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## Innovative Finance: Putting your money to (decent) work

*Draft for consultation*

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Geneva, 2018

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## ACRONYMS AND ABBREVIATIONS

AATIF	Africa Agriculture and Trade Investment Fund
AFD	Agence Française de Développement
AfDB	African Development Bank
DAC	Developmental Assistance Committee
DFI	Development Finance Institution
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GIIN	Global Impact Investing Network
GNI	Gross National Income
I&P	Investisseurs & Partenaires
IFC	International Finance Corporation
ILO	International Labour Organisation
IPDEV	I&P Développement
KfW	Kreditanstalt für Wiederaufbau
LDC	Least developed countries
NGO	Non-Governmental Organisation
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
SDG	Sustainable Development Goal
SME	Small and Medium Enterprise
SPTF	Social Performance Task Force
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
USSPM	Universal Standards of Social Performance Management

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## EXECUTIVE SUMMARY

**In a challenging financial context where traditional forms of development aid are under pressure, innovative financing has emerged as a complementary approach to generate additional and sustainable sources of finance to help reach development goals.** Quantifying the financial resources needed to implement the Sustainable Development Goals (SDGs) is complex and estimates vary widely; from USD 2.5 trillion to over USD 5 trillion a year. In comparison, official development assistance (ODA) reached USD 146.6 billion in 2017. While ODA remains important, particularly in the least developed countries (LDCs), it will not be enough to achieve the SDGs. The financial sector, especially the impact investment community, plays a crucial role to catalyse finance to achieve the SDGs.

**Innovative finance refers to innovative financing for development, i.e. all mechanisms and initiatives that provide finance to achieve the 2030 Agenda for Sustainable Development.** While there is no single agreed definition, innovative finance can broadly be defined, for the purpose of this report as *'a set of financial solutions and mechanisms that create scalable and effective ways of channelling both private money from the global financial markets and public resources towards solving pressing global problems'*. This concept incorporates two distinct facets: (i) innovative financing as a complementary source of capital to traditional development finance; (ii) innovative financing as a way of making development projects more effective and efficient by linking financing to results, redistributing risk, improving the availability of working capital, engaging technology, and matching the length, or tenor, of investments with project needs.

**Promoting sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all is a central feature of the 2030 Agenda for Sustainable Development centred in SDG 8.** While there has been progress in the past years, needs in the areas of decent work are still daunting. ILO's World Employment and Social Outlook 2018 estimates the number of people in vulnerable employment to increase by 17 million per year in 2018 and 2019. Extreme working poverty remained widespread in 2017, with more than 300 million workers in emerging and developing countries having a per capita household income or consumption of less than USD 1.90 per day. Women and youth continue to face greater challenges in the labour market such as restricted access to quality employment or lack of employment opportunities.<sup>1</sup> Furthermore, the ILO estimates that 121 million children would still be in child labour in 2025 based on the pace of progress made during the 2012-2016 period, far from the full eradication target;

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<sup>1</sup> ILO (2018), World Employment Social Outlook 2018, [https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms\\_615594.pdf](https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_615594.pdf)

moreover, at any given time in 2016 some 40.3 million people were in slavery.<sup>2</sup> At the same time, about 55 per cent of the world's population, or four billion people, are left without social protection.<sup>3</sup> In 2016, only 22 per cent of the unemployed received unemployment cash benefits, 28 per cent of persons with severe disabilities collected disability cash benefits, and 41 per cent of women giving birth received maternity cash benefits.<sup>4</sup> United Nation's (UN) 2018 statistics rank gender inequality in earnings as widespread in 89 per cent of the 45 countries surveyed, with average hourly wages of men being 12.5 per cent higher than women.<sup>5</sup>

**Innovative finance presents significant opportunities for the ILO to leverage additional sources for the Decent Work Agenda and to utilise existing funding in a more efficient manner, such as through conditional grants and contracts that require certain targets or outcomes to be achieved before funding is allocated.** In a time of economic, social and political turbulence in many parts of the world, in a time where innovative thinking towards achieving the SDGs is needed, there is an opportunity for the ILO to showcase (thought) leadership and commitment by adopting and/or promoting innovative financing. Based on its mandate and its unmatched experience and knowledge in the world of work acquired over 100 years responding to the needs of people everywhere, the ILO is well positioned to play a critical role in the innovative finance landscape by convening stakeholders, advising initiatives across stakeholder groups, setting standards and disseminating knowledge, building up the capacity in areas that may be lacking among stakeholders, such as integrating and measuring decent work in impact investment funds or pay-for-performance projects.

**This report aims to introduce the concept of “innovative finance” and link it to the “Decent Work Agenda”, as well as stimulate some initial thoughts on the potential role and contribution of the ILO.** Innovative finance, if done properly, represents a huge potential for the ILO to form new and innovative partnerships with the various players in the private and public sectors, attract new resources to close the financing gaps on SDG 8, as well as ensure that financing flows meet clear decent work outcomes. As such, this report is an open invitation to engage us to discuss and together leverage partnerships with the innovative financing sector for the Decent Work Agenda.

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<sup>2</sup> ILO (2017), Global Estimates of Child Labour: Results and Trends 2012-2016, Publications, [http://www.ilo.org/global/publications/books/WCMS\\_575499/lang--en/index.htm](http://www.ilo.org/global/publications/books/WCMS_575499/lang--en/index.htm)

<sup>3</sup> ILO (2017), World Social Protection Report 2017-2019. [https://www.ilo.org/global/publications/books/WCMS\\_604882/lang--en/index.htm](https://www.ilo.org/global/publications/books/WCMS_604882/lang--en/index.htm)

<sup>4</sup> UN (2018), The Sustainable Development Goals Report, <https://unstats.un.org/sdgs/files/report/2018/TheSustainableDevelopmentGoalsReport2018.pdf>

<sup>5</sup> UN (2018), The Sustainable Development Goals Report.



*"We knew that to meet what are now called the global goals, the world had to move the discussion from 'Billions' in official development assistance to 'Trillions' in investments of all kinds. But to get to the trillions, we needed to change the way we do our work ... instead of just linking our knowledge to our own capital, we need to leverage our knowledge by linking it to the vast amounts of capital that we can mobilise from the private sector..."*

*World Bank Group President Jim Yong Kim in a speech on Rethinking Development Finance on 11 April 2017*

## 1. What is Innovative Finance?

### 1.1. Defining Innovative Finance

**Innovative finance refers to innovative financing for development, i.e. all mechanisms and initiatives that provide finance to meet the 2030 Agenda for Sustainable Development.** However, the concept of innovative finance is complex and numerous definitions have been proposed over time depending on how expansively the concept is shaped, the categories of mechanisms included, and other factors. All refer to innovative finance as a complement to traditional finance and entail the involvement of the "official sector".<sup>6</sup>

- The UN Department of Economic and Social Affairs defines innovative development finance as mechanisms that are in the realm of international public finance and that have the following characteristics: **(i) official sector involvement; (ii) international cooperation and cross-border resource flows to developing countries; (iii) an element of innovation in the nature of resources, their collection or governance structures; and (iv) as a desirable characteristic that resources are additional to traditional ODA**<sup>7</sup>.
- The Leading Group on Innovative Financing for Development, an informal network that currently brings together sixty-six States and international organisations, non-governmental organisations (NGOs), local entities and private foundations dedicated to the eradication of poverty and the preservation of global public goods, describes innovative financing as **"comprising mechanisms for raising funds for development that are complementary to**

<sup>6</sup> "Official sector" is commonly used interchangeably with "public sector", which comprises the general government sector plus all public corporations including the central bank (see <https://stats.oecd.org/glossary/detail.asp?ID=2199>).

<sup>7</sup> UN Department of Economic and Social Affairs (2012), *World Economic and Social Survey 2012, In Search of New Development Finance*, [http://www.un.org/en/development/desa/policy/wess/wess\\_current/2012wess.pdf](http://www.un.org/en/development/desa/policy/wess/wess_current/2012wess.pdf)

**ODA, predictable and stable, and closely linked to the idea of global public goods”<sup>8</sup>.**

- According to the Rockefeller Foundation, innovative finance represents a **“set of financial solutions that create scalable and effective ways of channelling private money from the global financial markets towards solving pressing global problems”<sup>9</sup>**. These financing solutions take a variety of forms across sectors and geographies, from insurance-linked securities and pay-for-success structures to advanced market commitments.
- The World Bank defines innovative finance as mechanisms that fulfil any of the following<sup>10</sup>:
  - i. **Generate additional development funds** by tapping new funding sources or by engaging new partners e.g. socially responsible investing, solidarity taxes, carbon finance
  - ii. **Enhance the efficiency of financial flows** by reducing delivery time and/or costs e.g. frontloading of development aid, index-based risk financing, partial risk financing
  - iii. **Make financial flows more results-oriented** with better link to measurable performance e.g. results-based financing, advance market commitments
- Finally, the Organisation for Economic Cooperation and Development (OECD) defines innovative finance as mechanisms that raise funds or trigger initiatives “in support of international development that go beyond traditional spending”, with the following characteristics: **(i) official sector involvement; (ii) transfer of resources from developed to developing countries; (iii) mobilise additional finance; and (iv) are operational<sup>11</sup>.**

This report we understands innovative finance as *a set of financial solutions and mechanisms that create scalable and effective ways of channelling both private money from the global financial markets and public resources towards solving pressing global problems*. This concept incorporates two distinct facets: (i) innovative financing as a complementary source of resources to traditional

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<sup>8</sup> The Leading Group, *Innovative Financing for Development*, <http://www.leadinggroup.org/rubrique327.html> (accessed in September 2018)

<sup>9</sup> Foreign Affairs (2017), *The Innovative Finance Revolution: Private Capital for the Public Good*, “Closing the Funding Gap – Development in the 21<sup>st</sup> Century is About Financing, Not Giving”, Judith Rodin and Saadia Madsbjerg, The Rockefeller Foundation,

[https://assets.rockefellerfoundation.org/app/uploads/20170215144835/FARockefellerFinalPDF\\_1.pdf](https://assets.rockefellerfoundation.org/app/uploads/20170215144835/FARockefellerFinalPDF_1.pdf)

<sup>10</sup> The World Bank (2010), *Innovative Finance for Development Solutions: Initiatives of the World Bank Group*, <http://siteresources.worldbank.org/CFPEXT/Resources/IF-for-Development-Solutions.pdf>

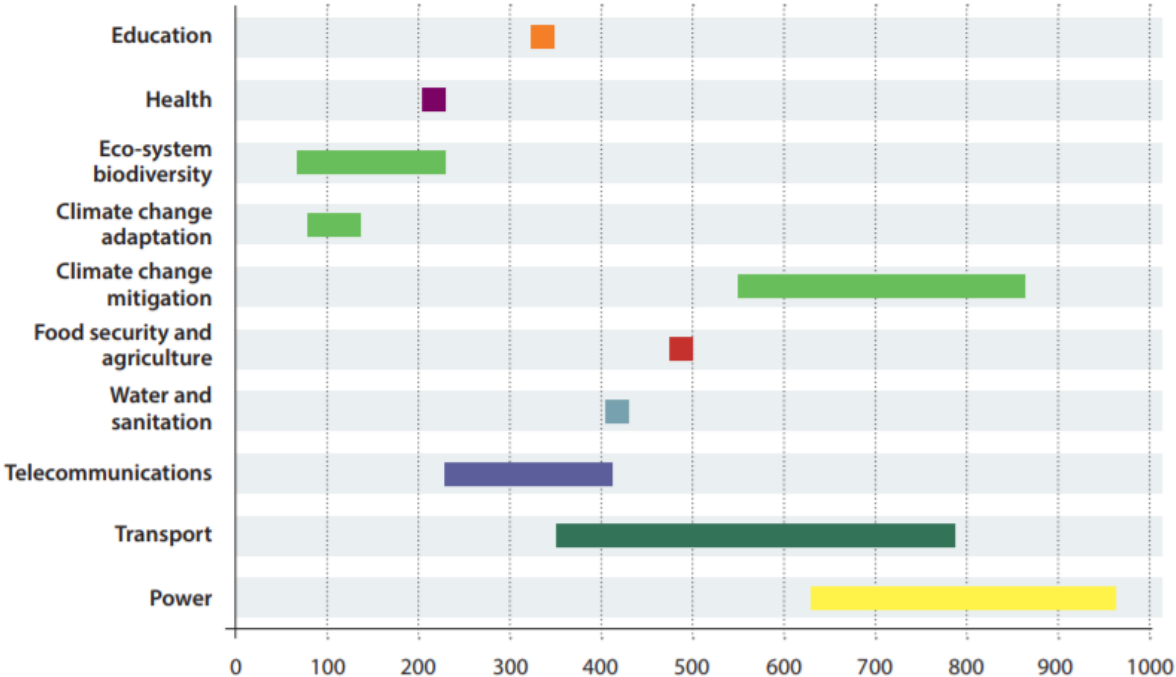
<sup>11</sup> OECD (2014), *Development Co-operation Report 2014: Mobilising Resources for Sustainable Development*, Chapter 15, [http://www.keepeek.com/Digital-Asset-Management/oecd/development/development-co-operation-report-2014\\_dcr-2014-en#page179](http://www.keepeek.com/Digital-Asset-Management/oecd/development/development-co-operation-report-2014_dcr-2014-en#page179)

development finance; (ii) innovative financing as a way of making development projects more effective and efficient by linking financing to results, redistributing risk, improving the availability of working capital, engaging technology, and matching the length, or tenor, of investments with project needs.

1.2. Who Needs Innovative Finance?

In 2015, the UN ushered in a new set of ambitious Sustainable Development Goals (SDGs) for the next 15 years, following the expiry of the Millennium Development Goals (MDGs). The 2030 Agenda for Sustainable Development and the SDGs are founded on the principle of leaving no one behind. They call for transformative shifts, integrated approaches, and solutions to structural barriers to sustainable development. Quantifying the financial resources needed to attain the SDGs is complex and estimates vary widely. However, the unifying denominator is unmistakable: the financing needed to achieve the SDGs is huge, and challenging.

Figure 1: Estimated annual investment requirements in core SDG sectors (USD billions), source: Financing the 2030 Agenda, UNDP, 2018, p.11.

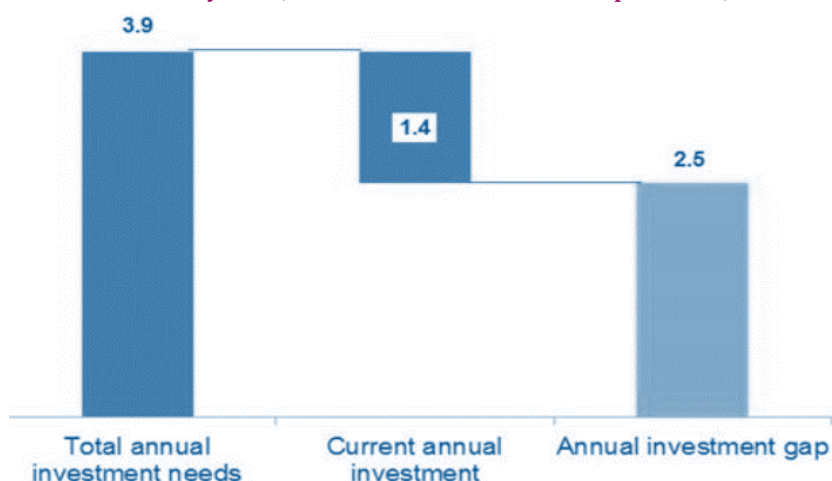


In 2018, UNDP estimated the annual investment needs to eradicate extreme poverty in *all* countries to be around USD 66 billion. Annual investment needs for infrastructure are estimated to be between USD 5 and 7 trillion (see Figure 1 for a breakdown of investment needs by core SDG sectors)<sup>12</sup>. Out

<sup>12</sup> UN Development Programme (2018), *Financing the 2030 Agenda – An Introductory Guidebook for UNDP Country Offices*, <http://www.undp.org/content/undp/en/home/librarypage/poverty-reduction/2030-agenda/financing-the-2030-agenda.html>

of this aggregate amount, almost USD 4 trillion is required annually by developing countries, of which only around USD 1.5 trillion is being met currently, leaving an **estimated financing gap of USD 2.5 trillion per year in developing countries alone** (see Figure 2).

**Figure 2: Estimated annual investment needs and potential private sector contribution (Trillions of dollars) to attain the SDGs by 2030, source: World Investment Report 2014, UNCTAD.**



**In addition, the Paris Agreement on climate change is accelerating growth of the climate-smart market segment.** IFC estimates, based on an analysis of 21 countries' national climate change commitments and other policies, an initial investment need of nearly USD 23 trillion in that these countries between 2016 and 2030<sup>13</sup>.

**Facing these huge financing needs, especially the least developed countries (LDCs) find it challenging finding the necessary resources for implementation.** Financial flows to LDCs have traditionally been hindered by several factors, among which UNCTAD lists unattractive risk-return profile, inefficient markets, insufficient knowledge and capability about the markets, and a lacklustre investment climate<sup>14</sup>. Yet, it is in the LDCs where internationally agreed upon development goals are most relevant and, more timely and predictable finance is urgently needed.

**ODA, including finance from concessional Developmental Assistance Committee (DAC) and multilateral organisations, forms the bulk of financial flows to LDCs, but is still severely short of what is needed to reach SDG targets.** OECD estimated that the net ODA by members of DAC was USD 146.6 billion in 2017<sup>15</sup>, up from USD 60 billion in 2000, with about USD 26 billion flowing to

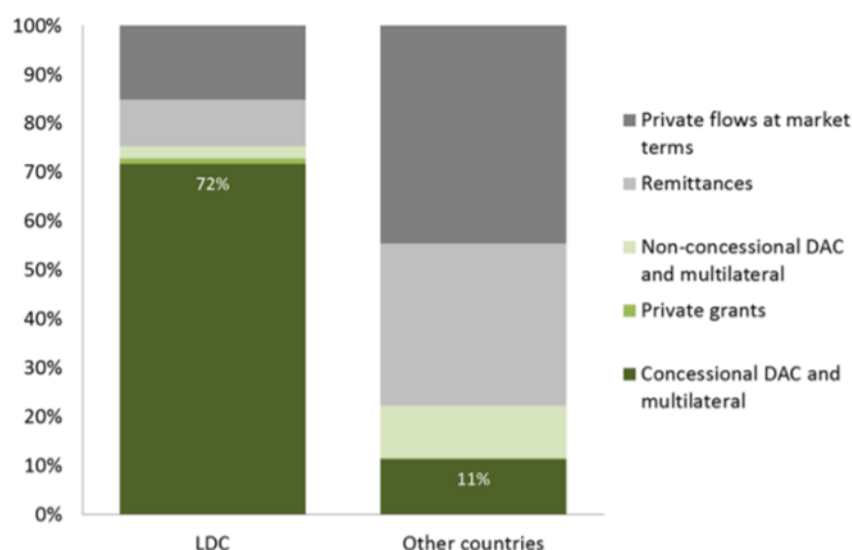
<sup>13</sup> IFC (2016), *Climate Investment Opportunities in Emerging Markets, An IFC Analysis*, <http://www.ifc.org/wps/wcm/connect/51183b2d-c82e-443e-bb9b-68d9572dd48d/3503-IFC-Climate-Investment-Opportunity-Report-Dec-FINAL.pdf?MOD=AJPERES>

<sup>14</sup> UNCTAD (2014), *World Investment Report 2014, Investing in the SDGs: An Action Plan*, [http://unctad.org/en/PublicationsLibrary/wir2014\\_en.pdf](http://unctad.org/en/PublicationsLibrary/wir2014_en.pdf)

<sup>15</sup> OECD (2018), *Press Release, Development Aid Stable in 2017 with More Sent to Poorest Countries*, <http://www.oecd.org/dac/financing-sustainable-development/development-finance-data/ODA-2017-detailed-summary.pdf>

the LDCs.

**Figure 3: Capital from DAC formed the majority of funding for LDCs, source: OECD (2016), Taking Stock of Aid to LDCs.**<sup>16</sup>



Despite the importance of ODA, very few donor countries meet the UN target to allocate at least 0.7 per cent of their Gross National Income (GNI) to ODA. In 2014, ODA from donor countries accounted for about 0.3 per cent of the GNI of developed countries, way below the targeted 0.7 per cent.

**Table 1: Delivery gaps in the amount of official development assistance (ODA) provided by the Development Assistance Committee (DAC) donors, 2013 and 2014, source: UN DESA, based on OECD/DAC data**<sup>17</sup>

		Percentage of GNI	Billions of current dollars
Total ODA	UN target	0.70	326.3
	Delivery in 2014	0.29	135.2
	Gap in 2014	0.41	191.1
ODA to least developed countries	UN target	0.15 - 0.20	66.8 - 89.0
	Delivery in 2013	0.10	44.50
	Gap in 2013	0.05 - 0.10	22.3 - 44.5

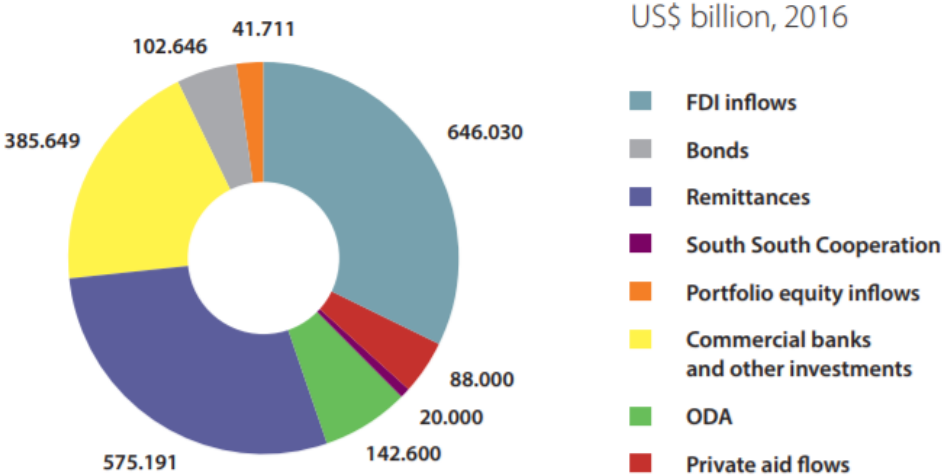
**Foreign Direct Investments (FDI) are the largest source of international private finance for developing countries** (see Figure 4 below). UNDP estimates that developing countries attracted FDI inflows of more than USD 646 billion in 2016 alone, compared to USD 140 billion in ODA in the same year. However, FDI flows can be volatile and may not be invested in ways that create

<sup>16</sup> UNDP (2018), *Financing the 2030 Agenda – An Introductory Guidebook for UNDP Country Offices*, <http://www.undp.org/content/undp/en/home/librarypage/poverty-reduction/2030-agenda/financing-the-2030-agenda.html>

<sup>17</sup> UN DESA (2015), based on OECD/DAC data; *Millennium Development Goal 8: Taking Stock of the Global Partnership for Development*, MDG Gap Task Force Report 2015, [http://www.un.org/millenniumgoals/pdf/MDG\\_Gap\\_2015\\_E\\_web.pdf](http://www.un.org/millenniumgoals/pdf/MDG_Gap_2015_E_web.pdf)

sustainable impact. In addition, less than 2 per cent of the total world FDI flow to the LDCs while most of the FDI flows are geared towards middle-income and resource-rich low-income countries.<sup>18</sup>

**Figure 4: International capital flows to developing countries in 2016, source: UNDP calculations based on data from the World Bank, IMF, UNCTAD and other sources.**



In line with the 2015 Addis Ababa Action Agenda highlighting the need for nationally owned development strategies supported by integrated financing frameworks<sup>19</sup>, a key objective of the new generation of UN Development Assistance Frameworks (UNDAFs) is to catalyse finance for the SDGs. This requires the UN to shift from *funding to financing*, i.e. from transferring resources from a financial contributor to a recipient to structuring the flow of resources such as blending grants from the official sector with private sector financing.

In response to the huge need for financing, the G7 launched the Charlevoix Commitment on Innovative Financing for Development in 2018<sup>20</sup>. While acknowledging the importance of public finance, the G7 recognises that public finance alone is insufficient in achieving the SDGs and commits, among others, to “support innovative financing approaches to achieve greater sustainable development outcomes and unlock resources, such as crowdfunding, blended finance, risk mitigation tools, and investor partnerships”.

With current FDI and ODA flows lacking the capacity to plug the financing gap for the SDGs, innovative finance is most needed. Leveraging resources through engaging blended finance, guarantees, outcome-based payments, syndicated loans, and other instruments (see Appendix for

<sup>18</sup> UNDP (2018), *Financing the 2030 Agenda – An Introductory Guidebook for UNDP Country Offices*, <http://www.undp.org/content/undp/en/home/librarypage/poverty-reduction/2030-agenda/financing-the-2030-agenda.html>

<sup>19</sup> UN (2015), Addis Ababa Action Agenda of the Third International Conference on Financing for Development, <http://undocs.org/A/RES/69/313>

<sup>20</sup> G7 (2018), *Charlevoix Commitment on Innovative Financing for Development*, <https://g7.gc.ca/en/official-documents/charlevoix-commitment-innovative-financing-development/>

definitions) in the development context has the potential to correct market failures, modify and transfer risk of specific projects, and thus enhance the attractiveness of investments and increase financial flows towards the SDGs in general, but also to pockets of need where perceived risks are higher and the investment climate is more uncertain. But where, in terms of size, does this innovative finance industry stand as of today?

### 1.3. Size of Innovative Finance

**Like the definition of innovative finance, figures about the size of resources mobilised by innovative finance also vary widely.** Using the OECD's definition, innovative finance raised approximately USD 37 billion between 2002 and 2011, including 5.5 billion for the health sector, USD 31.4 billion for climate and environment, and the rest for education and rural development<sup>21</sup>. Under the World Bank's definition, which is wider than the OECD's, an estimated USD 73.1 billion was attracted through innovative financing initiatives between 2000 and 2008<sup>22</sup>. Based on a survey of 350 finance mechanisms deploying resources only in developing countries, City Foundation estimates that innovative financing initiatives have mobilised USD 94 billion from 2000 to 2013<sup>23</sup>. If we approximate these figures to a yearly average, resources of roughly USD 4–8 billion have been mobilised by innovative finance over the past years. Citi Foundation further observes that the amounts mobilised increased to almost USD 9 billion in 2012. This was mostly through guarantees and bonds, which, combined contributed 64 per cent. Brookings Institute reports of 108 social or development impact bonds that had been contracted up to 2017<sup>24</sup> with total upfront capital invested amounting to over USD 300 million<sup>25</sup>. Out of the 108, six are in low- or middle income countries.

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<sup>21</sup> UN (2011), General Assembly Sixty-Sixth Session, *Innovative Mechanisms of Financing for Development*, <https://www.cbd.int/financial/monterreytradetech/un-2011inno.pdf>

<sup>22</sup> World Bank (2009), *Innovative Finance for Development Solutions*, [www.tinyurl.com/798h85e](http://www.tinyurl.com/798h85e)

<sup>23</sup> Citi Foundation (2014), *Innovative Financing for Development: Scalable Business Models that Produce Economic, Social, and Environmental Outcomes*, authored by Dalberg Global Development Advisors, [http://www.citifoundation.com/citi/foundation/pdf/innovative\\_financing\\_for\\_development.pdf](http://www.citifoundation.com/citi/foundation/pdf/innovative_financing_for_development.pdf)

<sup>24</sup> Brookings & Convergence (2017), *Impact Bonds in Developing Countries: Early Learnings from the Field*, [https://www.brookings.edu/wp-content/uploads/2017/09/impact-bonds-in-developing-countries\\_web.pdf](https://www.brookings.edu/wp-content/uploads/2017/09/impact-bonds-in-developing-countries_web.pdf)

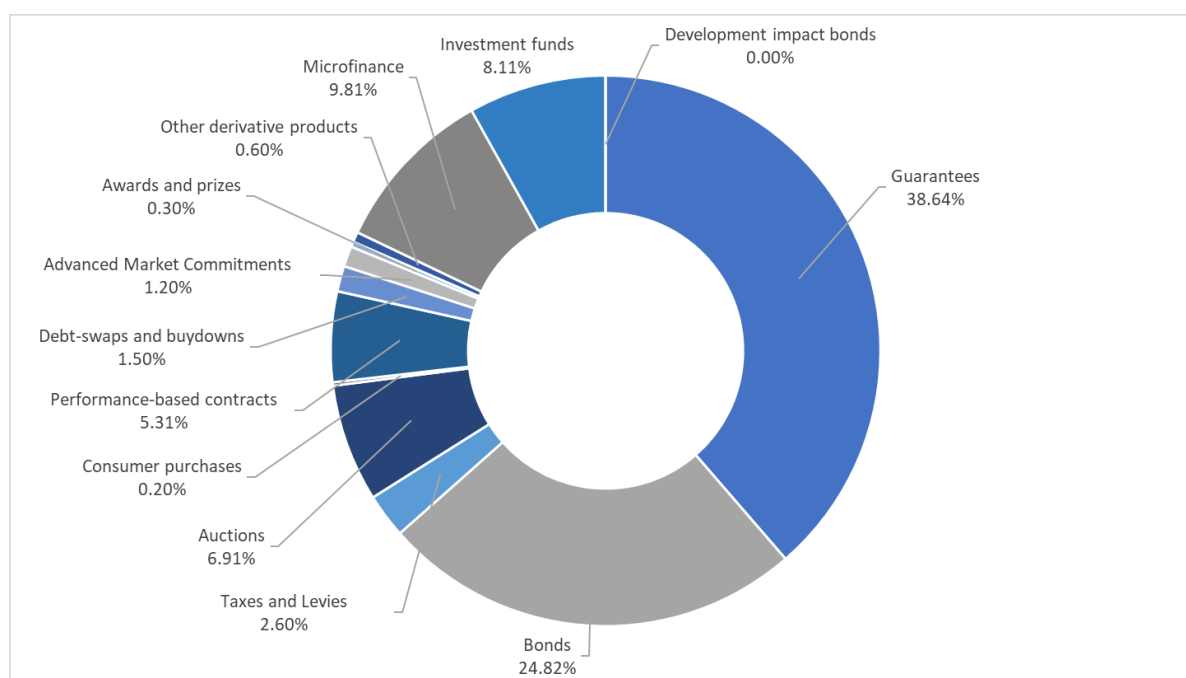
<sup>25</sup> Brookings (2018), *Paying for Social Outcomes: A Review of the Global Impact Bond Market in 2017*, authored by Emily Gustafsson-Wright and Izzy Boggild-Jones, [https://www.brookings.edu/blog/education-plus-development/2018/01/17/paying-for-social-outcomes-a-review-of-the-global-impact-bond-market-in-2017/?utm\\_content=buffer4e291&utm\\_medium=social&utm\\_source=twitter.com&utm\\_campaign=buffer](https://www.brookings.edu/blog/education-plus-development/2018/01/17/paying-for-social-outcomes-a-review-of-the-global-impact-bond-market-in-2017/?utm_content=buffer4e291&utm_medium=social&utm_source=twitter.com&utm_campaign=buffer)

**Table 2: Estimated size of resources mobilised based on different definitions of innovative finance, source: own compilation**

Definition	Size of innovative finance
<b>OECD:</b> Operational mechanisms that raise additional finance in support of international development that go beyond traditional spending, involving the transfer of resources to developing countries and the official sector	~USD 37 billion from 2002 – 2011
<b>World Bank:</b> Non-traditional mechanisms that tap new sources or engage new partners, enhance the efficiency of financial flows, or make them more results-oriented	~USD 73.1 billion from 2000 – 2008
<b>Citi Foundation:</b> Innovative approaches in mobilising resources and increasing effectiveness and efficiency of financial flows that address developmental challenges	~USD 94 billion from 2000 – 2013

Despite the increase over the years, the size of currently deployed innovative finance still pales in comparison to that of ODA, which stood at USD 146.6 billion in 2017<sup>26</sup>. In other words, the average yearly resources mobilised by innovative finance is still only about 3 to 5 per cent of ODA.

**Figure 5: Amount mobilised by innovative financing mechanisms, break down by types of mechanisms, 2000 – 2013, source: City Foundation 2014 <sup>27</sup>**



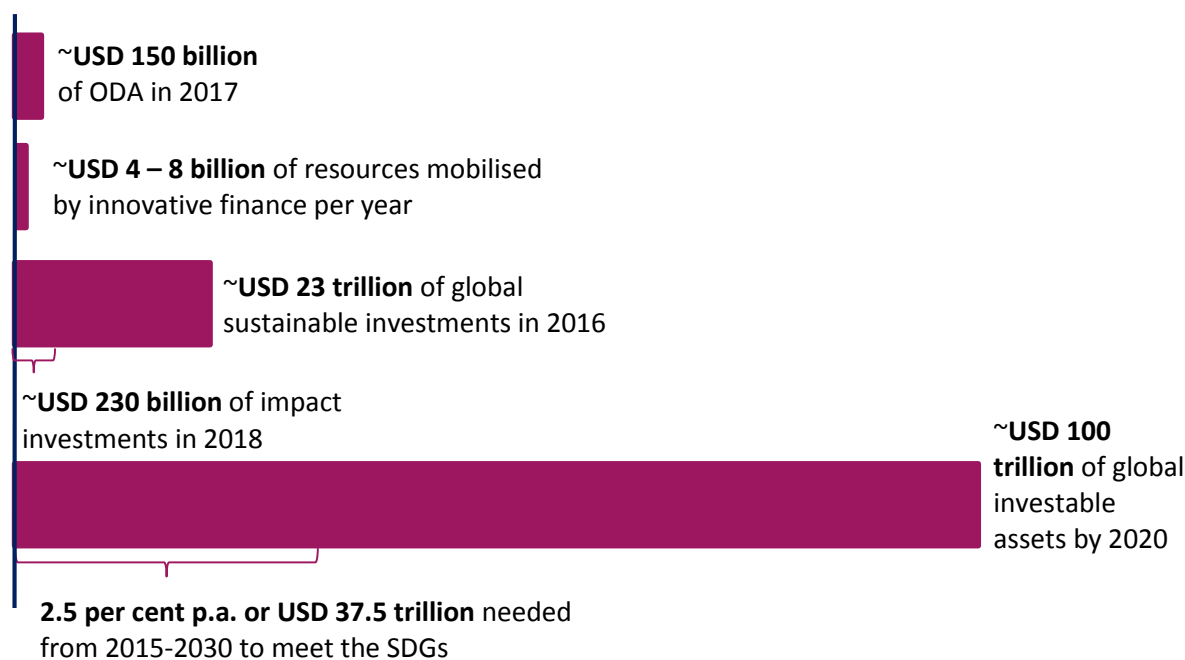
<sup>26</sup> OECD (2017), *Development Aid Stable in 2017 with More Sent to Poorest Countries, Report*, <http://www.oecd.org/dac/financing-sustainable-development/development-finance-data/ODA-2017-detailed-summary.pdf>

<sup>27</sup> Citi Foundation (2014), *Innovative Financing for Development: Scalable Business Models that Produce Economic, Social, and Environmental Outcomes*, pages 4 – 9, Dalberg Global Development Advisors, [http://www.citifoundation.com/citi/foundation/pdf/innovative\\_financing\\_for\\_development.pdf](http://www.citifoundation.com/citi/foundation/pdf/innovative_financing_for_development.pdf)



**While still a niche in 2018, innovative finance has a tremendous potential to tap into the pool of capital market assets, estimated to increase to more than USD 100 trillion by 2020<sup>28</sup>.** Looking at the size of one subset thereof, the global sustainable investments segment, it grew from USD 18.28 trillion in 2014 to USD 22.89 trillion in 2016<sup>29</sup>. This sustainable investments segment includes investments financing sustainability themes or impact investments, or investments applying an environmental, social and governance (ESG) screen before financing decisions are taken, or investments in corporate initiatives. The Global Impact Investing Network's (GIIN) annual survey among impact investors reports that in 2018, assets under management were almost USD 230 billion. This market segment is of particular interest as impact investors intentionally pursue both positive financial and social returns and thus impact investments play an integral role in attaining the SDGs. This promise of financing positive impact and the size of the market signify an immense opportunity for the official sector to partner with and leverage sustainable resources towards the SDGs.

**Figure 6: Huge room for innovative finance to tap into the global investable assets to close financing gap and meet SDGs by 2030, source: own compilation**



The annual financing gap of USD 2.5 trillion for the SDGs constitutes about 2.5 per cent of global investable assets by 2020. It is not unrealistic to imagine that one day private and institutional investors will have a modest allocation to innovative finance in their portfolio yielding a small though positive return. Figure 6 puts into perspective the size of innovative finance relative to ODA, global

<sup>28</sup> PricewaterhouseCoopers (2016), *Asset Management 2020: A Brave New World*, <https://www.pwc.com/gx/en/asset-management/publications/pdfs/pwc-asset-management-2020-a-brave-new-world-final.pdf>

<sup>29</sup> Global Sustainable Investment Alliance (2016), *Global Sustainable Investment Review 2016*, Growth of Global SRI Assets, [http://www.gsi-alliance.org/wp-content/uploads/2017/03/GSIR\\_Review2016.F.pdf](http://www.gsi-alliance.org/wp-content/uploads/2017/03/GSIR_Review2016.F.pdf)

sustainable investments and global investable assets.

1.4. Types of Innovative Financing

**Innovative finance is not a homogenous mass of initiatives, mechanisms or solutions.** There are several types of innovative financing that could leverage sustainable resources for decent work. **Figure 7** give an overview of innovative financing initiatives based on key technical attributes and their main goal, i.e. mobilising funds from capital markets, mitigating risks, linking payments to results, and leveraging technology. The last three categories, namely taxes and obligatory charges, voluntary contributions, and sovereign debt, involve country-level interventions. In particular, debt swaps have mobilised large amounts of financing since the 1990s, allowing a developing country’s debt to be forgiven on the condition that the funds that would have been used to repay the loan are used, for example, for nature preservation.<sup>30</sup>

Figure 7: Overview of innovative financing categories

	1	2	3	4	5	6	7
	Financial Products	Risk Mitigation Mechanisms	Results-Based Financing	Technology-Enabled Solutions	Taxes & Obligatory Charges	Voluntary Solidarity Contributions	Debt Management
Description	Products meant to mobilise and raise funds from capital markets	Mechanisms aimed at reducing (perceived) risks	Payments are linked to certain outcomes being met	Financing mechanisms that leverage technology	Compulsory contributions to a state’s or country’s fiscal revenue	Voluntary contributions to a social or environmental cause	Mechanisms that reduce or extend a country’s debt when certain outcomes are met
Instruments	-Bonds & Notes -Loans -Microfinance & SME finance -Impact Investing Funds -Venture Capital & Private Equity Funds	-Subsidies -Guarantees -Insurance and Options	-Development/Social Impact Bonds -Outcome-Based Funds -Advance Market Commitments	-Blockchain -Digital Technology -Crowdfunding	-Taxes	-Donations as part of consumer purchases	-Debt Buydown -Deferred Drawdown -Debt Swap

Each of the seven innovative financing categories comprises a number of underlying instruments. For example, **financial products** include bonds and notes, loans, microfinance and SME finance, impact investing funds, venture capital funds, or private equity funds while **results-based financing** covers subsidies, guarantee mechanisms, insurance and options. Appendix 2 has a more comprehensive overview and provides details for each instrument listed.

<sup>30</sup> UNDP, *Debt for Nature Swaps*, <http://www.undp.org/content/sdfinance/en/home/solutions/debt-for-nature-swaps.html>

Furthermore, each of the seven innovative financing categories holds different merits for meeting certain development principles or goals. To understand the potential of a particular innovative finance initiative, it is, for example, important to analyse its potential to reach *scale* in order to have a true development impact. Furthermore, initiatives should create *additional* funding and be *complementary*, not replace existing locally financing or ODA. Furthermore, they should be *effective* and ensure a better use of funds in achieving intended outcomes as well as be *efficient* through improving the timeliness of financing and tying funding to outcomes. Additional criteria to consider include the *sustainability* of the initiative, *predictability* of the inflow of funds, as well as *marketability* in order to attract private sector participation. Table 3 describes each category of innovative financing and discusses some of the principles for each.

**Table 3: Description of innovative financing categories**

Description	Considerations
<p><b>1. Financial Products</b> Monetary contracts between parties. They can be created, traded, modified and settled. Financial products mobilise and raise funds from capital markets, which are then channelled to fund specific projects.</p>	<ul style="list-style-type: none"> <li>• Able to raise large-scale resources for immediate financing of specific projects</li> <li>• Require high-quality “bankable” projects to attract private investors, may not be suitable for high-risk or early-stage projects, but impact-focused organisations or foundations could possibly provide cornerstone investments or take up the riskier loans to reduce risk of the projects</li> <li>• Need to put in place proper structure/ incentives in ensuring project/ borrower is of high-quality.</li> <li>• Pro-cyclical products like bonds and loans may not be effective in mobilising financing during economic downturns</li> </ul>
<p><b>2. Risk Mitigation Mechanisms</b> Instruments which can address high (perceived) risks and mobilise private finance.</p>	<ul style="list-style-type: none"> <li>• Provide certain level of protection from risks of financial default or losses, suitable for improving risk profile of the underlying borrower</li> <li>• May in certain circumstances allow borrowers to obtain financing on better credit terms</li> <li>• Can be used in combination with financial products e.g. loan guarantee, but require more resources to structure and execute due to its complexity</li> <li>• Need to put in place proper structure/ incentives in ensuring project/ borrower is of high-quality</li> </ul>
<p><b>3. Results-Based Financing</b> Funds are paid out only when certain outcomes are achieved, allowing flexibility for the implementing partners to decide how they intend to achieve the outcomes.</p>	<ul style="list-style-type: none"> <li>• Public or philanthropic funds are spent more efficiently</li> <li>• Proper structure/ incentives are in place to ensure project/borrower attains expected outcomes, potentially ensure projects are self-sustainable even after financing ceases</li> <li>• For outcomes-based funds, risk of default/losses is minimised for investors since payments are only made when pre-agreed outcomes are attained</li> <li>• For DIB or SIB, investors who provided the upfront capital may potentially lose this amount if pre-agreed outcomes are not met, hence they receive an interest payment in addition to their upfront capital from the outcome funders when pre-agreed outcomes are met, essentially transferring risk from outcome funders (typically public sector funders) to private sector investors</li> <li>• Deal sizes tend to be small and bespoke, yet each one requires extensive resources and effort to identify like-minded investors and agree on appropriate outcomes</li> </ul>
<p><b>4. Technology-Enabled Solutions</b> Mechanisms that leverage technology and involve digital or computerised devices, methods or systems to enhance the efficiency and effectiveness of financial flows and increase funding from additional sources.</p>	<ul style="list-style-type: none"> <li>• Crowdfunding is usually suitable for financing of small-scale projects on short-term basis, rather than large-scale sustainable financing, however technology could potentially lower cost of project operations and allow it to achieve greater scale</li> <li>• Benefit largely technologically savvy borrowers</li> <li>• Require more technical understanding of the technology used e.g. blockchain to assess the possible risks involved</li> </ul>

Innovative finance initiatives can also be categorised based on the **types of financial stakeholder providing financing**, i.e. private, public, or a mix of different stakeholders. The latter is also referred to as blended finance. Blended finance approaches hold the promise of public or concessional financing leveraging private or non-concessional financing multi-fold and thus increase available financing for development. Concessional finance typically includes grants and financing that is provided on more generous terms than market rates. The concessionality is achieved, for example, through interest rates below those available on the market or by grace periods, or a combination of these.

While there is much more to say about innovative finance instruments, we refer to the Appendix 1 for more detailed insights. **The next section of this report will describe the principles of three different innovative financing instruments, namely blended impact investment funds, outcome-based financing, and technology-enabled solutions, and illustrate each with an example.** The descriptions are for illustration purpose and not for comparison, as related outcomes and costs depend largely on the context.

#### *1.4.1 Blended Impact Investment Funds*

**Impact investment funds are vehicles that allow several separate and unrelated investors, a group of individuals or companies, to make direct investments together in projects that deliver positive social or environmental returns, in addition to generating positive financial returns.** These funds can be structured into different layers, including equity, mezzanine and senior tranches, which bear different risk-return profiles. Impact investments can be made in both emerging and developed markets and target a range of returns from below market to market rate, depending on investors' strategic goals. The growing impact investment market provides capital to address the world's most pressing challenges in sectors such as sustainable agriculture, renewable energy, conservation, microfinance, and affordable and accessible basic services including housing, healthcare, and education.

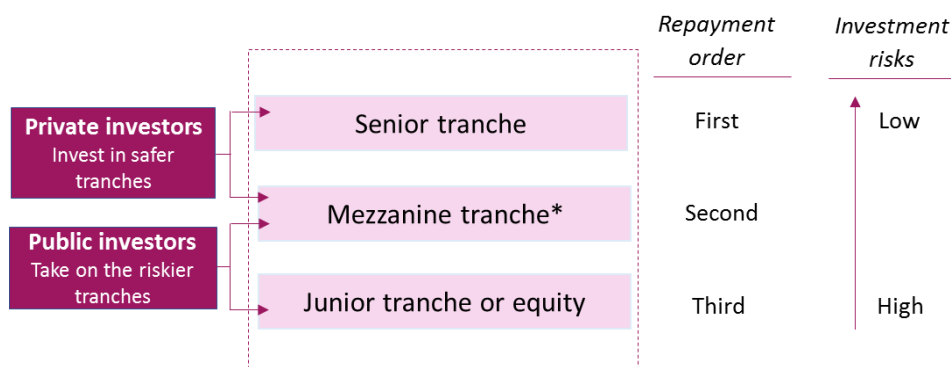
#### **Box 1: Blended Finance**

Blended finance is a subset of innovative finance and entails the use of development finance to mobilize additional private capital. According to the OECD, blended finance is "the strategic use of development finance for the mobilization of additional finance towards the SDGs in developing countries where additional finance refers primarily to commercial finance not currently addressing development objectives". According to this definition, blended finance is used to overcome barriers impeding private capital from flowing into developing country markets. In many cases, the main barrier is that the

(perceived) risk of investing in emerging markets outweighs the financial return. Development and/or philanthropic funding can be used to de-risk investment and improve the overall risk-adjusted return, bringing it in line with investors' expectations.

**Blended ('commingling') funds typically combine public with private funds.** While they vary in terms of the target financial and social outcomes and the way they are structured, they share several attributes: all these funds are designed to achieve a financial return alongside a clear social or environmental impact, and to use their governance structure to define and protect the fund's social mission. For these reasons, they can appeal to both public and like-minded private investors. This leads to a multi-tiered structure of different capital layers, reflecting the specific needs of each class of investors regarding impact, risk and return. Figure 8 illustrates how the different investment tranches reflect the range of risk appetite and risk-return profiles depending on their level of seniority or subordination.

**Figure 8: Typical structuring of risk taking and repayment order in blended impact funds.**



Funding from bilateral donors, development financial institutions, or development-oriented investors like foundations play a catalytic role in attracting private sector funding by taking the equity, or the highest level of risk in the capital structure, at a concessional rate. This allows blended impact investing funds to achieve social outcomes at scale and address entrenched social problems that require large investment<sup>31</sup>. Box 2 below shows an example from Sub-Saharan Africa that is aiming at large scale.

**Box 2: I&P Développement 2**

I&P Développement 2 (IPDEV 2) is an incubation platform that promotes the creation of national investment vehicles dedicated to microenterprises in Sub-Saharan Africa. It is managed by Investisseurs

<sup>31</sup> World Economic Forum (2013), *From Ideas to Practice, Pilots to Strategy Practical Solutions and Actionable Insights on How to Do Impact Investing*, A Report by the World Economic Forum Investors Industries, <http://reports.weforum.org/impact-investing-from-ideas-to-practice-pilots-to-strategy/5-2-commingling-funds-scaling-impact-while-protecting-the-interests-of-diverse-capital-providers/>

& Partenaires<sup>32</sup> and draws on lessons learnt from a predecessor fund<sup>33</sup>. In terms of numbers, IPDEV 2 aims to incubate 10 impact funds in 10 African countries in 10 years, in order to support 550 early-stage entrepreneurs and contribute to create 15,000 jobs.

IPDEV 2 blends finance of patient investors such as the African Development Bank (AfDB), Proparco - Groupe Agence Française de Développement (Proparco-AFD), foundations and high net worth individuals. AfDB participates with equity stake of EUR 5 million<sup>34</sup>, while Proparco-AFD provided a EUR 3 million long-term junior debt to cover first losses<sup>35</sup>. IPDEV 2 finances the initial expenses needed to launch local investment funds, identifies and selects the first team members for the funds, and trains these members funded by the funds' technical assistance facility. The first fund was launched in 2006 and as of 2018, three funds were operational and two more were in the launching phase.<sup>36</sup>

### 1.4.2. Outcomes-Based Financing

Outcomes-based funding models are financing mechanisms where a funder makes payments conditional on achievement of pre-agreed outcomes. They are also referred to as "Pay-for-Performance" and "Results-Based-Financing" models. The full payment is only received if the agreed upon outcomes — i.e. measurable and independently verifiable social or environmental impacts — are achieved. The upfront capital investment required to deliver the services is provided by the service provider and/or raised from a growing pool of "impact" investors who are interested in linking both financial and social returns. Under this system, private finance is first deployed to achieve the desired outcomes, and only after the achievement of the pre-agreed outcomes has been verified, is concessional money made available by the outcome "buyer," often a foundation, development finance institution or government. Examples of such outcomes-based financing include Social Impact Bonds and Developmental Impact Bonds. Box 3 below describes the example of a recently launched Social Success Note initiated by Yunus Social Business and The Rockefeller Foundation.

#### Box 3: Social Success Note

The Social Success Note (SSN) pioneered by Yunus Social Business and The Rockefeller Foundation aims to direct private capital towards businesses that achieve social outcomes through a pay-for-success

<sup>32</sup> Investisseurs & Partenaires, <http://www.ietp.com/en/content/impact-funds>

<sup>33</sup> Investisseurs & Partenaires (2017), A pioneering initiative to promote African SMEs, <http://www.ietp.com/sites/default/files/DOC-IPDEV-FINAL-WEB.pdf>

<sup>34</sup> African Development Bank (2017), *AfDB Approves EUR 5 million Equity Investment to Support Small Businesses in Sub-Saharan Africa*, <https://www.afdb.org/en/news-and-events/afdb-approves-eur5-million-equity-investment-to-support-small-businesses-in-sub-saharan-africa-17094/>

<sup>35</sup> OECD (2018), *Making Blended Finance Work for the Sustainable Development Goals*, <http://www.oecd.org/development/making-blended-finance-work-for-the-sustainable-development-goals-9789264288768-en.htm>

<sup>36</sup> Investisseurs & Partenaires, <http://www.ietp.com/en/content/impact-funds>

model<sup>37</sup>. The SSN holds the promise of addressing the missing-middle financing gap for small and medium enterprises (SMEs) by mobilising commercial capital into these businesses by aligning incentives and interests among entrepreneurs, investors, and philanthropic outcome payers. The first pilot was launched in April 2018 to allow Impact Water, a social business that provides water purification solutions in Uganda, to scale its business and reach as many schools in Uganda as possible. The UBS Optimus Foundation provided upfront working capital of USD 500,000 to Impact Water for their operations. Impact Water will repay the principal plus a 5 per cent interest rate to UBS Optimus. The successful outcome is for Impact Water to provide additional 1.4 million Ugandan school children with access to clean, safe water over the next 5 years. If Impact Water achieves the predetermined outcomes, the Rockefeller Foundation will provide an outcome payment of USD 200,000 to be split between UBS Optimus and Impact Water. Yunus Social Business will monitor and evaluate the outcomes over a 5-year term.

### 1.4.3. Technology-Enabled Solution

Technology advancement has facilitated financing flows in many ways, such as enhancing the transparency and efficiency of financing flows through blockchain, pulling together parties from around the world through online crowdfunding platform, as well as making finance accessible to those otherwise unreachable through a combination of technological platforms.

#### Box 4: MYbank

In 2015, MYbank was launched by Ant Financial in China, an affiliate of Alibaba<sup>38</sup>. MYbank is an internet-only bank for customers and small businesses that takes deposits and make loans via Alipay, a third-party payment service used by vendors and buyers on e-commerce websites Taobao and Tmall. Instead of requesting collateral for the loans, MYbank looks at financial data that customers and small businesses have accumulated on Alipay, allowing those who do not have collaterals to access banking services. Due to its technology-based operations, including risk assessment models based on big data, the cost of approving a small business loan can be as little as 2 yuan as compared to at least 2,000 yuan at a traditional bank<sup>39</sup>. Since 2015, MYbank has served more than 7 million small business owners, with a non-performing loan ratio of around 1 per cent, well below those of conventional lenders' small business unit. With access to financial services, the small businesses could potentially invest in technologies or equipment to increase productivity or improve working conditions.

<sup>37</sup> Yunus Social Business (2018), The Social Success Note, <http://www.yunusssb.com/wp-content/uploads/2018/04/Social-Success-Note-Flyer.pdf>

<sup>38</sup> Quartz (2015), *Alibaba's Customers can Now Get a Loan based on their Online Shopping History*, Josh Horwitz, <https://qz.com/436889/alibabas-customers-can-now-get-a-loan-based-on-their-online-shopping-history/>

<sup>39</sup> Reuters (2018), *Alibaba-Backed Online Lender MYbank Owes Cost-Savings to Home-Made Tech*, authored by Shu Zhang and Ryan Woo, <https://www.reuters.com/article/us-china-banking-mybank/alibaba-backed-online-lender-mybank-owes-cost-savings-to-home-made-tech-idUSKBN1FL3S6>

## 1.5. Actors in Innovative Financing

Innovative finance stakeholders comprise actors in both the private and the public (finance) sector. Often, a wide range of stakeholders is collaborating in developing and implementing innovative finance initiatives. On the financing side, the private sector can for example provide capital to the public sector via bonds or the public sector can make investments into the private sector through guarantees and pay-for-performance mechanisms.

The UN system is increasingly involved in developing and implementing innovative finance solutions. For example, **UN Environment** is collaborating with the Government of Indonesia who launched the Tropical Landscape Financing Facility in 2016 in an effort to leverage public funding to unlock private finance for sustainable land use, including in agriculture and ecosystem restoration, and for investments in renewable energy. The Facility's secretariat is seed funded by UN Environment, and it backstops the activities of the Steering Committee, Lending Platform, Grant Fund as well as other related entities, and acts as an information clearing house on public awareness, information and training pertaining to innovative finance.<sup>40</sup> **UNDP** is promoting a broader agenda through its SDG Impact Finance<sup>41</sup>. **UNICEF**'s Innovation Fund allows the organization to quickly assess, fund and grow open-source solutions that can improve children's lives while financial and technological support is available for companies that are using technology in innovative ways to improve the children's world.<sup>42</sup> The Fund has made 72 investments in 42 countries so far. **UNCDF** recently entered into a memorandum of understanding with the Government of Sierra Leone and Kiva towards co-designing the Blockchain-Based Credit Bureau<sup>43</sup>.

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<sup>40</sup> <http://tlffindonesia.org>




<sup>41</sup> <http://undp.socialimpact.fund>

<sup>42</sup> <https://unicefinnovationfund.org>

<sup>43</sup> <https://www.microcapital.org/microcapital-brief-kiva-uncdf-undp-using-blockchain-to-build-digital-id-system-in-sierra-leone-to-boost-financial-inclusion/>



**Figure 9: Examples of Innovative Finance initiatives of World Bank, ICRC, and the WFP.**

Who	What	Why	How	Outcome
	<b>Intl Finance Facility for Immunisation (IFFIm)</b> sells “vaccine” bonds in capital markets	Proceeds raised from the bonds provide long-term, predictable funding	Bonds up to 20 years are sold in capital markets, converting long-term government pledges for the bond repayment into immediate funding for use in vaccination/ immunisation programs (GAVI)	Raised more than USD 6.5 billion, immunised >355 million children in 73 countries as of 2016
	<b>Humanitarian impact bond</b> for people with disabilities in conflict-hit countries	Mobilise new funding through private sector and increase efficiency	‘Social Investors’ provide capital for ICRC’s rehabilitation centres. ‘Outcome Funders’ will pay the ICRC according to results achieved i.e. number of people who received mobility devices per physical rehabilitation professional.	Raised CHF 26 million to build and equip new physical rehabilitation centres, as well as train new staff over 5 years
	<b>Blockchain</b> to track cash-based transfers	Provide assurance that donations will be passed to intended beneficiaries	Coded transactions are inputted into the system by the vendor when food assistance or WFP-cash transfer are passed to beneficiary, these are authenticated and recorded on a public blockchain through a smartphone, allowing traceability and transparency	As of Jan 2018, >100k people residing in camps redeem their provided assistance through blockchain-based system

**Some innovative finance initiatives target decent work outcomes.** Examples are UNDP’s Youth Employment Bond in Serbia, or the Green Outcomes Fund in South Africa by the IFC and WWF to support green, small and growing businesses. The Green Outcomes Fund is part of a new category of financial instruments that directly reward positive impact, such as green sector jobs created, tons of carbon sequestered, access to renewable energy for people without electricity, and improved water and waste management in order to attract commercial capital. The Green Outcomes Fund provides outcome-based, matched (concessional) funding to local recipient funds in order to incentivize investments in small and growing businesses that make a demonstrable contribution to South Africa’s green economy, as well as job and enterprise creation. Payments can be used by the funds to cover the costs of originating green investments or providing necessary technical assistance and business development to green investees.<sup>44</sup>

In January 2018, Humanity United launched Working Capital, a USD 23 million venture fund to invest in ethical supply chain innovations, backed by DFID and leading garment sector brands to further more transparent supply chains and better working conditions.<sup>45</sup>

In October 2018, the Investing in a Just Transition initiative, led by the London School of Economics Grantham Research Institute and Harvard’s Initiative for Responsible Investment working in partnership with the Principles for Responsible Investment (PRI) and the International Trade Union Confederation (ITUC) released an investor guide that provides a framework for just transition and connecting climate action with inclusive growth and sustainable development<sup>46</sup>. This framework

<sup>44</sup> <http://disrupt-africa.com/2017/08/outcome-based-fund-launched-to-support-sa-green-startups/>

<sup>45</sup> <https://humanityunited.org/humanity-united-launches-working-capital-an-early-stage-venture-fund-to-invest-in-ethical-supply-chain-innovations/>

<sup>46</sup> LSE et al (2018), Climate change and the just transition: a guide for investor action, [https://www.workerscapital.org/IMG/pdf/investor\\_guide\\_just\\_transition\\_sept\\_2018\\_final.pdf](https://www.workerscapital.org/IMG/pdf/investor_guide_just_transition_sept_2018_final.pdf)

should enable investors as fiduciaries to take action and incorporate the full range of environmental, social and governance (ESG) dimensions in their investment strategies.

## 2. Innovative Finance and Decent Work

### 2.1. Background: The Decent Work Agenda

Sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all is central to achieve sustainable development. It is therefore of no surprise that achieving this goal features prominently in the 2030 Agenda for Sustainable Development as Sustainable Development Goal 8. According to the International Labour Organization (ILO), the UN agency with the mandate to promote Decent Work for All, decent work provides *for 'opportunities for work that is productive and delivers a fair income, security in the workplace and social protection for families, better prospects for personal development and social integration, freedom for people to express their concerns, organise and participate in the decisions that affect their lives and equality of opportunity and treatment for all women and men.'*<sup>47</sup>

To stimulate decent work, the ILO developed a **Decent Work Agenda that is built on four key pillars to promote rights at work, encourage creation of employment opportunities, enhance social protection and strengthen social dialogue**. Gender equality and environmental sustainability are objectives cutting across all four pillars. The ILO has been implementing the Decent Work Agenda across the world together with governments, workers' and employers' organisations, and numerous development partners. The additional anchoring of the Decent Work Agenda in the 2030 Agenda for Sustainable Development has further increased the visibility of the topic and the necessity to leave no one behind in the World of Work.

**While there has been progress in the past years, needs in the areas of decent work are still daunting.** ILO's World Employment and Social Outlook 2018 estimates the number of people in vulnerable employment to increase by 17 million per year in 2018 and 2019. Extreme working poverty remained widespread in 2017, with more than 300 million workers in emerging and developing countries having a per capita household income or consumption of less than USD 1.90 per day. Women and youth continue to face greater challenges in the labour market such as restricted access to quality employment or lack of employment opportunities.<sup>48</sup>

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<sup>47</sup> ILO, <http://www.ilo.org/global/topics/decent-work/lang--en/index.htm>

<sup>48</sup> ILO (2018), World Employment Social Outlook 2018, [https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms\\_615594.pdf](https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_615594.pdf)

While absolute numbers of child labour have fallen by approx. 59 million between 2008 and 2016, the ILO estimates that 121 million children would still be in child labour in 2025 based on the pace of progress made during the 2012-2016 period, far from the full eradication target. Moreover, at any given time in 2016 some 40.3 million people were in slavery.<sup>49</sup> At the same time, about 55 per cent of the world's population, or four billion people, are left without social protection.<sup>50</sup> In 2016, only 22 per cent of the unemployed received unemployment cash benefits, 28 per cent of persons with severe disabilities collected disability cash benefits, and 41 per cent of women giving birth received maternity cash benefits.<sup>51</sup> United Nation's (UN) 2018 statistics rank gender inequality in earnings as widespread in 89 per cent of the 45 countries surveyed, with average hourly wages of men being 12.5 per cent higher than women.<sup>52</sup>

Vis-à-vis the remaining daunting challenges, how can we leverage examples that have demonstrated positive outcomes and accelerate progress toward decent work for all? What if we could leverage the financial system? What if every single impact fund considered, assessed, improved, and tracked decent work outcomes as part of their financing decision by 2025?

## 2.2. Is the Financial Sector Interested in Decent Work?

**What would be an underlying Theory of Change for the financial sector to engage in innovative finance for decent?** Figure 10 illustrates how innovative finance can contribute to decent work outcomes and have an impact on a range of SDGs. As *inputs*, financing from investors can be combined with dedicated technical assistance support and facilitated by industry dialogue to create *outputs* at the level of financial service providers including dedicated products channelling finance to decent work, incentive schemes fostering impact orientation among staff, or increased staff capacity. All these are to generate *outcomes*, measured on the level of the entity that is receiving financing, for example increased productivity, few occupational injuries, increased real wages, or longer job tenure. Finally, all these changes shall ultimately result in positive *impact* on the ultimate beneficiary being people and society. These long-term changes are the real contributions to the SDGs, starting out with the focus on SDG 8 on decent work but going beyond achieving impacts on SDG 1 on poverty, SDG 2 on hunger, SDG 4 on education, SDG 5 on gender equality, and SDG 10 on inequalities. These impacts can be reached due to the cross-cutting effect of improvements

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<sup>49</sup> ILO (2017), Global Estimates of Child Labour: Results and Trends 2012-2016, Publications, [http://www.ilo.org/global/publications/books/WCMS\\_575499/lang--en/index.htm](http://www.ilo.org/global/publications/books/WCMS_575499/lang--en/index.htm)

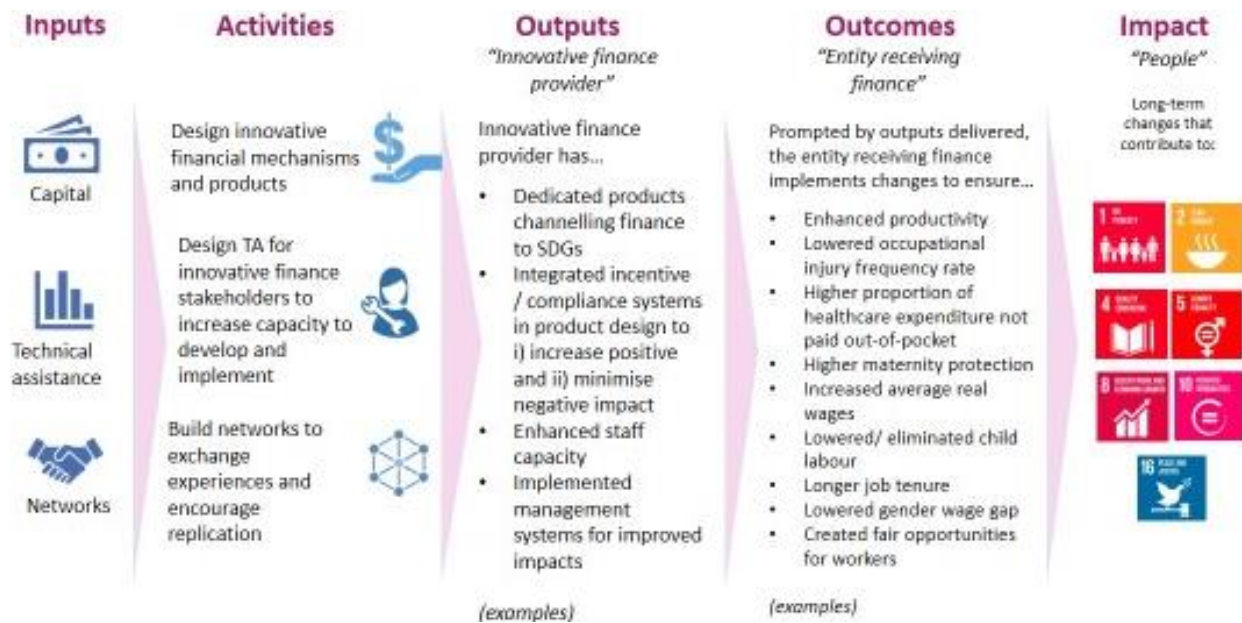
<sup>50</sup> ILO (2017), World Social Protection Report 2017-2019. [https://www.ilo.org/global/publications/books/WCMS\\_604882/lang--en/index.htm](https://www.ilo.org/global/publications/books/WCMS_604882/lang--en/index.htm)

<sup>51</sup> UN (2018), The Sustainable Development Goals Report, <https://unstats.un.org/sdgs/files/report/2018/TheSustainableDevelopmentGoalsReport2018.pdf>

<sup>52</sup> UN (2018), The Sustainable Development Goals Report.

in decent work on additional development goals<sup>53</sup>.

**Figure 10: Theory of Change for innovative finance for decent work.**



Looking at actual financial flows, we observe encouraging signs that the financial sector is ready and eager to provide innovative financing for decent work. For example, the amounts of recent impact investing activities that are directed towards decent work is increasing. According to the 2017 GIIN Annual Impact Investor Survey, 82 per cent of 55 impact investors surveyed tracked SDG 8 when monitoring investment performance (see Figure 11)<sup>54</sup>. As decent work interlinks with a wide array of sustainable development issues such as poverty, gender discrimination and equality, an investor tracking progress on SDG 8 is also likely to be making progress on other SDGs. It could be in this light that investors are beginning to realise the importance of promoting decent work in advancing SDGs more broadly and starting to look beyond just job creation in their performance measurement. This assumption is supported by another GIIN report and illustrated in Figure 12, which shows that the highest proportion of assets (24 per cent) was allocated to decent work and economic growth in 2017<sup>55</sup>.

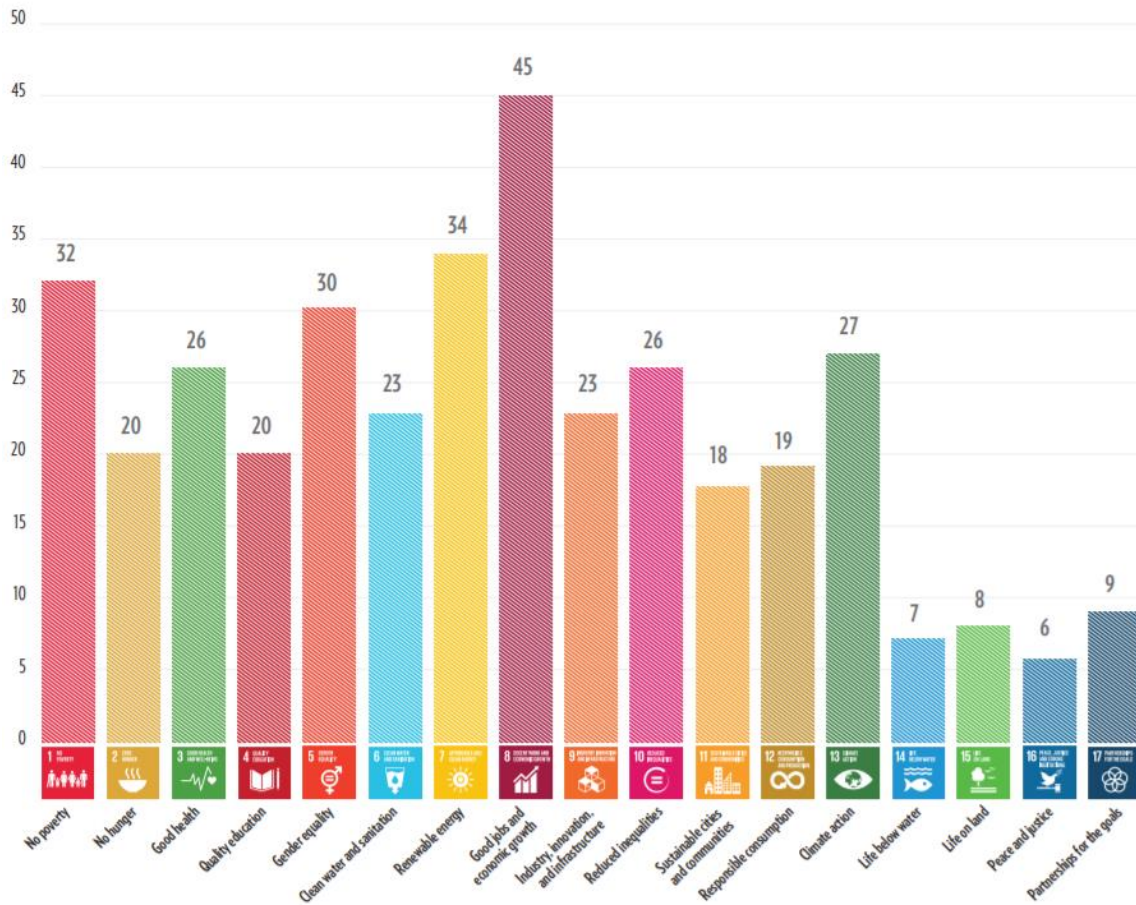
<sup>53</sup> ILO, *Decent Work and the 2030 Agenda for Sustainable Development*, <https://www.ilo.org/webcommon/charts/sdg-vis/index.html>

<sup>54</sup> GIIN (2017), *Annual Impact Investor Survey 2017*, [https://thegiin.org/assets/GIIN\\_AnnualImpactInvestorSurvey\\_2017\\_Web\\_Final.pdf](https://thegiin.org/assets/GIIN_AnnualImpactInvestorSurvey_2017_Web_Final.pdf)

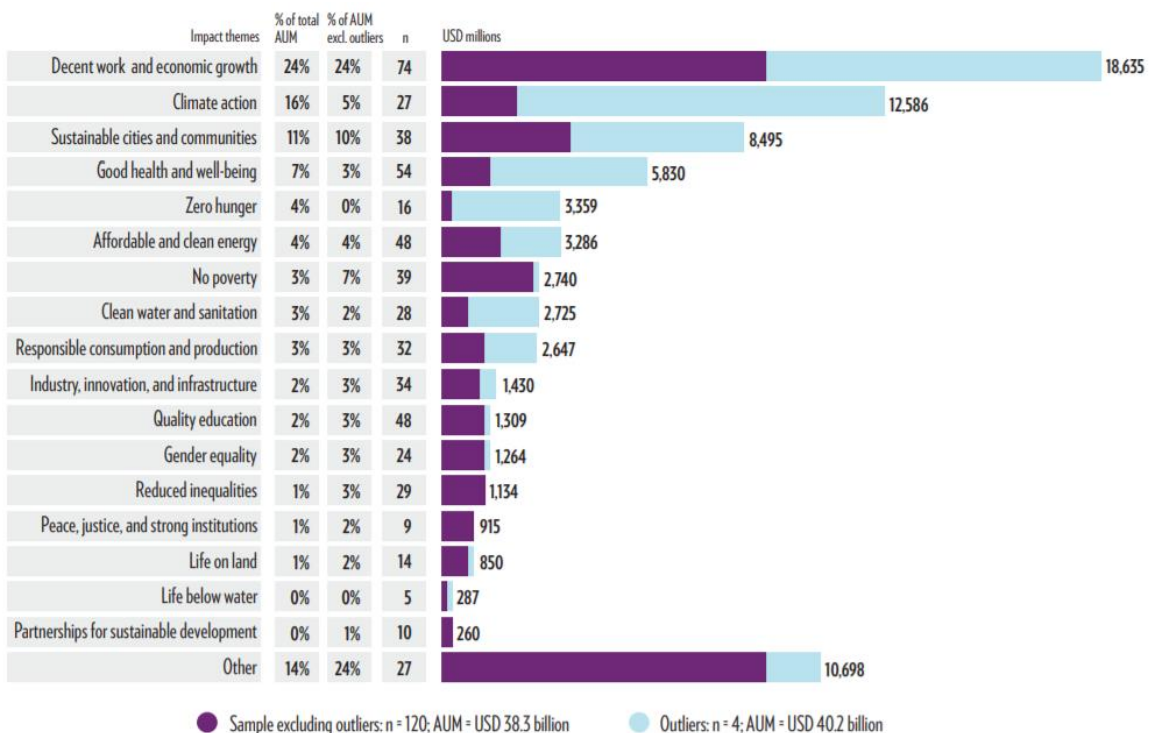
<sup>55</sup> GIIN (2017), *The State of Impact Measurement and Management Practice, First Edition*, [https://thegiin.org/assets/2017\\_GIIN\\_IMM%20Survey\\_Web\\_Final.pdf](https://thegiin.org/assets/2017_GIIN_IMM%20Survey_Web_Final.pdf)

**Figure 11: SDGs to which impact investors track their performance, source: GIIN 2017.**

n = 55; respondents could select multiple options. Number of respondents selecting each option shown above each bar.



**Figure 12: Asset allocation by impact theme, source: GIIN 2017.**



Note: 'Other' includes impact themes such as affordable housing, sustainable agriculture, and financial inclusion. Additionally, some respondents intend to generate impact across many different themes and do not track AUM allocations to specific impact themes. Source: GIIN

The above data backs the assumption that there is indeed an increased investors' interest and thus innovative finance initiatives are seeking to play a significant role to further improve decent work outcomes. Why is this so?

**First of all, decent work is not only a critical component of the SDGs but also has a multiplier effect that allows to progress across multiple goals. Most of these goals are actionable at the enterprise level, providing an opportunity for linking the financing to specific outcomes.** It is specifically outlined under SDG 8 to "promote inclusive and sustainable economic growth, employment and decent work for all". As illustrated in the Theory of Change, decent work interlinks with other SDGs including reducing poverty under SDG 1, improving gender equality under SDG 5, reducing inequalities under SDG 10 and establishing peace, justice and strong institutions under SDG 16. Within SDG 8, there are several targets that are actionable at the enterprise level vis-à-vis country level, such as decent work and equal pay, lower number of youths not in employment, education or training, eradicating child labour and forced labour, promoting safe and secure working environments, as well as expanding access to banking, insurance and financial services for all<sup>56</sup>. Thus, investing in decent work allows innovative finance to contribute to more than SDG 8.

**Second, decent work deficits are most pronounced in less developed countries and enhancements are urgently required for more capital to flow.** Around 1 in 10 children worldwide were engaged in child labour in 2012 with the highest prevalence rate in Africa<sup>57</sup>. According to ILO's World Social Protection Report, more than half of the world's population are not covered by any social protection benefit, with coverage gaps most severe in Africa, Asia and Arab States<sup>58</sup>. According to an OECD report, job quality is significantly lower in every dimension in emerging economies as compared to OECD countries, especially for low-skilled workers. Emerging economies also have much lower average earnings and higher labour market insecurity than OECD countries due to greater risk of falling into extreme low pay. The quality of the working environment is generally lower in emerging economies, as shown by the much higher incidence of very long working hours<sup>59</sup>. Thus, the gap requiring financing are backed by data and provide clear engagement agenda.

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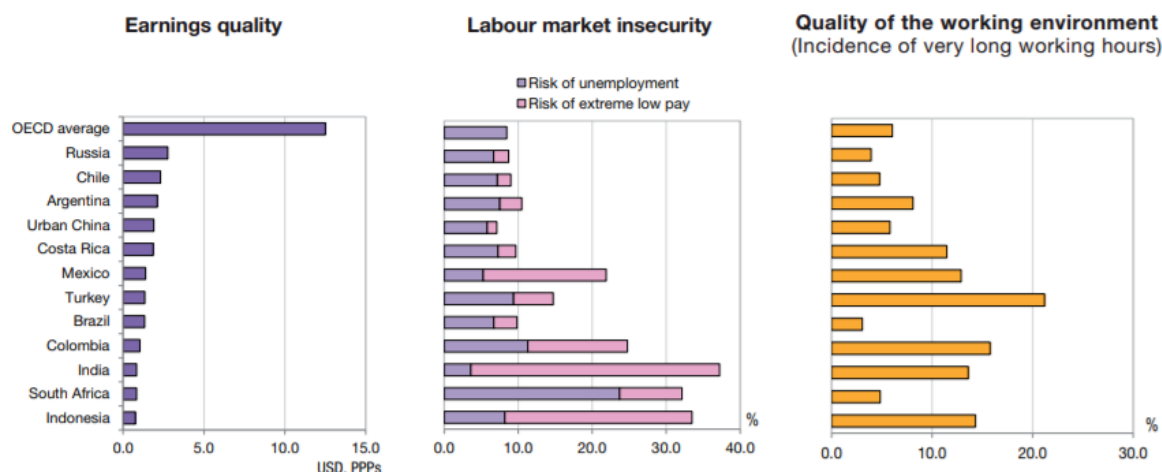
<sup>56</sup> UN, *Sustainable Development Goals*, <https://www.un.org/sustainabledevelopment/economic-growth/>

<sup>57</sup> ILO (2017), *Global Estimates of Child Labour*, [http://www.ilo.org/global/publications/books/WCMS\\_575499/lang-en/index.htm](http://www.ilo.org/global/publications/books/WCMS_575499/lang-en/index.htm)

<sup>58</sup> ILO (2017), *World Social Protection Report 2017-2019*, <http://www.social-protection.org/gimi/gess/RessourcePDF.action?ressource.ressourceId=54887>

<sup>59</sup> OECD, *How Good is Your Job? Measuring and Assessing Job Quality*, <http://www.oecd.org/employment/labour-stats/job-quality-OECD.pdf>

**Figure 13: Job quality in emerging economies as compared to OECD, source: OECD Employment Outlook 2015, chapter 5.**



Third, as impact of decent work can be wide-ranging as outlined in the Theory of Change, there is a need for tools and frameworks to better measure the impact of decent work and make financing conditional upon certain outcomes. While targeting decent work can potentially address multiple SDG-related issues in areas where SDG gaps are most severe, it also makes measuring impact in decent work more challenging. For instance, improving working conditions can potentially improve an individual's well-being and productivity, as well as environmental sustainability. Measuring these areas of impact may be challenging but they are important in tracking progress of the various SDGs. Innovative financing mechanisms such as outcomes-based financing ensure there is adequate focus on measuring appropriate impact metrics, making efforts on decent work more coordinated and structured.

It is encouraging to see that, in addition to greater social impact, investing in decent work makes business sense because enterprises that focus on decent work tend to perform better financially than those who do not. This is supported by results from the Better Work programme, a joint initiative of the ILO and International Finance Corporation (IFC), launched in 2007 to improve working conditions and promote competitiveness in global garment supply chains. The programme shows that improved working conditions in factories are linked to higher levels of productivity and profits. Employees in factories with better working conditions reach daily production targets about 40 minutes faster than employees in factories with worse conditions and factories with better working conditions also generate higher profits than their peers by as much as 8 per cent<sup>60</sup>. When comparing stock performances within the capital market, the 2018 Fortune magazine's list of 100

<sup>60</sup> Better Work (2016), *Progress and Potential: A Focus on Firm Performance*, <https://betterwork.org/blog/portfolio/progress-and-potential-a-focus-on-firm-performance/>

best companies to work for outperform the Standard & Poor's 500 stock index by almost twice since 1998<sup>61</sup>.

## 2.3. Innovative Finance at the ILO

The ILO has a long history of engagement with the financial sector which has its roots in the ILO Constitution stating that *"it is the responsibility of the ILO to examine and consider all international economic and financial policies and measures in the light of social justice"*. But, what has the ILO, like other UN agencies, done in the innovative finance space towards promoting decent work?

### 2.3.1. Innovative Finance is Not New to the ILO

The ILO's Social Finance Programme has promoted innovative approaches in microfinance, impact insurance, and sustainable investing through collaboration with the financial sector for long. Innovative finance is hence not completely new to the organisation and the organisation is already working with initiatives that mobilise private capital for the SDGs like, for example, the Africa Agriculture and Trade Investment Fund. In addition, there are a number of ILO projects that indirectly support and enable initiatives at the intersection of innovative finance and both the private and public finance sector such as The Lab – Market Systems Development for Decent Work, the Impact Insurance Facility, ILO's collaboration with the Social Performance Task Force and national development finance institutions.

#### *Africa Agriculture and Trade Investment Fund*

The Africa Agriculture and Trade Investment Fund (AATIF), is an impact investment fund initiated by KfW (Kreditanstalt für Wiederaufbau) on behalf of the German Federal Ministry for Economic Cooperation and Development<sup>62</sup>. The fund is a public-private partnership (PPP), with Deutsche Bank being appointed as its Investment Manager. It is aiming to realise the potential of Africa's agriculture for the benefit of the poor. AATIF pursues a private-sector approach addressing the specific needs of the agricultural sector in a market-oriented way, while its social and environmental management system aims at guaranteeing a positive development impact. Since 2012, the ILO jointly with UN Environment are providing technical advice, developing and testing assessment methodologies and advising and supporting the implementation of a monitoring framework which includes impact research. As a result, the partnership helps the AATIF to achieve its overall development mission,

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<sup>61</sup> Fortune (2018), *The Best Companies to Work For Are Beating the Market*, authored by Catherine Yoshimoto and Ed Frauenheim, <http://fortune.com/2018/02/27/the-best-companies-to-work-for-are-beating-the-market/>

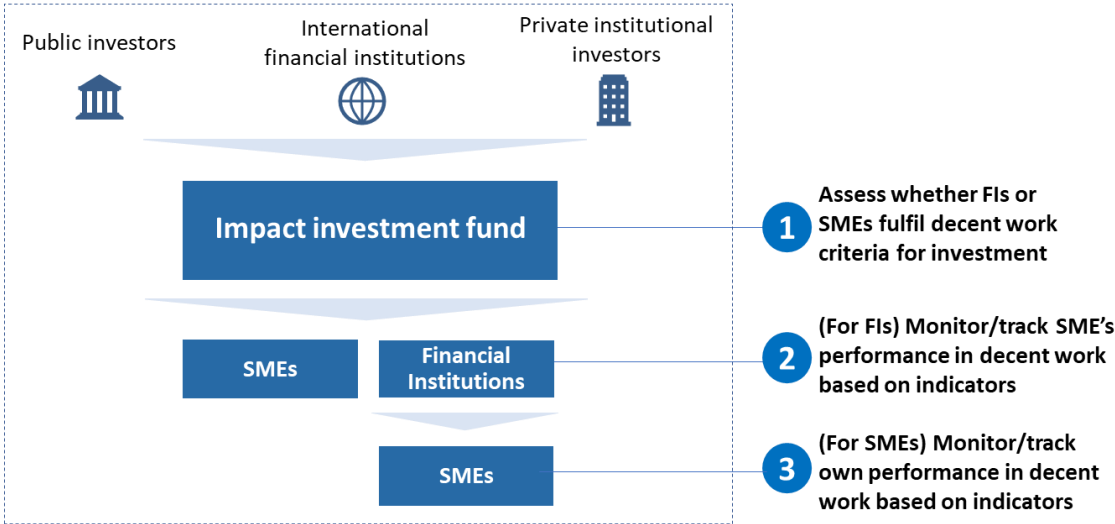
<sup>62</sup> ILO (2015), *Building Capacity for Social Compliance of Investments in African Agriculture: Public-Private Partnership*, [http://www.ilo.org/pardev/partnerships/public-private-partnerships/factsheets/WCMS\\_410203/lang-en/index.htm](http://www.ilo.org/pardev/partnerships/public-private-partnerships/factsheets/WCMS_410203/lang-en/index.htm)



while abiding by its social and developmental commitments, and allows the ILO to test new methodologies and reach out to the ever-growing number of partner institutions of the Fund.

The collaboration has shown that there is a need for assessing decent work impacts at various levels of an impact investment fund, as shown in Figure 14. Interestingly, the ILO has accumulated extensive experience across these levels and the above example shows that it can play an advisory role, helping fund managers, financial institutions (FIs) and/or SMEs measure and track decent work metrics in their investments or projects, and build capacity among innovative finance stakeholders for the same. The example of The Lab below shows how ILO has been building up additional related tools lately.

**Figure 14: Assessing impact on decent work at various levels**



*The Lab – Market Systems Development for Decent Work*

The Lab works with fund managers and portfolio companies on practical, cost-effective ways to measure job quality in emerging and frontier economy SMEs<sup>63</sup>. It builds the capacity for ‘impact management’ including the process of selecting and embedding social performance metrics into the investment cycle, collecting data, and using the information to drive business decisions. Since 2014, the Lab has innovated market-based mechanisms with a range of public and private institutions in over 10 countries across Africa, Asia and Latin America. The Lab has worked with IFC and is exploring options to work with OBVIAM, the fund manager for SIFEM (the Swiss Investment Fund for Emerging Markets).

<sup>63</sup> ILO (2016), *A Market Systems Approach to Decent Work*, Matt Ripley, [http://www.ilo.org/wcmsp5/groups/public/--ed\\_emp/--emp\\_ent/---ifp\\_seed/documents/briefingnote/wcms\\_537327.pdf](http://www.ilo.org/wcmsp5/groups/public/--ed_emp/--emp_ent/---ifp_seed/documents/briefingnote/wcms_537327.pdf)

### *Social Performance Task Force – Shaping standards for responsible investment in microfinance*

The 2030 Agenda for Sustainable Development identifies microfinance as an important means in achieving the SDGs. Thus, promoting responsible investments in microfinance is a precondition for impact. The ILO has supported the Social Performance Task Force (SPTF) in the drafting of Universal Standards of Social Performance Management<sup>64</sup> (USSPM) for the microfinance industry and in contributing to distilling a subset of standards relevant for investors in microfinance (ALINUS)<sup>65</sup>.

The collaboration with the SPTF continues by the ILO serving on the Task Force's Standards Review Committee to ensure that the microfinance industry, including investors, treat employees responsibly also in the future. Furthermore, the ILO is part of the SPTF's working group on developing a meaningful impact measurement framework for financial inclusion with the GIIN.

### *National Development Finance Institutions – Conduits for decent work*

The core mandate of Development Finance Institutions (DFIs) is to enable sustainable development by financing enterprises that create economic growth and employment. While implementing this mandate, DFIs are also exposed to a number of social and environmental risks and impacts through their lending operations, including occupational safety and health concerns, involuntary resettlement, child labour, community matters or environmental pollution. The ILO, jointly with the DFI associations in Africa (AADFI) and in Asia and Pacific (ADFIAP), investigated to what extent DFIs are implementing management systems to better manage such risks and impacts as well as to seize positive development opportunities. The studies found that the majority of DFIs do have policies guiding their investment in sustainable development.<sup>66,67</sup> However, the policies lack implementation. DFIs perceive the lack of internal capacity, absence of enforcement of social and environmental laws, uncertainty of a business case and the need for senior management support as the main challenges. Based on the results, the ILO developed a self-assessment tool for DFIs that will be pilot-tested in early 2019 to enable institutions to identify improvement areas and partner to build further capacity.

#### *2.3.2. Potential Focus Areas*

**Innovative finance presents significant opportunities for the ILO to leverage additional sources for the Decent Work Agenda and to utilise existing funding in a more efficient manner, such as through conditional grants and contracts that require certain targets or outcomes to be**

<sup>64</sup> <https://sptf.info/universal-standards-for-spm/start-here>

<sup>65</sup> <http://www.cerise-spi4.org/alinus/>

<sup>66</sup> Korth and Richter (2016), The social dimensions of development finance in Africa, [https://www.ilo.org/wcmsp5/groups/public/---ed\\_emp/documents/publication/wcms\\_545319.pdf](https://www.ilo.org/wcmsp5/groups/public/---ed_emp/documents/publication/wcms_545319.pdf)

<sup>67</sup> Korth and Richter (2016), The social dimensions of development finance in Asia and the Pacific, [https://www.ilo.org/wcmsp5/groups/public/---ed\\_emp/documents/publication/wcms\\_545320.pdf](https://www.ilo.org/wcmsp5/groups/public/---ed_emp/documents/publication/wcms_545320.pdf)

**achieved before funding is allocated.** In a time of economic, social and political turbulence in many parts of the world, in a time where innovative thinking towards achieving the SDGs is needed, there is an opportunity for the ILO to showcase (thought) leadership and commitment by adopting and/or promoting innovative financing.

The ILO has unmatched expertise and knowledge about the world of work, acquired over 100 years of responding to the needs of people everywhere for decent work, livelihoods and dignity by focussing on research, consensus building, advocacy, policy advice and technical cooperation, including:

- formulation of international policies and programmes to promote basic human rights, improve working and living conditions, and enhance employment opportunities
- creation of international labour standards backed by a unique system to supervise their application
- an extensive programme of international technical cooperation formulated and implemented in an active partnership with constituents, to help countries put these policies into practice in an effective manner
- training, education and research activities to help advance all of these efforts
- extensive experience of interacting with the financial industry in promoting, innovating, and capacitating financial service providers, industry support organisations, and policy makers to enable them become conduits for decent work

However, which decent work substance areas appear the most promising – while at the same time needing more impetus – for expanding innovative finance partnerships for decent work? The following paragraphs suggests four focus areas that could be further developed, namely **(i) addressing child labour, (ii) promoting youth employment, (iii) social protection, and iv) just transition.**

### *Accelerating Action for the Elimination of Child Labour*

**Based on ILO's 2017 Global Estimates of Child Labour report, 152 million children were in child labour on any given day in 2016.**<sup>68</sup> Child labour usually refers to work that deprives children of their childhood, their potential and dignity and that is harmful to their physical and mental

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<sup>68</sup>ILO (2017), *Global Estimates of Child Labour: Results and Trends 2012-2016*, Publications, [http://www.ilo.org/global/publications/books/WCMS\\_575499/lang--en/index.htm](http://www.ilo.org/global/publications/books/WCMS_575499/lang--en/index.htm)

development.<sup>69</sup> Child labour is the combined product of many factors, such as income poverty, vulnerability, social norms, cost and access to good quality education, but also demand for child labour, among others. Children forced out of school and into labour to help their families to make ends meet are denied the opportunity to acquire the knowledge and skills needed for gainful future employment, thereby perpetuating the cycle of poverty. Many of these children suffer from the worst forms of child labour: 73 million are in hazardous work that directly endangers their health, safety or morals; and many other suffer from other worst forms of child labour, including slavery and slavery-like practices such as forced and bonded labour, use of children as soldiers, sexual exploitation, or are used in illicit activities, including drug trafficking.

In absolute terms, **almost half of child labour (72.1 million) is to be found in Africa; 62.1 million in Asia and the Pacific;** 10.7 million in the Americas; 5.5 million in Europe and Central Asia; and 1.2 million in the Arab States.<sup>70</sup> With one in five children in child labour, Africa is the region with the highest prevalence, in absolute numbers and in terms of percentage. In terms of gender, 58% of the 152 million children engaged in child labour are boys and 42% are girls. However, girls are more likely than boys to be engaged in household chores, a form of work not considered in the ILO's child labour estimates. Child labour is **concentrated primarily in agriculture (71% or 108 million children in absolute terms), which includes fishing, forestry, livestock herding and aquaculture, and comprises both subsistence and commercial farming;** 17% in services; and 12% in the industrial sector, including mining. Child labour in agriculture relates primarily to subsistence and commercial farming and livestock herding. Often, the children work in their family farms to supplement household income. Some 5-15 % of children in child labour are estimated to be working in global supply chains which are dominated by the agricultural sector.<sup>71</sup>

Responses to child labour need to address the actual causes that drive children into child labour situations. Typically, they should be integrated into broader national development efforts and adapted to local circumstances. This means, above all, mainstreaming child labour into broader social development policies, rather than treating it as an isolated issue.

### *Promoting Youth Employment*

According to the 2017 Global Employment Trends for Youth report of the ILO, youth, aged 15-24, remain overrepresented among the unemployed and shaken by the changing patterns in the labour

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<sup>69</sup> "What is child labour". ILO website. Accessed: 20.11.2018. <http://www.ilo.org/ipec/facts/lang--en/index.htm>;

"What is child labour". ILO website. Accessed: 20.11.2018. <https://libguides.ilo.org/child-labour-en>

<sup>70</sup> "Child Labour." ILO Website. Accessed: 11.20.2018. <https://www.ilo.org/global/topics/child-labour/lang--en/index.htm>

<sup>71</sup> *IPEC+ Global Flagship Programme Implementation*. ILO. 2018. [https://www.ilo.org/wcmsp5/groups/public/---ed\\_norm/---ipec/documents/publication/wcms\\_633435.pdf](https://www.ilo.org/wcmsp5/groups/public/---ed_norm/---ipec/documents/publication/wcms_633435.pdf)

market<sup>72</sup>. 71 million youth worldwide are unemployed and 156 million young workers live in poverty. Today, two out of every five young persons of working age are either unemployed or working jobs that don't pay enough to escape poverty. The challenge is not trivial since the "demographic dividend" can become a source of instability if young people around the world continue to face disappointing prospects in their job search. Unemployment and underemployment depreciate human capital and have significant negative effects on health, happiness, crime levels and socio-political stability. Failure to generate sufficient decent jobs for youth and to address their vulnerabilities in the labour market can result in long-lasting "scarring" effects throughout an individual's life.

Addressing youth employment should be part of an integrated framework that promotes economic development and employment growth. Furthermore, young people have different experiences and their needs depend on individual characteristics (e.g. age, gender, national origin, socio-economic background and educational and training levels). This calls for combining employment expansion with targeted programmes that overcome the specific labour market disadvantages faced by many young people. The best labour market entry path for young people remains a good basic education, vocational training or higher education and initial work experience. Programmes that provide incentives to enterprises to hire young people, promote youth entrepreneurship, and facilitate access to finance and to other targeted active labour market measures can also help to improve decent work prospects of the young population<sup>73</sup>.

### *Extending Social Protection*

Universal social protection is essential for realizing the human right to social security for all, advancing social justice and promoting inclusive growth, and accelerating progress towards achieving the 2030 Agenda. Social security involves access to health care and income security, particularly in cases of old age, unemployment, sickness, invalidity, work injury, maternity or loss of a main income earner and thus plays a vital role not only in reducing poverty, but also in preventing poverty for an entire population. Despite significant progress in the extension of social protection in many parts of the world, the human right to social security is not yet a reality for a majority of the world's population, with **4 billion people worldwide left without social protection**. Only 27 per cent of the world's population has adequate social security coverage and more than half lack

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<sup>72</sup> ILO (2017), *Global Employment Trends for Youth 2017*, [https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms\\_598669.pdf](https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_598669.pdf)

<sup>73</sup> ILO, Fact sheet: Youth Employment, <https://social.un.org/youthyear/docs/youth-employment.pdf>

any coverage at all.<sup>74</sup>

Investing in social protection systems contributes to spurring a virtuous cycle of development. Income security, schooling and health provision improves people's employability and productivity, thus leading to higher household consumption and increased domestic demand. More decent jobs can be created, and tax revenues can be reinvested to improve social protection for all.

There is a wide variety of options to finance social protection, including reallocating public expenditures, increasing tax revenues, expanding social security revenues, lobbying for aid and transfers, eliminating illicit financial flows, and managing debt, among others. For example, more than 60 countries have successfully renegotiated debts, using savings from debt servicing for social programs. Brazil used a financial transaction tax to expand social protection. Bolivia, Mongolia and Zambia are financing universal old-age pensions, child benefits and other schemes from taxes on mining and gas. Some of the above would fall within the definition of innovative finance used in this report.

### *Just Transition towards Environmentally Sustainable Economies and Societies*

A Just Transition to a Green Economy includes leveraging opportunities and managing challenges. As societies move towards zero carbon emission targets, businesses, policy makers and governments have an obligation to attend to communities that are affected by these changes. If the potential of a Green Economy is realized, net employment gains are expected if investments are directed towards environmentally sustainable production and consumption and proper natural resources management. For example, ILO's World Employment and Social Outlook 2018 stipulates that efforts to address climate change matters will result in at least 19 million new jobs across Americas, Asia and the Pacific and Europe<sup>75</sup>. Job quality improvement and income increase are expected if more productive processes are achieved. Improved access to affordable and environmentally sustainable energy could translate into social inclusion.

However, there are also challenges associated with this transition that might include displacement of workers due to the economic restructuring, leading to job losses. The adaptation of enterprises, workplaces and communities to climate change, by avoiding asset and livelihoods losses and involuntary migration. Higher commodity prices affecting the household economy is also expected. To manage both opportunities and challenges, the ILO's Guidelines for a Just Transition are guiding

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<sup>74</sup> ILO (2016), World Social Protection Report 2017–19, [https://www.ilo.org/wcmsp5/groups/public/---dgreports/--dcomm/---publ/documents/publication/wcms\\_604882.pdf](https://www.ilo.org/wcmsp5/groups/public/---dgreports/--dcomm/---publ/documents/publication/wcms_604882.pdf)

<sup>75</sup> ILO (2018), Press Release, *24 Million Jobs to Open up in the Green Economy*, [http://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS\\_628644/lang-en/index.htm](http://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_628644/lang-en/index.htm)

countries towards building environmentally sustainable economies and societies for all<sup>76</sup>.

In each of the four focus areas mentioned above, the ILO has long-standing commitment and a wealth of experience to bring about positive impact, be it through the **ILO Flagship Programmes** on the elimination of child labour<sup>77</sup> or social protection<sup>78</sup>, or the **ILO Centenary Initiatives** on just transition toward greener economies and a sustainable future<sup>79</sup> and the Enterprises Initiative<sup>80</sup>, as well as the **Global Initiative on Decent Jobs for Youth**<sup>81</sup> and **ILO's Impact Insurance Facility**<sup>82</sup>. All these programmes and initiatives span across activities in policy and technical advice, capacity building, research activities, advocacy, knowledge development and dissemination, etc. Any of the instruments introduced in section 1 of this paper, be it results-based (grant) financing, development or social impact bonds, blended impact investing funds, incentive and compliance systems in financial institutions, could be interesting for exploring how to leverage positive impact through expanded engagement with the ILO.

### *2.3.3. Opportunities for Engaging with the Financial Sector on Innovative Finance for Decent Work*

The increased interest from innovative finance stakeholders, including bilateral as well as multi-lateral donors, sister UN agencies, philanthropists, and return-seeking investors, towards realizing positive development outcomes underline the significant opportunities for the ILO to influence capital allocation and leverage additional sources of financing for the Decent Work Agenda.

First of all, private and public sector investors increasingly use an impact lens to deploy some of their capital, conscious of their responsibility and the roles that they can play to close the large financing gap. As outlined in chapter 2.2, the global sustainable investments market, which includes investments applying an environmental, social and governance (ESG) screen, sustainable themes, impact investments and corporate initiatives, has grown from USD 18 trillion in 2014 to USD 23 trillion in 2016.<sup>83</sup> Asset managers are also increasingly adopting the SDGs as a framework to measure the positive impact from their investments. The GIIN's 2018 Annual Impact Investor

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<sup>76</sup> ILO (2015), *Guidelines for a Just Transition towards Environmentally Sustainable Economies and Societies for All*, [http://www.ilo.org/wcmsp5/groups/public/---ed\\_emp/---emp\\_ent/documents/publication/wcms\\_432859.pdf](http://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/documents/publication/wcms_432859.pdf)

<sup>77</sup> ILO (2018), ILO IPEC+ Flagship Strategy, [https://www.ilo.org/wcmsp5/groups/public/---ed\\_norm/---ipec/documents/publication/wcms\\_528938.pdf](https://www.ilo.org/wcmsp5/groups/public/---ed_norm/---ipec/documents/publication/wcms_528938.pdf)

<sup>78</sup> ILO (2015), Building Social Protection Floors for All, <https://www.social-protection.org/gimi/gess/RessourcePDF.action?ressource.ressourceId=51737>

<sup>79</sup> [https://www.ilo.org/global/about-the-ilo/history/centenary/WCMS\\_467270/lang--en/index.htm](https://www.ilo.org/global/about-the-ilo/history/centenary/WCMS_467270/lang--en/index.htm)

<sup>80</sup> [https://www.ilo.org/global/about-the-ilo/history/centenary/WCMS\\_480336/lang--en/index.htm](https://www.ilo.org/global/about-the-ilo/history/centenary/WCMS_480336/lang--en/index.htm)

<sup>81</sup> <https://www.ilo.org/global/topics/youth-employment/databases-platforms/global-initiative-decent-jobs/lang--en/index.htm>

<sup>82</sup> <https://www.ilo.org/empent/areas/social-finance/lang--en/index.htm>

<sup>83</sup> Global Sustainable Investment Alliance (2016), *Global Sustainable Investment Review 2016*, Growth of Global SRI Assets, [http://www.gsi-alliance.org/wp-content/uploads/2017/03/GSIR\\_Review2016.F.pdf](http://www.gsi-alliance.org/wp-content/uploads/2017/03/GSIR_Review2016.F.pdf)

Survey revealed that already more than half of impact investors surveyed reported tracking some or all of their impact performance against the SDGs.

However, investors regularly mention the measurement of the social impact as one of the greatest challenges. For some of them the numerous standards for measuring social and environmental impact, such as the Global Reporting Initiative (GRI, which promotes the use of sustainability reporting as a way for organizations to become more sustainable and contribute to sustainable development) or IRIS (the catalogue of generally-accepted social, environmental and financial performance standards), are overwhelming.<sup>84</sup> Others mention “low sophistication of social impact measurements” as one of the biggest barrier preventing further allocation to impact investments.<sup>85</sup> Thus, an experienced and established voice that the ILO might bring to guide those seeking to measure social impact of investments with a Decent Work lens would certainly be welcomed.

For the ILO, the opportunity to promote decent work outcomes through innovative finance could offer a number of advantages:

- **Leverage and Scale:** The ILO may be able to influence and leverage far greater resources, and bring in new stakeholders to scale up successful decent work intervention models.
- **Efficiency:** The strong results-focus of innovative finance initiatives seeking to measure concrete outcomes can further strengthen the ILO’s own ability to deliver results with increased efficiency.
- **Effectiveness:** Results-oriented financing mechanisms can improve impact of interventions on project beneficiaries.
- **Innovation:** Test new models and approaches by partnering with actors that have different expertise areas from the private financial sector and development finance institutions, including national development finance and international finance institutions.
- **Sustainability:** Design or support (socially and environmentally) sound interventions with financing mechanisms that include a return on investment, thus guaranteeing economic sustainability. This will in turn create financial space for reinvesting in more social and decent work outcomes.
- **Measurement and improvement:** Gather data about the new mechanisms employed to

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<sup>84</sup> McKinsey & Company (2016): [How impact investing can reach the mainstream](#)

<sup>85</sup> Barclays (2017): Investing for Global Impact



verify effectiveness and efficiency of achieving targeted impact outcomes, as well as develop tools to gather such data.

**However, every medal has two sides and thus it is only prudent to assess the potential risks that the ILO could face by extending its engagement and further leveraging innovative finance for decent work.**

- First, there is a certain degree of complexity. It can be extraordinarily difficult for an organization or a country to understand how to maximise new financing opportunities, understand new and innovative financing approaches and design a way to blend and sequence various financing flows to achieve transformational change.
- Second, as in any partnership, a careful selection of the right partners that understand and share ILO's mission and values is of utmost importance. It is critical to avoid any mission drift and working with partners that focus exclusively on economic returns.
- Third, partnerships with innovative finance initiatives are meant to realize development outcomes. However, it may happen in practice that projects do not achieve the desired results. Given that many innovative finance mechanisms are investment mechanisms, there is a risk that investment capital is lost and investors might not be (fully) repaid. Therefore, there is potential reputational risk for all parties engaged, including the ILO.
- Fourth, there is also a risk of 'impact washing', i.e. partners claiming achieving positive impact where there is none or the impact would have achieved in any case thus not creating additionality. This may occur with private sector actors making a business out of development, with public funds/ODA being used to unfairly subsidize certain private actors under the 'do good' label, while workers' rights, wages and working conditions are not actually improving on a sustainable basis through these new mechanisms.
- Lastly, there are also risks in not getting involved: other organisations may engage instead of the ILO and address the Decent Work agenda, as seen in chapter 2.1. The ILO could seek to partner and work jointly. If the ILO does not engage, decent work related initiatives will take off without the ILO. This would be a missed opportunity to contribute the ILO's added value to influence capital allocations within the financial and the real sector, in short, in the world of work.

### 3. Where is the ILO Going? Some Reflections on Potential Roles

Innovative finance typically involves the public and the private sector working closer together and complementing their resources and expertise to realize development outcomes. However, expectations might differ about the potential of innovative finance, the depth and breadth of decent work, and the feasibility of measuring progress towards decent work outcomes. Finding the 'right' approach and initiative – tailored to a stakeholder's mandate, and expertise - is critical to ensure success.

When considering engagement with the innovative finance sector, there are several roles that the ILO could take on:

- **Convenor:** First and foremost, the ILO can bring together constituents, public and private financial institutions and other innovative finance stakeholders to discuss and develop innovative ways how to achieve Decent Work. This could include convening a Global Alliance on Innovative Finance for Decent Work, comprised of representatives of ILO constituencies and different fields of the innovative finance sectors including lending, investing, and insurance. The Global Alliance could guide the innovative finance sector in the development of decent work metrics, intervention models, exchange of good practices, and shape financial flows in a more sustainable manner.
- **Advisor:** A large number of innovative finance initiatives now being developed touch upon the Decent Work agenda, which the ILO could seek to influence and steer. This would involve the ILO working with public partners such as development finance institutions, engaging with private sector initiatives or entities, and also with the ILO constituents (governments, workers' and employers' organisations). The ILO could provide guidance to constituents on how they may develop their own positions and expertise in this field, with a view to influencing how innovative finance instruments are developed and rolled-out in their countries.
- **Standards and knowledge dissemination:** The ILO could make a range of information on the different Decent Work dimensions available as a public good in the form of indicators or toolkits to allow for instance impact investment funds to assess and track progress on decent work. The ILO could collect good practice examples from the wider sector and make them available through a knowledge centre on innovative finance and decent work.
- **Training and Capacity building:** The ILO could build capacity of innovative finance

stakeholders, including fund managers and others involved in developing innovative finance solutions, on how to integrate decent work in management system related to investment pre-screening and investment due diligence, or sustainability and impact management.

- **Assessment tools** for development finance institutions or impact investment funds to benchmark their management systems against the claim to promote “decent work” based on ILO’s standards;
- **Launch an Innovative Finance Initiative** that promotes decent work.

Surely, the above roles could also be combined increasing the potential of impact. When considering potential roles it is important to keep in mind the ILO’s unique tripartism model and the spirit of cooperation between governments, employers, and workers in fostering social and economic progress. The unique tripartite structure of the ILO gives an equal voice to workers, employers and governments to ensure that the views of the social partners are closely reflected in labour standards and in shaping policies and programmes.

## APPENDIX 1: GLOSSARY

The term innovative finance is being used to describe a variety of new mechanisms that enable public, private and philanthropic funders to transact across an increasingly diverse financial landscape. Often, innovative finance is used interchangeably with the term *blended finance*. While there are similarities and overlaps between the two concepts, there are important distinctions. Below we highlight and describe key terms that are often mentioned in conjunction with innovative finance.

### *Blended Finance*

The World Economic Forum defines blended finance as *“the strategic use of development finance and philanthropic funds to mobilise private capital flows to emerging and frontier markets”*. Blended finance deliberately channels private investment to sectors of high-development impact while at the same time delivering risk-adjusted returns<sup>86</sup>. Blended finance is an approach to structured finance that enables development & philanthropic funding to mobilise private capital into a project or company that promotes development outcomes, by mitigating risk and/or ensuring commercial risk adjusted returns. Blended finance attempts to achieve similar goals to impact investing by using a structuring approach to “blend” the different intents of a range of investor motivations to achieve these development objectives at scale. Blended finance makes use of existing financial instruments and types of capital such as grants, guarantees, debt, and equity and uses them in creative ways to de-risk and thus incentivise private investment. Blended finance has three main characteristics: 1) leverage—development and philanthropic funds are used to catalyse private investment; 2) impact—investments must result in social, economic, and environmental progress; 3) returns— financial returns must be in line with private investor expectations.

Recently, the OECD Development Assistance Committee has adopted five principles to guide the development of blended finance for development<sup>87</sup>. In reality, blended finance is a subset of innovative finance and entails the use of development finance to mobilise additional private capital. According to the OECD, blended finance is *the strategic use of development finance for the mobilisation of additional finance towards the SDGs in developing countries’ where additional finance refers primarily to commercial finance not currently addressing development objectives*. According to this definition, blended finance is used to overcome barriers impeding private capital from flowing into developing country markets. In many cases, the main barrier is that the (perceived)

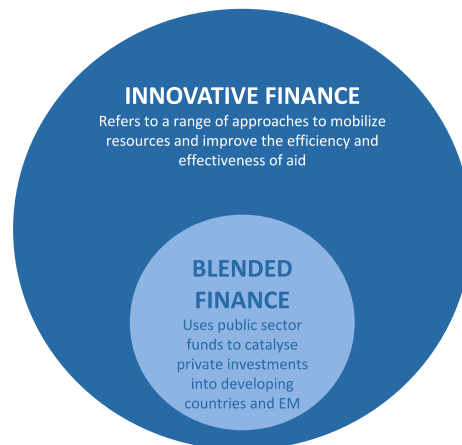
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<sup>86</sup> OECD (2015), *Blended Finance Vol. 1: A Primer for Development Finance and Philanthropic Funders*, ReDesigning Development Finance Initiative: A Joint Initiative of the World Economic Forum and the OECD, [http://www3.weforum.org/docs/WEF\\_Blended\\_Finance\\_A\\_Primer\\_Development\\_Finance\\_Philanthropic\\_Funders.pdf](http://www3.weforum.org/docs/WEF_Blended_Finance_A_Primer_Development_Finance_Philanthropic_Funders.pdf)

<sup>87</sup> OECD (2017), *Blended Finance Principles*, <https://www.oecd.org/dac/financing-sustainable-development/development-finance-topics/OECD-Blended-Finance-Principles.pdf>

risk of investing in emerging markets outweighs the financial return. Development and/or philanthropic funding can be used to de-risk investment and improve the overall risk-adjusted return, bringing it in line with investor expectations.

**Figure 15: Innovative finance Vs. Blended finance**



The OECD DAC Blended Finance Principles include the following five areas:

- Principle 1: Anchor Blended Finance use to a Development Rationale
- Principle 2: Increase the mobilisation of Commercial Finance
- Principle 3: Tailor Blended Finance to the Local Context
- Principle 4: Focus on Effective Partnering for Blended Finance
- Principle 5: Monitor Blended Finance for Transparency and Results

### *Blending*

Blending is one way of delivering concessional finance. Each instrument of concessional finance can be blended. That is, when non-concessional resources are mixed with concessional funding provided by public agencies to mobilise additional funding.

### *Concessional Finance*

Concessional finance can take different forms, such as grants, debt, equity or guarantees and other risk-mitigation measures, and each form can be deployed through specific financial instruments. Grants, for example, can be disbursed as capital expenditures or operational subsidies, as interest rate subsidies, or as periodical payments for achieved and verified results i.e. results-based payments or performance-based financing products. Debt instruments can be concessional, based on price (including interest rates and/or fees), tenure, subordination, repayment period, and/or security<sup>88</sup>. By its very nature, as a lower ranking instrument, equity can leverage debt finance, but it is only

<sup>88</sup> OECD, Glossary of Statistical Terms, *Concessional Loans*, <https://stats.oecd.org/glossary/detail.asp?ID=5901> (accessed in August 2018)

considered concessional if the provider of the concessional equity agrees to accept a lower return for the risk undertaken, or buys the equity at a less favourable price than commercial investors.

### *Financing for Development (FfD)*

FfD is about promoting a comprehensive and integrated approach to providing the policies and resources needed to support sustainable development around the world. FfD is a broad concept. It includes the mobilisation of domestic resources (such as tax revenues), international financial resources (such as ODA and other international public flows), harnessing the role of the private sector in financing development, maximising the use of innovative financing sources and mechanisms, increasing trade capacity and investment to create jobs and drive economic growth and promoting debt sustainability.

### *Funding vs Financing*

According to "Funding to Financing, UNDAF Companion Guide", published by UN Development Group, funding is the straightforward transfer of resources from a financial contributor to a beneficiary, while financing is about structuring different financial flows to achieve a common result<sup>89</sup>.

### *Guarantee*

A type of financing that ensures any debt to investors or funders is met

### *Innovation for Development*

Innovation for development is about identifying more effective solutions that add value for the people affected by development challenges – people and their governments, our users and clients. For example, new approaches include setting up innovation labs with governments to re-design public service delivery, embracing data innovation to implement and monitor the SDGs, exploring emerging and alternative sources of financing to deepen and diversify the resourcing and implementation of the SDGs, from social impact bonds to pay-for-success and crowdfunding avenues or using behavioural insights to facilitate policy-making.

### *Impact Investing*

According to the Global Impact Investing Network, impact investing refers to investments made into companies, organisations, and funds with the intention to generate social and environmental impact alongside a financial return<sup>90</sup>. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending on investors'

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<sup>89</sup> UN Development Assistance Frameworks (2017), *Funding to Financing: UNDAF Companion Guidance*, <https://undg.org/wp-content/uploads/2017/06/Funding-to-Financing-Companion-Pieces.pdf>

<sup>90</sup> GIIN, *Impact Investing*, <https://thegiin.org/impact-investing/>

strategic goals.

The growing impact investment market provides capital to address the world's most pressing challenges in sectors such as sustainable agriculture, renewable energy, conservation, microfinance, and affordable and accessible basic services including housing, healthcare, and education.

The practice of impact investing is further defined by the following four core characteristics:

- **Intentionality:** An investor's intention to have a positive social or environmental impact through investments is essential to impact investing.
- **Investment with return expectations:** Impact investments are expected to generate a financial return on capital or, at minimum, a return of capital.
- **Range of return expectations and asset classes:** Impact investments target financial returns that range from below market (sometimes called concessionary) to risk-adjusted market rate, and can be made across asset classes, including but not limited to cash equivalents, fixed income, venture capital, and private equity.
- **Impact Measurement:** A hallmark of impact investing is the commitment of the investor to measure and report the social and environmental performance and progress of underlying investments, ensuring transparency and accountability while informing the practice of impact investing and building the field.

### *Leverage*

Leverage refers to a type of financing mechanism or investment strategy of using borrowed capital to increase the potential return of invested assets. Having exposure to the full benefits arising from holding a position in a financial asset, without having to fully fund the position with own funds. Leverage refers to the use of borrowed funds to increase profitability and buying power<sup>91</sup>.

### *Mezzanine Finance*

A type of financing that typically starts in the form of debt and could be converted to equity of a project or company.

### *Private Flows*

Consist of flows at market terms financed out of private sector resources i.e. changes in holdings of private long-term assets held by residents of the reporting country, and private grants i.e. grant by non-governmental organisations and other private bodies, net of subsidies received from the official

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<sup>91</sup> OECD, Glossary of Statistical Terms, *Leverage*, <https://stats.oecd.org/glossary/detail.asp?ID=1524>

sector<sup>92</sup>. It is divided into:

- Foreign direct investment: Investment made to acquire or add to a lasting interest in an enterprise. "Lasting interest" implies a long-term relationship where the direct investor has a significant influence on the management of the enterprise, reflected by ownership of at least 10 per cent of the shares, or equivalent voting power or other means of control.
- Private export credits
- Securities of multilateral agencies: This covers the transactions of the private non-bank and bank sector in bonds, debentures, etc., issued by multilateral institutions.
- Bilateral portfolio investment and other: Includes bank lending and the purchase of shares, bonds and real estate.

### *Sustainable Development Goals (SDGs)*

SDGs, otherwise known as the Global Goals, are a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity. These 17 goals build on the successes of the Millennium Development Goals, while including new areas such as climate change, economic inequality, innovation, sustainable consumption, peace and justice, among other priorities. The goals are interconnected – often the key to success on one will involve tackling issues more commonly associated with another. The SDGs work in the spirit of partnership and pragmatism to make the right choices now to improve life, in a sustainable way, for future generations. They provide clear guidelines and targets for all countries to adopt in accordance with their own priorities and the environmental challenges of the world at large. The SDGs are an inclusive agenda. They tackle the root causes of poverty and unite us together to make a positive change for both people and planet. "Poverty eradication is at the heart of the 2030 Agenda, and so is the commitment to leave no-one behind," UN Development Programme administrator, Achim Steiner, said. "The Agenda offers a unique opportunity to put the whole world on a more prosperous and sustainable development path. In many ways, it reflects what UNDP was created for."

### *Social Enterprise*

Social enterprise refers to innovative ways that organisations are using and adapting business strategies to advance social and environmental well-being<sup>93</sup>. According to the Schwab Foundation for Social Entrepreneurship, social enterprises drive social innovation and transformation in various fields including education, health, and employment. They pursue poverty alleviation goals with

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<sup>92</sup> OECD, DAC Glossary of Key Terms and Concepts, [http://www.oecd.org/dac/stats/dac-glossary.htm#Private\\_Flows](http://www.oecd.org/dac/stats/dac-glossary.htm#Private_Flows)

<sup>93</sup> Stanford Social Innovation Review, *Social Enterprise*, [https://ssir.org/topics/category/social\\_enterprise](https://ssir.org/topics/category/social_enterprise)



entrepreneurial zeal, business methods and the courage to innovate and overcome traditional practices. A social entrepreneur, similar to a business entrepreneur, builds strong and sustainable organisations, which are either set up as not-for-profits or companies<sup>94</sup>.

### *Sustainable Investing*

According to the Global Sustainable Investment Alliance, sustainable investing refers to making investments based on environmental, social and governance (ESG) factors<sup>95</sup>. Sustainable investment encompasses the following activities and strategies:

- negative/exclusionary screening;
- positive/best-in-class screening;
- norms-based screening;
- integration of ESG factors;
- sustainability themed investing;
- impact/community investing, and
- corporate engagement and shareholder action.

### *Syndicated Loan*

A type of loan provided to a borrower by a group of lenders called a syndicate

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<sup>94</sup> Schwab Foundation for Social Entrepreneurship, *What is a Social Entrepreneur?*, <http://www.schwabfound.org/content/what-social-entrepreneur>

<sup>95</sup> Global Sustainable Investment Alliance (2012), Resources, *Global Sustainable Investment Review 2012*, page 4 <http://www.gsi-alliance.org/latest-trends-report/>

## APPENDIX 2: DETAILED DESCRIPTION OF FINANCING MECHANISMS

Mechanism	Description and Category	Selected initiatives that make use of the respective financial mechanism
<b>1. Financial Products</b>	Monetary contracts between parties. They can be created, traded, modified and settled. Financial products allow to mobilize and raise funds from capital markets and channel to fund specific underlying/projects	
<b>Bonds and Notes</b>	Bonds are loans provided to a business or project over a defined period, and lenders receive principal and interest at maturity or when the loan expires.  Note has shorter term to maturity than a bond.	<ul style="list-style-type: none"> <li>• International Finance Facility for Immunisation, “vaccine” bonds</li> <li>• UNDP’s diaspora bonds</li> <li>• Seychelles’ blue bonds</li> <li>• World Bank’s SDG-linked bonds</li> <li>• UNEP’s Tropical Landscape Financing Facility (TLFF)</li> </ul>
<b>Loans</b>	Loans are money, property or goods given to another party in exchange for future repayment of the principal amount along with interest or other finance charges and can be used with any financing mechanism.	<ul style="list-style-type: none"> <li>• ILO Corridor Economic Empowerment Innovative Fund (CEEIF)</li> </ul>
<b>Microfinance and SME finance</b>	Microfinance is the provision of small-scale financial services to un-/underserved people.  SME finance is the funding of small and medium-sized enterprises.	<ul style="list-style-type: none"> <li>• National Rural Support Programme (NSRP) - Pakistan</li> <li>• Ethiopia Women Entrepreneurship Development Project (WEDP)</li> </ul>
<b>Impact Investment Funds</b>	Impact investment funds are vehicles that allow several separate and unrelated investors, a group of individuals or companies, to make direct investments together in projects that deliver positive social or environmental returns, in addition to positive financial returns. These funds can be structured into different layers, incl. equity, mezzanine and senior tranches (see example in Section 6).  A range of development stakeholders, like KfW, UNDP, etc. have initiated Impact Investment Funds that are (to be) managed by professional fund managers.	<ul style="list-style-type: none"> <li>• Africa Agriculture and Trade Investment Fund (AATIF)</li> <li>• UNDP’s SDG Impact Finance initiative: Build Bangladesh-UNDP SDG Impact Fund</li> <li>• Regional Education Finance Fund for Africa (REFFA)</li> <li>• InsuResilience Investment Fund (IIF)</li> </ul>
<b>Venture Capital (VC) and Private Equity (PE)</b>	VC is start-up or growth equity capital or loan capital (also called risk capital) invested in a project in which there is a substantial element of risk, typically a new or expanding business.  PE is the ownership in a corporation that is not publicly-traded, i.e. involves investing capital into privately held companies.  The initiatives listed employ VC/PE mechanisms but may not necessarily require financial returns from investees, most of them provide grant financing (see Section 7 for more details).	<ul style="list-style-type: none"> <li>• UNICEF’s Innovation (Venture) Fund</li> <li>• UNDP’s Enterprise Challenge Funds</li> <li>• UNHCR’s Business Incubators</li> </ul>
<b>2. Risk Mitigation Mechanisms</b>	Instruments which can address high (perceived) risks and mobilise private finance	
<b>Subsidies</b>	Funds typically provided by the public sector to co-finance part of the investment or business costs. Subsidy include both grants as well as concessional funding and can be used with any financing mechanism.	<ul style="list-style-type: none"> <li>• Women Entrepreneurs Finance Initiative (We-Fi)</li> </ul>
<b>Guarantees</b>	A financial instrument in which a guarantor, typically the official sector, agrees to pay any or all the amount due on a loan instrument in the event of non-payment by the borrower, and can be used with any financing mechanism	<ul style="list-style-type: none"> <li>• ILO guarantee scheme in DRC to incentivise a financial institution to lend to specific target groups, i.e. youth</li> </ul>

		<ul style="list-style-type: none"> <li>• Slums Upgrading Facility by UN-Habitat</li> <li>• Mubadarati, youth loan product</li> </ul>
<b>Insurance and Options</b>	Funds are paid out only when a certain event occurs, providing instant funds in emergency cases and transferring risk to insurers or investors who earn premiums in return.	<ul style="list-style-type: none"> <li>• ILO's Impact Insurance Facility</li> <li>• IFAD's weather index insurance</li> <li>• Reef &amp; Beach Resilience Insurance Fund (RBRIF)</li> <li>• Index-based weather derivative for Malawi</li> </ul>
<b>3. Results-Based Financing</b>	Funds are paid out only when certain outcomes are achieved, allowing flexibility for the implementing partners to decide how they intend to achieve the outcomes	
<b>Development/ Social Impact Bonds</b>	A pay-for-success model that ties payment to the attainment of a pre-determined social outcome. Agreements include outcome funders, investors, service providers, and independent evaluation.	<ul style="list-style-type: none"> <li>• UNDP's Youth Employment Bond in Serbia</li> <li>• "Utkrisht" Impact Bond</li> </ul>
<b>Pull Mechanisms or Outcomes-Based Funds</b>	Mechanisms or funds that provide grants or subsidies to project or business owners once they have developed the desired product or attained the pre-specified outcome.	<ul style="list-style-type: none"> <li>• Agriculture Pull Mechanism</li> <li>• Green Outcomes Funds (GOF)</li> <li>• Global Partnership on Output-Based Aid (GPOBA)</li> </ul>
<b>Advance Market Commitments</b>	Funds are committed to guarantee price or market for products once they have been developed.	<ul style="list-style-type: none"> <li>• Advance Market Commitment for pneumococcal vaccines</li> </ul>
<b>4. Technology-Enabled Solutions</b>	Mechanisms that leverage technology and involve digital or computerised devices, methods or systems to enhance the efficiency and effectiveness of financial flows, and increase funding from additional sources	
<b>Blockchain</b>	Blockchain is a chain of digital ledgers distributed over a network that is secure and transparent.	<ul style="list-style-type: none"> <li>• Digital identification by UNHCR</li> <li>• Cash-based transfers using blockchain by WFP</li> <li>• Ethereum-based smart contracts by UNICEF</li> </ul>
<b>Digital Technology</b>	Anything that involves digital or computerised devices, methods or systems.	<ul style="list-style-type: none"> <li>• "e-Trade for All" by UNCTAD</li> <li>• Mybank, internet-only bank by Ant Financial</li> </ul>
<b>Crowdfunding</b>	Crowdfunding is an internet-based method for raising funds from many individuals or organisations, each contribution can be in very small amount.	<ul style="list-style-type: none"> <li>• UNDP's Crowdfunding Academy</li> <li>• Babyloan Mali Crowdfunding Platform</li> </ul>
<b>5. Taxes &amp; Obligatory Charges</b>	Compulsory contributions to a state's or country's revenue as dictated by law	
<b>Taxes</b>	They are specific taxes imposed by governments to raise funding for a specific development challenge.	<ul style="list-style-type: none"> <li>• Air ticket levy</li> <li>• Extractive industry tax (oil levy)</li> <li>• Sin tax (alcohol, tobacco and gambling)</li> <li>• Bioprospecting</li> </ul>
<b>6. Voluntary Solidarity Contributions</b>	Voluntary contributions to a social or environmental cause	
<b>Donation as part of consumer purchases</b>	A percentage of each purchase of a consumer product goes to fund a designated development challenges.	<ul style="list-style-type: none"> <li>• Ikea soft toys campaign</li> <li>• Product RED</li> <li>• Community Development Carbon Fund</li> </ul>
<b>7. Debt Management &amp; Reduction Mechanisms</b>	Mechanisms that allow a developing country to manage or reduce its debt	
<b>Debt Buydowns</b>	A developing country's debt is reduced or extended by a donor paying down the debt on behalf of the country, sometimes conditioned on certain outcomes being attained.	<ul style="list-style-type: none"> <li>• Buy-down of loans to Pakistan and Nigeria from IDA according to their polio-immunisation results</li> </ul>
<b>Deferred Drawdown</b>	It allows a country to defer drawdown of debt, often with a revolving feature that allows amounts repaid to be available for subsequent withdrawal.	<ul style="list-style-type: none"> <li>• Catastrophe Deferred Drawdown Option (Cat DDO)</li> </ul>
<b>Debt Swaps</b>	A developing country's debt is forgiven or	<ul style="list-style-type: none"> <li>• USAID debt-for-nature swap</li> </ul>

	transferred to another organisation on the condition that the funds that would have been used to repay the loan are used for a specific purpose.	
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## SOCIAL FINANCE

With an emphasis on social justice, the ILO's Social Finance Programme supports efforts to extend financial services to excluded persons by addressing the promotion of better employment and a reduction in the vulnerability of the working poor. The Social Finance Programme operates through a central team based in Geneva, Switzerland with fellow colleagues based in the New York, Lima and Jakarta. In addition, a global social finance network - working in different technical units at headquarters and in field offices around the world - further extends the work of Social Finance.



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