Session 5:
Means of Implementation

I. <u>Objective of the Session</u>

This session would like to reflect different aspects related to the means of implementation for ISID, including policy and capacity development, building resilient infrastructure, domestic technology development with the main focus on innovative financing as a key mechanism for fostering, catalyzing and strengthening industrial development in LDCs and building into the PCPs a robust, iterative monitoring and evaluation methodology.

II. <u>Expected Outcome</u>:

Subsequent to the 3rd conference on "Financing for Development" held in Addis Ababa in July 2015, it was agreed to emphasis/prioritize efforts on definition of concrete, effective and innovative solutions to alleviate dire funding problems faced by LDCs. This session will serve to facilitate exposure and discussion on innovative mechanisms, schemes, partnerships of the development community for implementing and financing resilient infrastructure, Inclusive and Sustainable Industrial Development (ISID) and Innovation (the <u>3 I's</u>) thereby building crucial operational linkages between ISID and SDGs, in particular, SDG 9 (Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation).

Innovative financing schemes and funding mechanisms will be explored that mainstream ISID into the National Development Plans and priorities of the Member States, which will result in the definition of an effective, concrete and holistic forward-looking framework, based on robust partnerships with all stakeholders and lead to the development of an action-oriented operational plan to implement ISID for LDCs.

III. <u>The Rationale</u>

Innovative Financing, ISID and SDG 9

Innovative development financing, in the context of UNIDO, is a mechanism for partnership-building and fundraising aimed at fostering, catalyzing and strengthening industrial development in countries, going beyond non-traditional approaches with focus on new multi stakeholder frameworks for stimulating public-private partnerships; exploration and identification of new funding sources (e.g., impact investment, bond-raising), new incentives (e.g., financial guarantees, tax incentives, corporate social responsibility) and building new partnership coordination mechanisms with multi-stakeholders to scale up funding and investments.

Enshrined in ISID principles of strong country ownership anchored in national funding for ISID, in particular, through strengthening of the tax revenue base, developing mechanisms to improve capacity to harness sustainable revenue from natural resources and achieving public sector efficiency gains; integration of economic, social and environmental dimensions in support of industrial development; closely aligned with national resource mobilization strategies, and directly linked to both SDG 9 (Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation) and SDG 17 (Revitalization of global partnership for sustainable development), innovative financing is about finding financial solutions to deliver sustainable and inclusive industrial development, ensuring that no one is left behind in benefitting from industrial growth and shared prosperity.

Finding Innovative Solutions:

At the core of our discussion will be strong Government ownership, cohesive nationally owned National Development Plans encompassing sustainable development strategies, supported by integrated national financing frameworks.

Innovative financing emerged as a result of two key trends in international development: an increased focus on programs that deliver results efficiently and coordinated with partners and a desire to support collaboration between the public and private sector and multiple stakeholders, including International Financial Institutions (IFIs) and Regional Development Banks. This session aims to strengthen the growth of innovative finance for ISID by creating a vision and a strategy, under the auspices of the national Governments in partnership with the international development partners, the public and private sector and multiple stakeholders, both national and international, to explore innovative partnership and financing opportunities.

Successful innovative financing is a combination of mobilization of resources through innovative fundraising approaches to the delivery of positive social and environmental outcomes through market-based instruments. Innovative financing is crucial to creating opportunities for public-private sector collaboration that will help address global challenges that LDCs face today.

Cross-cutting issues, the need for gender mainstreaming, environmental sustainability will be discussed and integrated including targeted actions and investments in the formulation and implementation of all financial schemes.

Key Aspects of Innovative Financing and ISID Partnerships for LDCs:

1. National Ownership: While national ownership over innovative sources of development finance is crucial to ensure sustainable development results, it must involve addressing national development priorities and positive inter-action with the governance structures of innovative finance initiatives with efficient use of direct budget and/or industry sector-wide support by innovative schemes. It is essential to ensure that strong country ownership is anchored in national funding for ISID, in particular, through strengthening of the tax revenue base, developing mechanisms to improve capacity and regulatory frameworks to harness sustainable revenue from natural resources and achieving public sector efficiency gains.

2. Sustainable and Resilient Infrastructure Required as Foundation for Innovative Financing in LDCs: through coordinated and complementary financial, technological and technical support from partnerships with multiple stakeholders. This includes provision of support for domestic technological development, research and innovation by ensuring a conducive policy environment for industrial diversification and value addition as well as facilitating affordable universal access to information and communication technology.

3. Institutional Capacity Development: An essential element of sustainability. innovative initiatives of development finance, must however balance 'quick wins' with longer-term capacity development, in particular for industrial development and moving up the value chain.

4. Expansion and Diversification of Schemes Require Complementary Coordination: In the current global dynamic technological environment, innovative sources of development finance tend to expand and diversify all the time. Therefore, due consideration should be given to ensure complementarity and effective coordination between different initiatives and financial instruments. Too many new structures/financial instruments can carry a high risk of being unsustainable.

5. Multi-Stakeholder Partnerships Require New Innovative Financing Schemes: for greater efficiency and impact to scale up funding and investments, in particular with PS and IFI investment sources.

6. Substitution Risks Require Clarity: Substitution risks and 'double-counting' in innovative financing schemes is another area of high risk. Clarity is required on this matter. For example, some forms of external finance have dual development and climate objectives, and require being counted and assessed separately next to different international agreements/development objectives of the Government.

7. Financing Innovative Schemes Require Transparency and Predictability: Innovative sources of development finance should be predictable and transparent. Otherwise, it runs the risk of reducing its effectiveness.

Key elements that are particular for innovative financing of LDCs, in particular, due to their access to preferred finance, which can leverage further sources of financing, include emergence of new mechanisms such as thematic bonds, impact investment and results-based financing. These market-based mechanisms have the potential to effectively align incentives and increase focus on tangible outcomes for ISID. For example, guarantees could be used to facilitate investments in new markets, while results-based financing and performance-based contracts could offer greater opportunities for private companies to profitably explore markets otherwise left unexplored.