17 May 2010

Informal event on innovative sources of development finance

Concept note

Mandate

The General Assembly, in its resolution 64/193 of 21 December 2009, recognized the potential of various voluntary innovative sources of financing to supplement traditional sources of financing, stressed that those funds should be disbursed in accordance with the priorities of developing countries and should not burden them unduly, and encouraged the Secretary-General to organize an informal event in 2010, within existing resources, on the potential of voluntary innovative sources of development finance (para.13).

Date and venue

It is proposed that a full-day event be convened, at the ambassadorial/senior officials' level, on 3 June 2010 at the United Nations Headquarters in New York (ECOSOC Chamber – NLB) from 10 a.m. to 1 p.m. and from 3 to 6 p.m.

Objective

The main purpose of the meeting will be to provide a platform for an informal interactive discussion at a high political level on the full range of issues related to promoting innovative sources of finance towards the achievement of the Millennium Development Goals (MDGs) by 2015. To this end, the meeting should seek to (1) take stock of the progress achieved in mobilizing financial resources through existing innovative mechanisms that are already in operation and (2) explore new initiatives and proposals in the area of innovative financing for development.

Format

It is proposed that the event consist of a short opening plenary (10 a.m. – 10:30 a.m.) followed by two consecutive panel discussions. The Deputy Secretary-General will open the event, deliver a brief opening address (5-7 minutes) and pass over the chairmanship to Mr. Philippe Douste-Blazy, Special Adviser to the Secretary-General on Innovative Financing for Development.

The proposed themes of the panel discussions are: (1) "Mechanisms of innovative development financing in operation"; and (2) "Innovative development financing initiatives under development". Panel discussion 1 will be held from 10:30 a.m. to 1 p.m. and panel discussion 2 from 3:00 to 5:30 p.m. At the closing (5:30 – 6: 00 p.m.), Mr. Douste-Blazy will make concluding remarks.

Each panel discussion will consist of presentations by 4-5 panelists (10 minutes each), followed by an interactive, free-flowing discussion. No list of speakers will be established in advance. The Chair will call upon participants in the order in which they signify their desire to speak, on the understanding that the principle of precedence will be applied, to allow participation of senior officials in attendance. All participants will be invited to speak from their seats and will be requested to avoid reading from written statements. Each oral statement will be limited to three minutes, although this will not preclude the distribution of more extensive texts.

The event, including panel discussions, will be open to participation by representatives of all Member States, observers, relevant entities of the United Nations system and other accredited intergovernmental organizations, as well as representatives of accredited civil society organizations and business sector entities.

Outcome

The Secretariat will draft a Chairman's summary of the event to serve as an important input to the preparatory process of the HLM on the MDGs (New York, 20-22 September 2010). It will be posted on the Financing for Development website (www.un.org/esa/ffd). Interested Member States may also wish to request that the summary be issued as a UN official document.

Background documentation

The substantive background documents for the event will include:

- UN publication entitled "Innovative Financing for Development: the I-8 Group Leading Innovative Financing for Equity [L.I.F.E.], coordinated by Mr. Philippe Douste-Blazy;
- Report of the Secretary-General entitled "Progress report on innovative sources of development finance" (A/64/189).

In addition, updated information will be made available by the participants.

Substantive focus

The importance of innovative sources of development finance was recognized by the 2002 Monterrey Consensus and reaffirmed by the 2008 Doha Declaration on Financing for Development. The United Nations Conference on the World Financial and Economic Crisis and Its Impact on Development (New York, 24-30 June 2009) acknowledged that innovative financing for development can contribute to addressing global problems.

1. Mechanisms of innovative development financing in operation

Since the Monterrey Conference, international development assistance has seen significant diversification in the set of instruments, often referred to as "innovative sources of finance", based on a better understanding of the challenges and risks faced by developing countries and addressing obstacles and constraints in financial resource mobilization, with a view to achieving specific development impacts. To date, a series of initiatives have moved from discussion to reality. These include the following:

Levies and voluntary solidarity contributions (VSC) on airline tickets are estimated to generate as much as $1 billion annually worldwide. Since its inception in September 2006, 29 Governments have joined France in contributing finances to UNITAID, which raised $1.2 billion through airline tickets sold in 15 of its member countries, to scale up access to life-saving HIV/AIDS, tuberculosis and malaria treatments, lower the prices of drugs and tests and accelerate the pace at which they reach those in need in 93 countries. In March 2010, the MassiveGood initiative was launched to mobilize through VSC additional funding for UNITAID activities, by enabling travelers to make a donation of $2, €2 or £2 collected from online purchase of travel products and sales through travel agents.

The International Finance Facility for Immunization (IFFIm), launched in January 2006 on the basis of the initial proposal by the United Kingdom, has raised more than $2 billion on the international capital markets through the issuance of floating bonds. Of that amount, more than $1.2 billion was already disbursed to support life-saving immunization programmes in 70 developing countries through the Global Alliance for Vaccines and Immunization (GAVI) Fund.

The Advance Market Commitments (AMC) initiative seeks to address the shortcomings of pharmaceutical markets, especially in the poorest countries, by establishing contractual partnerships between donors and pharmaceutical firms to focus research on neglected diseases and distribute drugs at affordable prices. In June 2009, the Governments of Canada, Italy, Norway, Russia and the United Kingdom, together with the Gates Foundation, launched a pilot AMC with a collective $1.5 billion commitment. In addition, GAVI has committed to contribute up to $1.3 billion for the period 2010-2015. The first long-term agreement with the private sector was announced in March 2010, in which GlaxoSmithKline and Pfizer agreed to supply pneumococcal vaccines at a fraction of the price charged in developed countries.

The Debt2Health initiative, launched by Germany in September 2007, uses debt swaps to relieve the strain on resources of developing countries by converting portions of their old debt claims into new domestic resources for health through the Global Fund. To date, Germany has signed two agreements with Indonesia (to cancel €50 million in debt and to invest the equivalent of €25 million in health programmes in Indonesia approved by the Global Fund) and with Pakistan (to cancel €40 million in debt and to invest the equivalent of €20 million in health programmes in Pakistan approved by the Global Fund). Australia joined the initiative in May 2009 with a pledge of AUS$75 million.

Payment for Environmental Services (PES) is an innovative scheme devised to channel resources to those delivering desired public goods programs. Some of these schemes are already operational locally in different areas of the world, on a variety of environmental services. They allow consumers of a public good to compensate for part of the costs borne by those in charge of producing or preserving it. Current PES schemes have been developed mainly around three groups of environmental services: water quality and quantity, carbon sequestration and biodiversity conservation.

2. Innovative development financing initiatives under development

Looking ahead, the Doha Declaration on Financing for Development urges Governments to continue to innovate in development finance. There is a large array of innovative financing proposals under discussion, but they differ markedly in the amount of political support they generate. The task now is to identify the most useful and realistic ones in terms of quick implementation and revenue generation, and concentrate international attention and efforts on their development into concrete practical undertakings. The widening interest and growing experience in pursuing the innovative sources of development finance point to the number of actors involved in each proposed framework as the priority criteria for evaluating its potential. Some of the proposals currently under development include:

The international financial transactions tax is a promising source of stable finance for development and the Leading Group on Innovative Financing for Development has established a high-level taskforce to study its technical feasibility. A report of the task force is expected in June 2010. There is great potential to use such a tax with a broad global base for global needs such as mitigation of climate change and key international development projects. For example, the foreign currency market, where $800 trillion is traded annually, could raise more than $33 billion with a levy of just 0.005 per cent.

Carbon taxes can help not only to reduce carbon emissions but also to generate revenues to complement official development assistance (ODA). Finland, the Netherlands, Norway and Sweden introduced carbon taxes in the 1990s, and other developed countries have been considering it. A uniform global tax on carbon dioxide could be a more efficient way for managing climate change than direct regulation or performance standards, although there is a concern that such tax could impose burdens on low-income countries. According to the IMF, projected aggregate revenues range from 0.1 per cent to 3 per cent of

global GDP in 2020 and 2060 respectively, if all countries introduce such a tax by 2013. In March 2010, the European Parliament adopted a resolution calling on the EU members to earmark at least 25 per cent of revenue from the auctioning of Union CO^2 emission quotas for helping the poorer countries combat climate change.

Reducing emission from deforestation in developing countries is estimated to yield annual revenues of $1 billion. The United Nations, with financial support from Norway, has launched a plan for countries with tropical forests to issue tradable carbon credits obtained from the saving and planting of trees. Since deforestation accounts for 20 per cent of the greenhouse gas emissions responsible for climate change, the financial flows could be significant especially for Africa and Indonesia, where endangered tropical forests are located. An alternative proposal, suggested by the United Kingdom, is to make payments to developing countries with tropical forests based on the size of their forests.

Special drawing rights (SDRs) can supplement aid and provide global public goods. New SDR allocations, which will not involve direct costs to developed countries, could be directed primarily to the heavily indebted poor countries (HIPCs) in order to enable them to reduce their debt burdens independently of creditors' conditionality. An annual issue of SDRs at an upper limit of 10 per cent of combined quotas would yield SDR 20 billion and, if used for development finance, with developed countries donating their shares, would yield $25-30 billion in additional development finance.

Strengthened international tax cooperation is a critical element of a more effective global system of financial regulation to combat global tax evasion. It is difficult to measure the impact of more transparent tax regimes, but some estimate it to be between $50 and $250 billion a year.

Encouraging illicit capital flow repatriation is another identifiable source for increasing financial resources in developing countries. Norway is examining mechanisms to fight illicit financial flows and encourage their repatriation.

Reducing the transaction cost of remittances is expected to increase remittances to developing countries. France, Italy, Morocco, Spain and the United Kingdom have undertaken a major study of the mechanisms used for channeling migrants' remittances.

An international task force on innovative financing and education was launched at the Seventh Plenary Meeting of the Leading Group on Innovative Financing for Development (Santiago, Chile, January 2010). Bringing together governments, international organizations, civil society, foundations and economic actors, the task force aims to study all mechanisms likely to collect stable and sustainable resources complementary to ODA for financing MDG 2, as well as identify countries and the nature of expenditures which could benefit from these resources.