catastrophic event. In practice, these proposals might therefore be aimed at reducing risks faced by households or individuals at the "Bottom of the Pyramid."

Important Notes:

- The examples quoted above should not be seen as defining or limiting the scope of the competition, they are only illustrative.
- The above categories are purposefully organized around the problems which proposals should seek to solve. They do not specify the actors that will be involved in the effort. As examples, solutions to public sector problems which fall into theme (1) may very well include private sector players (such as banks or insurance organizations putting out new products), and efforts for catalyzing private investment which fit in theme (2) may be implemented by public sector entities (such as governments providing investment guarantees).

PROPOSAL CRITERIA

The MIF competition is open to organizations of any type, subject to the criteria below. Proposals that do not meet all eligibility requirements will not be considered.

Proposals

Proposals should consist of concepts for practical, feasible projects employing financial solutions other than those in the usual toolbox available in developing countries. Proposals that involve scaling-up or mainstreaming ongoing projects will not be considered unless the proposed scaling-up or mainstreaming process contains genuinely new, innovative features. The primary goal of a proposal should be a concrete project or initiative, rather than research, publications, or conferences. The scope is not limited to institutional funds provided by conventional donors; proposed projects can involve developing countries' financial systems in a wider sense and their connections with the global financial system. And proposals should clearly outline a framework for the project's implementation, specifying such factors as implementing agency/ies, partnerships, budget, schedule for preparation and implementation, and indicators used to evaluate results.

Eligible organizations

Proposals are welcomed from all development finance innovators, including financial institutions, private-sector companies, social enterprises, non-governmental and civil society organizations, government agencies, universities and other academic organizations, foundations, and development organizations. We are unable to provide grants to individuals; all proposals must therefore be submitted under the auspices of eligible organizations.

A project may require or benefit from cooperation with a financial intermediary or some other kind of partner that has the legal and technical capacities needed to implement the project. In such cases, the proposal must clearly specify the organization that would serve in this role and how responsibilities would be shared in project implementation.

Awards

For this competition, the MIF will award up to five grants of up to US$100,000 each, depending on the number and quality of proposals and their associated budgets. These grants are to be used specifically to implement the proposed projects.

Because the grants will be dedicated to implementing the proposals selected, a project's results should be measurable within the timeframe of implementation specified in the proposal. Projects should also have a direct impact on outcomes within the chosen theme. The use of grant money will be monitored by the organizers of the MIF.

The MIF organizers see this competition as an opportunity to feed a pipeline of exciting new ideas, and may choose to continue supporting promising efforts beyond the initial $100,000 grant.

Language

Proposals must be submitted in English or French.

Themes

Each proposal should be geared towards one of the MIF themes:

1. Solutions to Address Volatility and Improve Efficiency of Public Sector Finance
2. Solutions for Catalyzing Investment by and for the Enterprise and Private Sector
3. Financial Solutions to Improve Livelihoods of Poor Households

Though some proposed efforts may touch more than one of these themes, we anticipate that the vast majority will be oriented towards addressing a central problem which can be categorized in just one of these themes. For the rare proposal which is truly cross-theme in nature, multiple themes may be listed in the application form.

ASSESSMENT CRITERIA

Proposals will be assessed according to the following criteria.

Innovation

The level of innovation in proposed projects will be of paramount importance. This is the chief element differentiating this competition from other development-grant programs. Proposals should either:

- Develop new financing mechanisms—ones that go beyond instruments already in use in domestic and international finance (for example, standard bond issuances, credit insurance, and widespread microfinance techniques);

OR

- Apply existing financial instruments to development problems in a new, creative way and in a new context and setting. Here, we are especially interested in the creative application of instruments that are already well used in the private sector but not yet in development finance;

OR

- Combine existing financial instruments into a new, creative financing "package."

Institutional innovation—the creation of new entities—may be a dimension of proposed projects, but it should not be a project's main thrust. The core of any proposed project should consist of innovative financial engineering to mobilize, channel, and spend funds.

Development Impact

The proposed financial solution should concretely contribute to a clear and measurable development impact. Proposals geared specifically towards improving the lives of the poor in developing countries will receive particular consideration.

Feasibility and Organizational Capacity

The jury will evaluate proposals with the following logistical questions in mind: Does the project have a realistic budget and time frame for implementation? Does the organization submitting the proposal have the proven technical and legal capacity to implement the project? If not, and the applicant is proposing to work with a financial intermediary or other partner, does that partner have the technical and legal capacity to implement the project?

Potential for Scaling Up and Sustainability

Could the project's impact be heightened by scaling it up or replicating it on a broad level? Could the project continue after the MIF grant funding has ended? What sort of long-term impact is envisioned?

COMPETITION TIMELINE AND KEY STEPS

August 30 – November 15, 2009: Call for proposals
All proposals for MIF 2010 should be submitted through our website, www.fininnov.org.

November 16 – December 6, 2009: Review of proposals
Proposals will be assessed according to the criteria above.

December 7, 2009: Announcement of finalists
The assessors will select approximately 20 proposals for further consideration.

December 8, 2009 – February 15, 2010: Submission of finalists' proposals
All finalists must submit a more-detailed proposal by *February 15, 2010*.

March 4-5, 2010: Marketplace for Innovative Finance, Paris
The finalists will be invited to attend this event and showcase their ideas before an independent international jury. Expenses will be covered for two representatives from each finalist team. The jury will comprise staff members from the AFD, the Gates Foundation, and the World Bank, along with leading individuals in development drawn from academia, civil society, foundations, government, other donor institutions, and the private sector. Up to five winners will be selected.

HOW TO APPLY

Proposals must be submitted through the MIF website, www.fininnov.org. The On Line proposal form, which includes step-by-step instructions, is posted on the site. If you are unable to access the website, please e-mail info@fininnov.org. **Proposals must follow the format specified on the website and must be received by 6 p.m. Washington D.C. time (23:00 GMT) on November 15, 2009.**

Philanthropic or official organizations entering the competition may opt to forfeit any grant they are awarded in order to make the funds available to more-needy contestants. If this is the case, please indicate so on your application.