

**STATEMENT BY EUROPEAN COMMISSIONER**

MADE 16 JUNE 2004

**AT THE UNITED NATIONS CONFERENCE  
ON TRADE AND DEVELOPMENT**

**Eleventh Session**

**São Paulo, Brazil  
13-18 June 2004**

STATEMENT BY EUROPEAN COMMISSIONER POUL NIELSON  
IN THE  
ROUNDTABLE ON INNOVATIVE FINANCING FOR DEVELOPMENT  
UNCTAD XI SAO PAULO, 15 JUNE 2004

This Roundtable is welcome because it confirms the awareness in this Conference of the need to deliver additional resources for development. Monterrey was a great step forward and the ELT is in fact delivering. We pledged to get to 0.39 by 2006 as the collective average. Now the figures indicate that we will in fact get to 0.42 percent. And we will continue moving up.

I want to emphasise one other theme throughout what I say today. That is the word "lasting". The Millennium Declaration talked about halving poverty by 2015. But even if we reach that goal, after 2015 there will still be hundreds of millions of hungry children, of children without education, of mothers giving birth without skilled attendants of people living with HIV/AIDS. These challenges will go on after 2015, and we need to find ways of tackling that long-term challenge. Lasting ways. MDG 2015 is not a one-off event.

And I want to make sure that we tackle both parts of this challenge. Lots of attention has focused on how we raise the money for development. We also need to talk about how we spend it.

#### INNOVATIVE SOURCES OF FUNDING

First, though, raising it.

Political commitment does not come on the cheap. Sleight of hand with the rules of public finance, that mortgages future aid programmes, is no substitute for the hard political task of securing and sustaining the will to provide increased aid, now and for many years to come. This leads me to say that the International Financing Facility is really not the right way to go. Fighting global poverty is not something we should leave to be paid for by our children and grandchildren.

It is clear that international taxation offers one approach that would promise lasting resources for development. The European Commission has not taken a view on specific proposals, and all of them have their problems. But problems can be solved, and they will only be solved if we tackle them rather than running away from them. I believe that technical solutions can be found to the technical problems with many of these ideas. The "Tobin tax",

for example, has many attractions. It could raise large volumes of money and help to reduce volatility in currency markets. But it poses problems, mainly about diverting financial transactions to places where the tax is not levied. So far, Governments and international bodies - and even the Commission - have been prudent in identifying the problems with proposals like this. But personally I am ready to fight for us all to move a step forward, from identifying the problems to putting the resource into **solving** them. Anything that works and can be agreed to will get our support.

The biggest challenge is once again the **political** one: are we ready to improve **global governance** to make such taxes possible? Does tackling global bads, and providing public goods for development, mean enough for us to let go some of our treasured national powers? If we do not, we could find those national powers weaken all our efforts to reach our common goals.

### INNOVATIVE AID MODALITIES

But innovation should not stop with the sources of funding. We cannot go on with business as usual in our development agencies and yet hope to deliver the results we seek.

If we go on with myriads of **projects**, run according to donor procedures of planning, procurement, reporting and accounting, we will undermine ownership and efficiency. We will continue with the rigidities that interfere with governments' planning systems, prevent coherent decision-making, obstruct prioritisation, and sap domestic accountability as our demands become more important than those of their citizens through national Parliaments.

Providing **budget support** tackles many of these challenges. I am keen to see its use broadened. I think that it can sharply reduce the "transaction costs" for Governments, the burden of doing business with donors. It can help to improve incentives for Governments and donors to focus more on results, and for Governments and societies to improve the management of public funds in developing countries. Global untying of aid would also help.

But there are still big challenges. Perhaps the greatest of these is the vulnerability that goes with lack of predictability. When large parts of the budget are funded from budget support, and those expenditures go on even if the support is switched off, it becomes essential that governments know what funding they can count on. But budget support depends on countries sustaining macro-economic stability and public financial management reform, so it remains **volatile**.

If we are to provide the lasting resource's for the long term, this volatility and uapredictability will not do. To take just one example, the millions of people living with HIV/AIDS will continue to need treatment long alter 2015. The impressive steps forward that have been made - and for which I pay tribute to our hosts here in Brazil among others - have not altered the fact that providing life- sustaining therapy for a person living with HIV is far beyond the means of many countries. Indeed, it is beyond the whole per capita income of many of the poorest countries. This need alone would demand lasting, predictable support. This is one good reason to give fill support to prevention. By the way we cannot condone the condemnation of condoms. They are part of the solution not part of the problem.

We have examples of good predictability. HIPC provides lasting resources at Completion Point. They are not volatile, they are entirely predictable. HIPC was subject to a small number of conditions. In many ways, as an aid modality HIPC has much to be proud of.

That is not to say that debt relief is the answer to all our problems. For example, it is a very poor way of allocating resources. The countries with the highest debt are not the poorest, nor the ones where policies are right for the fastest poverty reduction. Debt relief may be a good way of delivering some of the additional resources I argued for earlier, but it is not the whole answer.

But the reality is that we actually have a good picture of what needs to be done and how to do it to respond to the challenges we face. So even if we still need to develop some new tools and instruments, an important innovative contribution today is to have the courage and self-confidence (in the business of development cooperation) to say loud and clear that more of the same is an intelligent, relevant and practical response.