Informal Event on Innovative

Overview of key substantive points

- The international commitment to help developing countries achieve the MDGs by 2015 requires mobilizing additional revenues from new and existing instruments of innovative sources of finance. There is an urgent need to take concrete and decisive steps to expand innovative financing in the run up to the MDG Summit in September 2010.

- Such financing should be disbursed in a manner that respects the priorities of developing countries and should neither substitute nor adversely affect the level of traditional sources of development finance. There is a need to establish a monitoring mechanism to assess the impact of existing mechanisms and to identify the most cost effective instruments.

- Several innovative mechanisms built around public-private partnerships have provided an important supplement to available financial resources for development. Increased participation in these mechanisms would contribute to both redistribution and delivery of global public goods, for instance, through air ticket levies, carbon taxes, a tax on arms trade and a currency transactions tax.

- The potential of raising revenue through the currency transaction tax is technically feasible without adversely affecting financial markets. The advantage of the tax/levy approach is that it can generate large, predictable and sustainable finance, while internalizing external costs and activities.

- The UNITAID Patent Pool Initiative has the potential of making medicines available at cheaper cost where they are most needed.

- Increased long-term pledges by Governments are needed to raise money in bond markets for front loading of financing of immunization and other GAVI programmes. This financial engineering leads to predictable and stable flows with lower borrowing costs.

- Advance market commitments (AMCs) can assure researchers and pharmaceutical companies that the demand will be there once the vaccine is developed. This mechanism can in turn stimulate research and development of medicines and vaccines most needed by developing countries.

- A new international convention on transparency in economic activity and, in particular, an agreement that no jurisdictions would have rules or laws that undermine the laws of other jurisdictions, would help to alleviate the problem of illicit capital flows.

- Innovative financing in education will help to provide predictable and sustained funding, raising the profile and visibility of education, encouraging effective spending and addressing the needs of conflict-affected countries.

- Innovative financing has focused mostly on health issues and it should be expanded to other crucial areas, including food security, environment and climate change.

- The UN system has an important role to play as a catalyst for new ideas, a forum for consensus-building and an agent for implementation. It was proposed to create an expert group within the UN intergovernmental framework to explore new proposals on innovative financing mechanisms whose scale should be signi global economy at a large scale and make significant contributions to addressing the impact of the crisis. With reference to the expected benefits of the currency transaction tax and the UNITAID Patent Pool Initiative, he stressed that innovative financing mechanisms should represent not only additional funding but also new, targeted ways of spending.

Panel discussion 1: "Mechanisms of innovative development financing in operation"

Panel discussion 1 (morning) focused on *"Mechanisms of innovative development financing in operation"* and featured the following presentations: (1) Mr. Cyrille Pierre, Deputy Director for Global Economic Affairs and Development Strategy, General Directorate for Globalization, Development and Partnerships, Ministry for Foreign and European Affairs, France – *"Overview of the Leading Group on Innovative Financing for Development"*; (2) Mr. Edward Ross, Director, Corporate Marketing, Amadeus IT Group SA – *"Voluntary solidarity contributions";* (3) Mr. David Ferreira, Managing Director for Innovative Finance; Head of Washington, DC Office of GAVI Alliance – *"International Finance Facility for Immunization (IFFIm)"*; (4) Ms. Susan McAdams, Director, Multilateral and Innovative Financing Department, World Bank – *"Advance market commitments (AMC)"*; and (5) Ms. Ellen 't Hoen, Senior Adviser for Intellectual Property & Medicines Patent Pool, UNITAID –*"UNITAID and the patent pool initiative"*. Subsequently, a total of 14 delegations, including Japan (current presidency of the Leading Group on Innovative Financing for Development), Yemen (on behalf of G77 and China), the European Union (on behalf of its Member States), Chile, Venezuela, Gabon, the United States, Germany, the United Kingdom, Brazil, the Republic of Korea and Canada, as well as OECD and the Sovereign Order of Malta, participated in the discussion.

Summary of the presentations by the panellists

Mr. Cyrille Pierre presented an overview of the activities of the Leading Group on Innovative Financing for Development. After a brief review of the steps already accomplished, he emphasized the fact that what had started as a utopia materialized in reality as a concrete and viable mechanism of mobilizing new resources to fund development. Mr. Pierre explained how innovative financing for development was born out of the need to fill the gap left by ODA flows, due to their relatively unreliability, their unpredictability in the long run and their dependency on the economic situations in donor countries. He also pointed out the failures of the market economy and private capital flows to meet development needs. According to the speaker, innovative finance was a new way to mitigate ODA volatility, respond to market distortions in many areas, and mobilize and channel resources towards the funding of global public goods in health, environment and other critical sectors.

Mr. Pierre identified six categories of innovative finance on which the Leading Group focused its efforts. These included (1) the tax on global activities such as levies on airline tickets; (2) market mechanisms such as Germany's CO2 auctioning; (3) guarantee mechanisms such as International Finance Facility for Immunization; (4) voluntary contributions by citizen and businesses; (5) mechanisms related to debt management and debt swaps, such as "Debt2Health" and "debt-to-environment" initiatives; and (6) international lottery proceeds for development. In those six areas, he emphasized the critical role played by public-private partnerships, including the joint efforts of citizens, civil society and private foundations.

Mr. Pierre pointed out that innovative finance was not just about taxes and that it should be taken as a complement to ODA, rather than as an alternative. Moreover, global taxes were not in contradiction with national jurisdictions; they can be coordinated globally but executed at national levels. According to Mr. Pierre, the proposed taxes should not be seen as anti-business instruments; there should be “smart” taxes of minimal amounts that would not distort markets. He also pointed out that innovative finance should not been seen as a hurdle to official aid coordination and stressed that the United Nations should play an important role to help bringing the work of the Leading Group to higher levels of participation and accomplishment.

Mr. Edward Ross spoke about his company’s involvement in voluntary solidarity contributions (VSCs) through the “Massivegood” initiative, launched in the United States in March 2010. After highlighting the success of collecting over $1 billion for UNITAID with the airline ticket levies implemented in several countries, Mr. Ross recalled the initial involvement of Amadeus in this initiative, which led to the company’s increasing commitments as two other major travel distributing companies joined in. He highlighted that the long-term success of “Massivegood” depended on the good perceptions of the general public, which applied to any successful consumer brand or product. For the “Massivegood” instrument to be successful, it should be “known” (by differentiating itself in a crowded market), “available” (to a critical mass of the global travel sellers), “chosen” (over other donation options) and “trusted” (by explaining where the donated money went and how it was used in a clear and consistent manner).

Mr. David Ferreira focused on the work of the International Finance Facility for Immunisation (IFFIm) to finance GAVI programmes. He explained that long-term pledges made by Governments were used to raise money in bond markets. From 2006 to March 2010, IFFIm raised $2.6 billion mostly by issuing foreign currency denominated bonds in Japan, with the pledges made by nine countries, including South Africa. IFFIm was recognized as an “effective, efficient and lean vehicle” to complement ODA flows by allowing, firstly, visible, long-range, multi-year planning and, secondly, by providing effective timing of finance by issuing bonds when needed for vaccines. Other innovative mechanisms contributing to GAVI programmes included solidarity levies, debt buy-downs, de-tax and public-private partnerships. Although IFFIm’s contibutions had been significant in GAVI’s overall funding, its importance was projected to diminish from 2010 onwards. Considering GAVI’s funding requirement of $4.3 billion for 2010-2015, of which $1.3 billion would be funded by IFFIm proceeds, the funding gap was estimated at $2.6 billion. To fill that gap, GAVI should request existing donors to increase their pledges and should seek pledges from new donors or from new mechanisms. If financed sufficiently, GAVI programmes would prevent 4.2 million deaths by 2015.

Ms. Susan McAdams highlighted salient features of innovative financing, such as addressing specific development needs, raising additional funds through financial engineering and making efficient use of available resources. In terms of additionality, she referred to three types of sources of finance: (1 in increasing efficiency of development financing, Ms. McAdams mentioned the IFFIm as a mechanism for frontloading aid to address urgent needs in the health sector (immunization) that would otherwise require more resources and efforts, and to overcome the volatility and unpredictability of aid flows.

the international community's increasingly strong interest in innovative financing mechanisms and the need for identifying new sources of finance for development. He stressed the importance of gaining support from a broader range of countries and suggested starting with modest schemes before expanding them further.

The representative of **Yemen**, speaking on behalf of the G77 and China, welcomed the opportunity to exchange views on innovative development finance. The G77 and China agreed that innovative financing mechanisms could making a positive contribution in assisting developing countries to mobilize additional resources for financing development on a stable, predictable and voluntary basis. He stressed, however, that such financing should be disbursed in a manner respecting the priorities of developing countries and should neither substitute nor negatively affect the level of traditional sources of development finance. While acknowledging both the considerable progresses made in some initiatives and the importance of exploring the possibility of scaling-up present initiatives and developing new mechanisms, the speaker emphasized that priorities should remain focused on providing additional, stable and supplementary resources to traditional sources of development finance. He also underlined the potential role innovative financing mechanisms could play to achieve the MDGs and to supplement the global partnership for development. The G77 and China remained firmly committed to advancing the discussions on this subject.

The representative of **Chile** referred to the Santiago Declaration adopted by the Seventh Plenary Meeting of the Leading Group, held in Santiago, Chile, on 28-29 January 2010. The Declaration confir435 -1.[Declaration conf[1781T:09.185 .0003 Tl001 Tc-06 Tw(if countriefinetion coiunity'di

The representative of

The representative of the **Republic of Korea** highlighted his country's contributions to the implementation of airline ticket levies and the Leading Group. While praising the current international efforts in innovative financing mechanisms, he pointed out that, prior to expanding the number of initiatives, it would be necessary to establish a monitoring mechanism to assess the impacts of implemented initiatives and to identify the most cost effective instruments. He noted some technical and legal issues at the national level that had limited the full participation of willing countries in IFFm and voluntary solidarity contributions, and asked the advice of the panellists about those issues.

The representative of **OECD** argued that, as in the case of traditional sources of development assistance, innovative financing mechanisms should respect a recipient country's ownership and priorities. For example, recipient countries should be involved in the decision-making process to identify which vaccines were to be delivered. He also pointed out the need for examining the impacts of these mechanisms at the micro level (e.g. households) as opposed to the global level.

The representative of **Canada** stated that it was imperative to find new mechanisms to maximize the effectiveness of innovative sources of finance. As expressed by other delegations, he agreed that the discussions at the current meeting should feed into the September Summit preparations and that innovative financing mechanisms should be considered as a complement to ODA.

The representative of the **Sovereign Order of Malta** reiterated the timeliness of this meeting as well as the high expectations on the roles played by innovative financing mechanisms to achieve the health-related MDGs. He pointed out the critical importance of securing more affordable medicines and supported the proposal to create an expert group on innovative sources of finance.

In responding to the points raised by delegations, **Ms. McAdams** underlined the importance of respecting a recipient country's ownership and policy priorities and of having a global solidarity on innovative financing mechanisms. On the growing interest in remittance flows to developing countries, she stated that such flows had the potential to be used for microfinance but they could not substitute ODA flows. The key questions were how to use remittances more effectively and how to reduce their transaction costs. On assistance to Haiti, Ms. McAdams was unaware of the role played by innovative mechanisms. However, in the case of tsunami aid efforts, she noted that the considerable volume of charitable contributions was highly correlated with media coverage. Regardless of the methods of fund-raising, she stressed that large flows of contributions should not be wasted.

Mr. Ferreira reiterated IFFm's long-term visibility and its ability to raise money in bond markets. He further stressed that the IFFm had a solid AAA credit rating, which translated into lower costs of borrowing (owing to the sovereign guarantee). He shared the view about the importance of sustainable grass roots involvement, which would serve to create a virtuous cycle of understanding and commitment for development. He also reiterated GAVI's willingness to continue to work together with the private sector and civil society.

In response to the concern expressed by the representative of the United States, **Mr. Pierre** stressed that the current economic situation in many donor countries was likely to squeeze the room for development finance. He argued that a global financial transactions tax was a new global reality and that necessary action should be taken now rather than later. While acknowledging that no tax was perfect, he explaine would limit the negative impacts of globalization and create mechanisms for global redistribution. Norway would support innovative sources of finance that could contribute to global public goods, for instance,

Ms. Susan Durston spoke on the issue of innovative financing for education. Illustrating the magnitude of the problem, she stated that 72 million children of primary school age were out of school, of which 54% were girls and 25 million lived in low-income countries affected by conflict. Hence, innovative financing for education would help to address the situation through providing predictable and sustained funding, raising the profile and visibility of education, encouraging effective spending and addressing the needs of conflict-affected countries. Ms. Durston referred to the creation of a task force on education within the Leading Group, which was expected to finalize its report by the end of July 2010. Ideas on education-specific resource mobilization included a soccer (FIFA) levy; teachers for education for all fund; public-private partnerships; diaspora bonds for education; and an endowment fund funded by sovereign wealth funds.

Ms. Durston also highlighted some of the challenges in this area, including the need for pro-poor proposals and the importance of targeting low-performance regions, schools and individuals. Options that may be considered included abolishing school fees and removing cost barriers, strengthening the supply-side of the schooling system and ensuring high quality across the system, with a focus on the marginalized. She suggested a number of mechanisms for ensuring the necessary reforms including those providing innovative delivery, such as phone banking for teachers, and decentralised modalities such as school grants. According to Ms. Durston, the necessary reforms should be centered on core principles such as country ownership, limiting new transaction costs and ensuring that funds were linked to results.

Summary of the discussion

The representative of **Brazil** noted that there were many challenges ahead and that the Leading Group on Innovative Financing for Development had contributed many ideas. However, there was a need for greater involvement of the UN, as well as for mainstreaming innovative financing issues. Highlighting the issue of illicit capital flows, he expressed support for the proposal to establish an intergovernmental commission on international cooperation in tax matters. In this connection, he enquired about the latest developments to foster international cooperation to curb illicit capital flows and the role of the UN.

The representative of the **United States** noted that his Government had been making efforts to stop particularly illegal capital flows. He expressed his delegation’s concern regarding international taxes, even at low rates, since that could distort international trade and production and could even help boost tax havens. He asked Mr. Uemura for clarification of the panellist’s statement that the Currency Transactions Development Levy would have “no distortion of market owing to the low tax rate (0.005%)” and whether that tax could be introduced in just one country or currency.

In response, **Mr. Uemura** pointed out that the cost to the financial sector could be passed on to all players in the financial markets who benefit from globalization. He added that ideally all countries should introduce the tax at the same time but that it was possible to do it in one country or one currency.

Mr. Douste-Blazy noted that the currency transactions levy should be internationally coordinated because if done unilaterally it could have a negative impact in terms of reduction of transactions in the currency on which it was imposed.

Mr. Uemura was of the view that the reduction in transaction would be largely a reduction in speculative transactions.

The representative of **France** stressed the importance of synchronizing actions on suggested measures would elicit support of the general public and taxpayers. Given the difficult economic situation, there had alr