

Moving from innovation to adoption

NEW FINANCING TECHNOLOGIES ARE FINDING THEIR WAY INTO THE POLICY MAINSTREAM.

New policy approaches and financing technologies have emerged in response to the growing importance of global challenges on national and international policy agendas. Many of them have already been tested and adopted in select instances, but many others are still fairly new—at a stage of innovation awaiting wider adoption.

Progress towards a refurbished toolkit for public finance is clearly discernible.

And the adoption of these new tools is quickening. In 2005 alone, the following new instruments were put in place:

- ***Fiscal responsibility legislation.*** In addition to the already large set of fiscal rules (such as ceilings on the budget deficit or spending and restrictions on borrowing) that have already been passed in more than 50 countries around the world, in 2005 new fiscal responsibility legislation has been introduced at the sub-national level including New South Wales in Australia and of Himachal Pradesh in India
- ***Protecting people against the volatility of more global, integrated markets.*** Measures include among others retraining, trade adjustment programs, unemployment insurance, and public works programs. For example, the Free Trade Agreement between Chile and South Korea approved in 2004 has led to 10-year farm package of more than US\$ 100 billion, in order to help Korean farmers cope with the negative impacts of the trade agreement. In March 2005 efforts were made by U.S. Congress to amend the Trade Act of 1974 to extend trade adjustment assistance to certain service workers. The Trade Adjustment Assistance (TAA) program was implemented to provide aid to workers who lose their jobs as a result of increased imports or in the case where companies have shifted production abroad (off shoring). This includes job retraining and job search and relocation payments. In the United Kingdom, the 2005 Budget contained several measures such as training programs for young people 16-19 years old and workers with low skills, as well as more investments in education and science to “ensure the UK can prosper in the increasingly competitive global economy.”
- ***National measures to reduce or prevent global crossborder spillovers (externalities).*** In addition to the extensive catalogue of existing national measures aimed at reigning

* *The New Public Finance: Responding to Global Challenges* (edited by Inge Kaul and Pedro Conceição; New York: Oxford University Press, 2006).

in undesirable global externalities, such as communicable diseases and cross border pollution, 2005 witnessed important developments. The “European Centre for Disease Prevention and Control” (ECDC) designed to develop epidemiological surveillance at the European level, began operations in 2005 with four main tasks: epidemiological surveillance and networking of laboratories, early warning and response, scientific opinions and technical assistance and communication. In the environmental area, tackling climate change became an important topic in 2005. For example, in July 2005 the Asia-Pacific Partnership on Clean Development was formed whereby six countries would take voluntary practical measures aimed to facilitate the introduction of clean and more efficient technologies. Moreover, the first ever certified emission reductions (CERs) under the Kyoto Protocol were issued in October 2005 for two hydroelectric projects in Honduras giving impetus to the Clean Development Mechanism (CDM).

- ***Greenhouse gas emission trading.*** Commencing with continuous electronic trading in December 2003, the Chicago Climate Exchange (CCX) became the world’s first and North America’s only voluntary, legally binding rules-based greenhouse gas emission reduction and allowances trading system. A little over a year later, the European Union Greenhouse Gas Emission Trading Scheme (EU ETS) commenced operation in January 2005 as the largest multi-country, multi-sector greenhouse gas emission trading scheme world-wide.
- ***Macro securities to hedge against risk.*** In September 2005 the Chicago Mercantile Exchange (CME) announced the creation of derivatives based on indexes representing movements in US housing price values. These futures contracts are scheduled to launch in the second quarter of 2006 and will, for the first time, provide market participants with an efficient hedging mechanism for real estate risk and allow them to effectively diversify their portfolios.
- ***Global public-private partnerships*** expanded in numbers. The partnerships formed in 2005 include such as The World Economic Forum’s Partnering Against Corruption Initiative (PACI) in January 2005, whereby 62 corporate leaders made a commitment to a zero-tolerance policy on corruption by signing up to the PACI, which was established by the World Economic Forum in 2004. Moreover, the Southern African Large Telescope (SALT), the largest single optical telescope in the southern hemisphere, was completed in October 2005, funded by a consortium of international partners from South Africa, the United States, Germany, Poland, the United Kingdom and New Zealand, and launched in November 2005.
- ***Drought insurance for developing country farmers.*** In November 2005 Malawi, with the World Bank, introduced a drought insurance program for local groundnut farmers to help them mitigate the risks of periodic droughts. The pilot—now used by nearly 900 farmers—can be scaled up to other crops and other parts of Malawi and Africa.
- ***Securitization of aid commitments.*** In September 2005 the governments of France, Italy, Spain, Sweden and the UK and the Bill and Melinda Gates Foundation launched

a pilot International Finance Facility for Immunisation (IFFIm). This instrument would securitize future aid commitments by these donors to frontload an additional \$4 billion over the next 10 years and help tackle some of the deadliest diseases in some of the world's poorest countries.

- ***Advanced market commitments for new vaccines.*** In December 2005 the G7 finance ministers announced that they would work with others on developing a pilot advance market commitment to support research and development of vaccines for diseases that affect the poorest countries.

About the book

The New Public Finance: Responding to Global Challenges is published by Oxford University Press for the United Nations Development Programme (UNDP).

For more background information visit: www.thenewpublicfinance.org

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