

INNOVATIVE FINANCING FOR DEVELOPMENT

THE I-8 GROUP
LEADING INNOVATIVE FINANCING FOR EQUITY [L.I.F.E.]

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IN CHARGE OF INNOVATIVE FINANCING FOR DEVELOPMENT,
CHAIRMAN OF UNITAID

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PREFACE BY MR. BAN KI-MOON
SECRETARY-GENERAL OF THE UNITED NATIONS

The eight innovative financing mechanisms for development represented here provide an excellent platform for generating new ideas. They show the potential for finding resources over and above what is available from official aid and the market.

This is timely, important work.

As you may know, I have a close personal interest in this issue. Philippe Douste-Blazy and I have been promoting innovative financing since we were both foreign ministers.

I am glad there has been such progress.

I want to highlight in particular the work of the Leading Group on Solidarity Levies. Launched in March 2006, this pilot group established the first international framework for practical action. It now encompasses 55 member countries, 3 observer countries, and a number of major international organizations. It has helped to identify and initiate a number of effective mechanisms, particularly in the field of health.

We have now reached the point where we can start to analyze and synthesize the experience of our pilot projects and talk about the next steps. That is the focus of this report.

The economic crisis makes innovative financing even more important.

Traditional forms of financing for development are under threat. Economies are contracting. Official development assistance (ODA) faces increased budgetary pressure. Commodity prices, private investment and remittances are down.

Innovative financing must help to bridge the gap between what is available and what we need to reach the Millennium Development Goals.

The economic crisis makes that job even harder. According to the World Bank, 45 million more people will fall into extreme poverty in 2009. Four hundred thousand children will die as a result. This comes on top of the food and energy crises, which pushed more than 130 million people into poverty in 2008. This year we expect the number of people living in urban slums to triple. Half the world's population will remain below the poverty line of \$2 a day.

We urgently need to strengthen and scale up existing innovative mechanisms, and explore new ones. UNITAID, the first laboratory in innovative financing, has opened a new way and proved that its mechanisms can help us achieve the MDGs by saving hundreds of thousands of lives each year. We need to create a regular network of consultation, coordination and mutual reinforcement among innovative financing efforts worldwide. The network will be supported by a coordinating mechanism, facilitated by Mr. Douste-Blazy, my Special Advisor on Innovative Financing.

The core of this effort is the I-8/L.I.F.E. group, consisting of the eight innovative finance mechanisms represented here, along with associated international organizations and civil society representatives.

I hope that by coordinating an I-8/L.I.F.E. group, as was done for the H-8 for health, we will learn faster from each other's experiences and stimulate best practices across institutions and initiatives.

This is critical to ensure that future initiatives – whether brand-new ideas or the extension of current initiatives – can be implemented quickly and successfully.

We also need a joint message on the consequences of the economic and financial crisis for the developing world, and on how innovative financing can help overcome the challenges the crisis poses.

The group should also discuss the potential for extending these mechanisms, in close coordination with other initiatives. This should include coordinating how funds are channeled.

We must also further explore the potential of innovative approaches to spending for development.

Above all, I urge you to continue promoting new ideas. You have the explicit encouragement of the 2008 Doha Declaration on Financing for Development. And you have my personal commitment.

There are many innovative financing proposals to consider. They differ markedly in their feasibility and the amount of political support they can gather. Your task is to identify the most useful and realistic, and then develop them into concrete initiatives.

I expect to work regularly with you to receive suggestions for future United Nations cooperation.

Ban Ki-moon, Secretary-General of the United Nations

PREFACE BY MR. LUIZ INÁCIO LULA DA SILVA

PRESIDENT OF THE FEDERATIVE REPUBLIC OF BRAZIL

It gives me great pleasure to present this publication dedicated to innovative financing mechanisms for development. Since my first day in office, fighting hunger and poverty has been my Government's number-one priority. I try to spread this message in all the countries I visit, because I am convinced that this is a truly global fight.

Back in 2004, President Jacques Chirac, President Ricardo Lagos and I launched Action Against Hunger and Poverty. I am pleased to see that, five years on, our initiative has yielded extraordinary results.

Under the leadership of its founding chairman Philippe Douste-Blazy, UNITAID is the first fruit of this undertaking. Through its efforts, it has been possible to procure AIDS, tuberculosis and malaria drugs from this initiative. It is estimated that UNITAID finances the HIV treatment of three out of every four children in the world.

We are demonstrating that, through contributions both large and small, it is possible to manage stable funds that help those most in need. But the war on hunger and poverty is long. Much remains to be done if we are to achieve the Millennium Development Goals (MDGs), especially in times of international financial crisis.

Hunger and disease are the twin evils holding back human and economic development, education and employment. Action to fight these evils promotes economic recovery, especially at a time of global financial crisis. It is not necessary to await the return of economic growth to think about human dignity. As the celebrated Brazilian social activist Betinho once said, "the hungry are in a hurry". The financial crisis cannot be used as an excuse. Only by boosting investment in social policies will it be possible to achieve the MDGs by 2015.

Development assistance is far short of internationally agreed targets. Even if we achieve the target of transferring 0.7 per cent of the GDP of rich countries to poorer countries, this is not sufficient. We need to go further. Innovative financing mechanisms, be they mandatory or voluntary in nature, can point the way forward.

Brazil is endeavoring to play its part. One of the priorities of Brazilian foreign policy in the area of health is to seek a balance between public health and intellectual property rights, thereby ensuring universal access to medicines. To this end, Brazil supports taking full advantage of the flexibilities contained in the WTO TRIPs Agreement.

At the regional level, we are helping to set up the Health Council of the Union of South American Nations, which will combine efforts to promote universal access to medication, in addition to developing universal health-care systems, training and establishing regional health alert mechanisms. In Mercosur, we have set up a Medicines Price Bank to strengthen our governments' negotiating capacity and thereby reduce the cost of medicines to the public.

South-South cooperation has also yielded global results. The IBAS Fund for the Alleviation of Poverty and Hunger, which I set up in 2004 with the Presidents of India and South Africa, has financed community health projects in developing countries. The Fund has already implemented major projects in Guinea Bissau, Haiti and Cape Verde, and is now overseeing others in Burundi, Cambodia and Palestine.

Brazil is engaged in bilateral cooperation with a number of developing countries, particularly African

nations such as Angola, Burkina Faso, Mozambique, Sao Tome and Principe, and Nigeria. These activities include malaria control, the construction of a factory to manufacture generic antiretroviral drugs in Mozambique, and donating vaccines.

To eradicate poverty entirely requires much more than international solidarity. It involves forging more equitable economic relationships that will enable us to break the cycle of dependency that afflicts poor countries. We need to attack not just the symptoms but also the causes of global poverty.

The international community needs to come together to help the poorest countries realize their potential. This is the best assistance we can offer, and the only form of assistance that can bring about a more equitable, balanced and people-centered international order.

This report will undoubtedly help to impress upon governments, businesses, non-governmental organizations and individuals throughout the world that the solution to hunger, poverty and human degradation lies in a global covenant that must be meaningfully adhered to.

Luiz Inácio Lula da Silva, President of the Federative Republic of Brazil

PREFACE BY MR. WILLIAM JEFFERSON CLINTON

FORMER PRESIDENT OF THE UNITED STATES

Over the last year, the foundations of our global economy have been shaken by a financial collapse that has shown us all how thoroughly interconnected and interdependent our world has become. From Wall Street in America to the countryside in China, the economic crisis has reached far and wide, penetrating almost every sector of our international community.

We have seen through the lens of this crisis that everything we do affects those within and beyond our own borders—that in a world like ours, divorce is not an option, and our fates are bound together. Though it is often a force for good, in these uncertain times, our interdependence poses great challenges for our world and compounds the difficulties we face in trying to make it a better place. While our financial systems have weakened, the threats of climate change, widespread infectious disease, and persistent poverty and inequality did not fade nor disappear. The glaciers continue to melt, the poor continue to starve, and those living with HIV/AIDS and other treatable, but deadly, diseases continue to need proper treatment to survive.

In the last two decades, with nearly one million nongovernmental organizations operating in the U.S. and another million in India and China, we have witnessed an overwhelming expansion in civil society and a vibrant movement to create public and private partnerships that help improve lives. Our neediest communities have come to depend on the aid of civil society, and so, in a world where one movement affects another, the fear is that philanthropy, which is vital to maintaining quality of life for millions of people, will need to be scaled back in light of the global financial crisis.

There is some truth to this. Many highly effective nonprofits and NGOs have been devastated by lost funding, and there is no telling what the future holds. As a result of the current economic climate, skepticism about the international community's ability to achieve development goals has increased, but I see things differently. This moment presents each of us with a remarkable opportunity to reevaluate the way we think about giving and to reorganize the future of philanthropy. By focusing our time, talents, and dedication on discovering innovative mechanisms for raising funds for development and by including the world community in this endeavor, we can establish a sustainable means of supporting progress – even in the face of great adversity.

One terrific example of a creative financing mechanism is UNITAID. In 2006, French Foreign Minister Philippe Douste-Blazy and President Jacques Chirac led the people of France in a groundbreaking effort to raise funds for development. Together with President Lula of Brazil, and the governments of Chile, Norway and the United Kingdom, they established a small tax on airline tickets, and the combined contributions would help 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. Since its inception, 37 governments have joined France in contributing finances to UNITAID, which raises approximately US\$350 million every year – without negatively impacting the airline industry. It was a brilliant idea and is a proven model that has unearthed new channels of givers and founded new platforms for them to give.

I have been so grateful for and honored by the opportunity that the Clinton HIV/AIDS Initiative (CHAI), a programme of the William J. Clinton Foundation, has had in partnering with UNITAID. Since 2006, CHAI has received US\$193 million in donations from UNITAID to expand access to pediatric and second-line HIV/AIDS treatment. What we've been able to accomplish through our partnership with UNITAID is astonishing. In a little more than two years, CHAI has reduced prices for pediatric ARVs by an average of 60 percent and second-line AIDS treatment by 30 percent. Due in no small part

to our partnership with UNITAID, my Foundation's Pediatrics Project has also helped initiate treatment for nearly 195,000 children, and CHAI has also provided US\$100 million worth of commodities to treat a total of 300,000 adults and children in 37 countries. Before these projects began, pediatric treatment programmes in many countries were almost nonexistent, and I am particularly proud of what we've been able to achieve so far and what we'll continue to achieve thanks to UNITAID's ongoing support.

Mechanisms such as UNITAID may be forward-thinking, but they work. Though more than two dozen nations now support it, its successes were first made possible by the commitment of French citizens, whose selflessness has shown that, if we each give a little, our collective impact can be enormous. More than ever, developing nations need the support of the world community, and I believe every person has a responsibility and the capability to help make the world a better place. This is why I'm so hopeful for the implementation of other creative finance mechanisms, like the Millennium Foundation's voluntary solidarity contribution, which will give millions more the opportunity to give by opting in to a contribution of \$2 whenever they purchase airline tickets. The funds will help us achieve the Millennium Development Goals through UNITAID's programmes.

Our global community needs a robust civil society, and every citizen should be a part of it, because there are limits to what can be achieved by government and the private economy alone. By financing development, we invest in the future of our world. Whenever we do something to empower another person or to solve a problem, whether around the corner or thousands of miles away, we strengthen our communities, our common economies, and our shared future.

This is an exciting time. The power of giving now rests in the hands of citizens from every nation on every continent. In an interdependent world like ours, our greatest challenge and most noble goal is to look past that which separates us to see that all people are bound to one another by a shared humanity that cherishes life, works for equality, and strives for peace.

This text contains the accumulated wisdom and insight of several proponents of innovative financing mechanisms. Their stories show how rich the possibilities are when employing this approach to development funding. There is still so much work to be done, and I'm looking forward to what we all can accomplish together.

William Jefferson Clinton, Former President of the United States

PREFACE BY MR. ELIE WIESEL

PROFESSOR OF PHILOSOPHY AT BOSTON UNIVERSITY

Occasionally, during an ethics class, a concerned student questions the teacher about the immediate direction of their work: “You say it’s important, in fact essential, to make a commitment to help the socially disadvantaged and the unfortunate, but... there are so many of them! Where should I begin?”

It is a fair point. Poverty and disease are omnipresent, and so much suffering can easily breed despondency: “Since there is too much to do, what is the point in doing anything?”

Let’s start with children. It is always their pain that arrests our attention. Every minute, somewhere under the sun, a child dies. Through disease, thirst, malnutrition or violence. And in the ongoing conflicts that engulf parts of the world. That’s the way it is: while adults are consumed with hatred and resort to fighting, children pay the ultimate price.

Then there is global hunger. The statistics are mind-boggling. More than a billion people are starving to death. They bring to mind the great prophet Ezekiel who spoke of the shame of hunger. For a long time I was puzzled: Why should someone be ashamed as well as starving? Now I understand: It is not the hungry man that should be ashamed; the shame is ours.

AIDS. Tuberculosis. Heart and lung disease. Brain disease. Anyone can be affected, but it is the poor, afflicted by overwhelming powerlessness, who suffer most. Refugees, the homeless, the forgotten and the unfortunate. So much despair. The young student searches for the right path, a way of putting his sympathy for bruised humanity to good use.

This is the role of UNITAID, a new organization whose startlingly original approach impresses by sheer breadth of vision and force of imagination. Since everything needs to be done, this is what we need to do. And we can do it. UNITAID has barely begun, yet already it has achieved impressive results.

In one sense, UNITAID is the answer to the student’s question: faced with a multitude of horrors and misfortunes, it is necessary to start anywhere and everywhere. All methods will be good methods; all attempts will be justified.

Because this is the heart of the matter:

Whatever we do to help others, whoever and wherever they may be, demonstrates that we have neither abandoned nor forgotten them.

Is there anything more to say than this? It is a start. And it is already a giant step.

Elie Wiesel, Professor of Philosophy, Boston University

INTRODUCTION BY PHILIPPE DOUSTE-BLAZY

SPECIAL ADVISOR TO THE SECRETARY-GENERAL OF THE UNITED NATIONS
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CHAIRMAN OF UNITAID

For millions of people in the poorest countries of the world, the current economic and financial crisis will have a double impact with growth running out of steam and official development assistance (ODA) drying up.

Today more than ever we thus need additional resources to achieve the Millennium Development Goals (MDGs), particularly those related to health.

We cannot be satisfied with a world in which human beings are denied their most basic right, i.e. the right to health.

Access to safe and quality basic health services for all is a must. It is the first indispensable step on the development ladder.

We have already come a long way and welcome the progress made. The way that most pandemics and the main causes of infant mortality the world over have been tackled has improved over the past decades.

These successes must spur us to persevere. We can save many more million lives provided we build, develop and strengthen the health systems of the poorest countries of the world, precisely those that are first hit by the current crisis.

In order to achieve the Millennium Development Goals, we must thus empower the health systems of the poorest countries. Indeed, our world has hereto condoned unbearable injustice: health expenditures are systematically greater in the countries where there are fewer patients.

In 2004, 8.6 per cent of global gross domestic product was spent on health, in other words \$4.1 trillion which, if well distributed, would be enough to ensure dignified sanitary conditions the world over. And yet 90 per cent of these expenditures have gone to rich countries that are home to less than 20 per cent of the world population and only 10 per cent of diseases. Whereas per capita health care expenditures in developed countries reach \$4 000, this figure plummets to \$24 for the countries of the South.

This is the reason why the ten countries in the world where life expectancy is the shortest are to be found in Sub-Saharan Africa. In 2006, the life expectancy of a little girl born in Zambia was 33 years against 86 years for a little girl born in Japan, in other words 53 years difference.

Far from disappearing, these inequalities are actually being exacerbated. Life expectancy has gone down from 63 to 51 years in South Africa and from 60 to 42 years in Lesotho. In 16 countries (14 of which in Africa) under-five mortality has increased. In most developing countries maternal mortality ratios are unacceptably high. Over 500 000 women die in pregnancy each year. Infant mortality rates are 1 000 times higher in Sub-Saharan Africa than in Western countries.

According to the World Health Organization, in 2007 11 million children died from preventable causes or from diseases that could have been cured provided one had had the means to do so. Moreover, the World Bank estimates that between 200 000 and 400 000 more children a year may die due to the current economic downturn that will cause health budgets to shrink even further.

In 2000, strong commitments were made under the Millennium Development Goals adopted by the

United Nations for development assistance, for a total estimated cost of \$150 billion a year. Nine years later, we can't help but notice that development assistance amounted last year to \$119 billion.

As far as ODA is concerned, we should be both satisfied and cautious, as underlined by the September 2009 MDG Gap Task Force report, by the UN and UNDP.

Not yet fully affected by the present crisis, total net official development assistance from DAC members rose in 2008 by 10.2 per cent in real terms to USD 119.8 billion, reaching the highest dollar figure ever recorded, and reached 0.30 per cent of donors' combined gross national income. Bilateral development projects and programmes rose by 12.5 per cent in real terms compared to 2007, indicating that donors are substantially scaling up their core aid programmes. The 2008 preliminary data show that net bilateral ODA to Africa totaled USD 26 billion, of which USD 22.5 billion went to sub-Saharan Africa. That is an increase of 10.6 per cent and 10 per cent respectively in real terms, excluding volatile debt relief grants. Among DAC members, the largest contributors in terms of gross ODA were the United States (USD 26.9 billion), Japan (USD 17.4 billion), Germany (USD 15.9 billion), France (USD 12.4 billion) and the United Kingdom (USD 11.8 billion).

There is, however, a generalized fear that the strain of the crisis may lead to donor countries cutting their aid efforts, including aid for trade, similar to the global economic recession of the early 1990s, which produced large fiscal deficits in donor countries that led to deep cuts in ODA from 0.33 per cent of gross national income in 1992 to 0.22 per cent in 1997. Estimates differ across donors, but a 1 per cent negative growth shock implies an 8 per cent reduction in aid budgets five years after the shock, according to a recent study. Such a reversal at this juncture would place a dangerous additional burden on developing countries already struggling with restricted sources of income and increased poverty, and would undo some of the progress already made towards meeting the Millennium Development Goals.

In various international meetings, including at the 2009 ECOSOC Spring Meeting and the OECD-DAC High Level meeting in May, many developed countries have announced their determination to not permit their domestic financing difficulties to reduce their ODA flows and many have indicated that they are seriously considering contributing to funds to mitigate the impact of the crisis on the most vulnerable populations.

As shown by the "Taskforce on innovative international financing for health systems" and the World Bank, a global investment of \$31 billion is required to achieve health-related MDGs alone.¹

Though official development assistance remains indispensable, it will not be enough in itself.

The onus is on us today to find other ways and means to act, to look in new directions, to think differently.

This is when innovative financing mechanisms come into play to raise new sustainable funds based on a new economic logic that will come on top of ODA but certainly not replace it. ODA indeed remains the building block of necessary international solidarity among States.

The very idea of innovative financing mechanisms was launched at the Monterrey Summit—an international conference on financing for development which aimed at reaching a global agreement on how to boost global growth, finding the means to bridge the widening gap between rich and poor and reaching the MDGs.

¹ Taskforce on Innovative Financing for Health Systems, Raising and Channeling Funds, Working Group 2 report, 3 June 2009

The consensus adopted at the Monterrey Summit suggested six pathways to correct existing imbalances, amongst them increasing North-South financial and technical cooperation notably via innovative mechanisms. It thus paved the way for new approaches to development that set aside the traditional dichotomy between official assistance and private humanitarian action, which are actually two sides of the same coin of charity.

Without questioning necessary charity, the scope of the problem and the stakes were such that it had become essential to finally adopt a global systemic approach based on economic logic rather than effect.

To put it shortly, in order to correct the dysfunctions of capitalism a solution had to be found that abided by the rules of capitalism. True enough, the problems we are confronted with often originate in the system itself and alter the much needed balance between capital and labour, between money and the individual.

Taking stock of those dysfunctions does not mean giving in to the easy temptation of blowing the whistle on capitalism, for doing so may be dangerous.

Though obviously imperfect, this system, whether we like it or not, has amply demonstrated its effectiveness and there is no questioning the gains it can generate. We must therefore use it as a stepping stone, fine tune it of course, but be careful not to keep in check its greatest strength, i.e. individual will power.

The Monterrey Summit identifies new financing mechanisms for development that are as globalized as the modern economy itself.

Three years later, in 2005, together with Presidents Lula (Brazil), Chirac (France) and Lagos (Chile), we created the first laboratory for innovative financing for development by floating the idea of a micro global tax on airline tickets. This novel idea for the first time involved levying a tax that would not be paid back in the country where it was levied but elsewhere in the world for the benefit of the poor.

This is how UNITAID was born in 2006 at the United Nations.

UNITAID's mission is to contribute to scaling up access to treatment for HIV/AIDS, tuberculosis and malaria primarily for people in low-income countries on the basis of the tax on airline tickets.

UNITAID aims at ensuring the poorest and most vulnerable in the world access to medicines and diagnostic kits of excellent quality at reduced prices to prevent and treat those three diseases. Today, 38 countries have committed themselves to setting up this micro tax and we must keep the ball rolling.

UNITAID has to date raised over one billion dollars that is being used to finance partner organizations' programmes in 93 countries.

70 per cent of funds are allocated to projects in Africa.

AMONG UNITAID'S MOST SIGNIFICANT ACHIEVEMENTS

1. On AIDS :

- production of the first pediatric formulations against AIDS. Such treatments were not manufactured before because pharmaceutical companies take no interest in limited markets such as this one.
- 50 per cent reduction in the price of AIDS drugs following negotiations with pharmaceutical companies (together with the Clinton Foundation).
- scaling-up of national prevention of mother-to-child transmission of HIV (PMTCT) programmes (with UNICEF).

2. On malaria:

- financing of the Affordable Medicines Facility (AMFm), a global programme against malaria set up by the Global Fund to Fight Aids, Tuberculosis and Malaria. It aims at expanding access to new medicines (artemisinin) by bringing their price down and making them more widely available. Without the AMFm, these new effective treatments would be too expensive for most patients. The AMFm will negotiate with pharmaceutical companies to bring the price of artemisinin down and organize co-payment of the drug with the patient. Artemisinin will therefore be accessible at the same price as that of classical antimalarial drugs that are not as effective.

This programme will be operational in 2010. Seventy-five per cent of it will be financed by UNITAID and it will be managed by the Global Fund in collaboration with the Roll Back Malaria Partnership.

- purchase of 20 million bednets (through the financing of UNICEF's programmes).

3. On tuberculosis:

- We are committed to providing children under the age of 15 with pediatric formulations of anti-TB drugs. Our target is to provide over 750 000 treatments by 2011.
- Support to the World Health Organization's programme on assessment of drugs to guarantee that only quality treatments are bought by low-income countries and to provide better quality drugs to the most deprived.
- Delivery times for ACT (new efficient antimalarial drug) have been reduced by 40-50 per cent for emergency deliveries.

4. For all three diseases:

- strengthening of national drug capacity in developing countries, knowing that their pharmaceutical legislation is quite ineffective.
- upcoming launch of a patent pool for pharmaceutical patents. This is a totally innovative initiative that will facilitate access to those patents by the poorest and thus foster the development and production of essential drugs at more affordable prices.

In July 2009, a group of British MPs published a report asking pharmaceutical companies to accept a patent pool on AIDS treatments in poorest countries.

“We are sitting on a time bomb. We must reduce the price of second-line medicines and less toxic first-line medicines before millions need them. We cannot sleepwalk into a situation where we can only afford to treat a tiny proportion of those infected,” said David Borrow, who chaired the group.

The report estimates that by 2030 the number of people needing HIV drugs globally will be 55 million, compared with 4 million today.

UNITAID'S APPROACH IS INNOVATIVE IN THREE RESPECTS:

1. The way funds are collected, i.e. through a micro tax levied for global health, including funds received from low or middle income countries that underscore the importance of South-South solidarity on top of North-South solidarity.
2. The way funds are used. This is the first international health organization which strives to improve public health by leveraging market mechanisms. UNITAID's greatest achievements in the fight against AIDS were indeed obtained by cutting by half the price of medicines. Market impact is also UNITAID's priority for malaria and tuberculosis.
3. The way it operates. UNITAID's streamlined structure (less than 5 per cent overhead costs) ensures financing and follow up of programmes put forward by partners such as the WHO, UNICEF, UNAIDS, the Clinton Foundation, the Global Fund, Roll Back Malaria, the Stop TB initiative, etc.

WE ARE ACTING ON TWO FRONTS TO STRENGTHEN UNITAID'S FINANCIAL CAPACITY:

- We want more countries to join us and agree to levy the tax on airline tickets. It is indeed our collective duty to convince most countries to levy that micro tax, which is painless for consumers and causes no economic distortion to airlines. This is the battle we have to wage. The idea of a global micro tax holds good prospects. Let us all defend it. Things are really beginning to move. In November 2009, Morocco passed a law imposing that tax. Several parliaments have spoken in favour of it, like the Portuguese Parliament that unanimously accepted the very principle of such a tax. In

the same vein, the Japanese Parliament set up a Committee on Innovative Financing for Development which has come to the conclusion that Japan should join UNITAID.

- We also aim at setting up a global voluntary contribution on airline tickets. We are developing an innovative fundraising mechanism that will make it easy for everyone who travels to make a voluntary micro-donation to UNITAID.

To be part of this voluntary worldwide solidarity movement, people will simply click on a box on the reservation screen each time they book a travel product (flight, hotel room, train ticket), whether online or through an agent, adding \$2 to the total price to be paid. This requires very little effort and can potentially improve millions of lives. By inspiring and empowering a community of like-minded individuals who care about correcting health inequities in the world, the Millennium Foundation aims to identify sustainable and growing funding sources for UNITAID.

To make this happen, we have built broad alliances across the travel industry, including with three major global travel distributors (Amadeus, Sabre and Travelport) and leading travel agencies such as American Express Global Travel Services.

The travel industry is well suited to take joint action in this area. The degree of cohesion and solidarity within the industry is well known. Travel professionals work together for customers, forgetting about competition and leaving aside their differences for the benefit of travellers. We can now do the same for the benefit of the world.

We are planning to make a political announcement at the end of 2009 which will be followed by a marketing campaign combining market insight and superior creative talent to raise awareness on how people can help solve a major public health crisis through a simple click. The first stage of the movement will start in May 2010 and will involve the US, the UK and Germany.

THERE EXIST OTHER INNOVATIVE MECHANISMS ALONGSIDE UNITAID:

- the International Finance Facility for Immunization created 4 years ago upon the initiative of the British Government, which uses the long term borrowing capacity of States (UK, France, Norway, Italy, Sweden, South Africa and Spain) to collect funds on the markets and finance immunization programmes in 70 countries amongst the poorest of the world within the framework of the GAVI Alliance. Over one billion dollars have already been collected. The goal is to reach 4 billion dollars in twenty years time.
- the Advance Market Commitments (AMC), which offer a financing for development and vaccine production mechanism for developing countries. Donors commit to guarantee the price of vaccines once developed, thus laying the foundations for the creation of a sustainable market. These commitments are essential incentives for producers to invest considerable amounts into research, staff training and production facilities.

- the Debt2Health initiative, which is a partnership between creditors and grant recipient countries under which creditors forgo repayment of a portion of their claims on the condition that the beneficiary country invests an agreed-upon counterpart amount in health through Global Fund approved programmes. In its pilot phase, \$125 to \$250 million should be available through this mechanism.
- (PRODUCT)RED, which is a brand licensed to partner companies to raise money for the Global Fund to fight AIDS, Tuberculosis and Malaria. Each partner company creates a product with the Product Red logo and in return gives a percentage of the profit on the sale of these products to the Global Fund. Since its creation, the initiative provided the Global Fund with over \$130 million.
- socially responsible investments (SRI), which is a strategy that seeks to maximize both financial return and social good. Socially responsible investors favor investments that promote community development and make sure companies and individuals can invest in the future.
- emissions trading (also called cap and trade), which is an approach used by countries to cap the emissions that contribute to global warming. The overall goal of emissions trading programmes is to reduce global emissions while allowing countries that have reduced their emissions to generate additional income through the improvement of other standards in the country such as for environment protection or health care. Knowing the strong correlation between poverty and climate warming, such financial mechanism should also contribute to the achievement of the MDGs.

Beyond those pilot projects, there are other innovative financing initiatives for development. Each of these can, in its own way, in its own field of competency and within its own means, help us achieve the MDGs.

Added to official development assistance, these initiatives could each year allow us to bail out international health systems and care for those otherwise not protected at all. This is not only a moral duty, it is an absolute necessity for each and everyone of us.

We must move ahead on the promising road paved by these initiatives, we must elicit new ideas, marshal new energies. But to do so, innovative financing mechanisms need each and everyone of us: international institutions, States and the citizens of the world.

This is why we created I-8/L.I.F.E., under the aegis of United Nations Secretary-General Ban Ki-moon. This think tank and action group is a forum where experiences can be shared, as well as a tool to coordinate already operational initiatives. It is first and foremost an essential platform to increase governments, parliaments and public awareness of what has now become one of the keys to a fairer world.

Philippe Douste-Blazy, Special Advisor to the Secretary-General of the United Nations in Charge of Innovative Financing for Development, Chairman of UNITAID

THE I-8 GROUP:
EIGHT INNOVATIVE MECHANISMS
FOR FINANCING FOR DEVELOPMENT

UNITAID

IFFIM-GAVI

ADVANCE MARKET COMMITMENTS

THE VOLUNTARY SOLIDARITY CONTRIBUTION FOR UNITAID

(PRODUCT) RED AND THE GLOBAL FUND

DEBT2HEALTH

CARBON MARKET

SOCIALLY RESPONSIBLE INVESTMENTS

UNITAID

BY JORGE BERMUDEZ, EXECUTIVE SECRETARY
& PHILIPPE DOUSTE-BLAZY, CHAIR OF THE BOARD

LEVERAGING INNOVATIVE FUNDING FOR TARGETED INTERVENTIONS TO IMPEL LASTING CHANGE

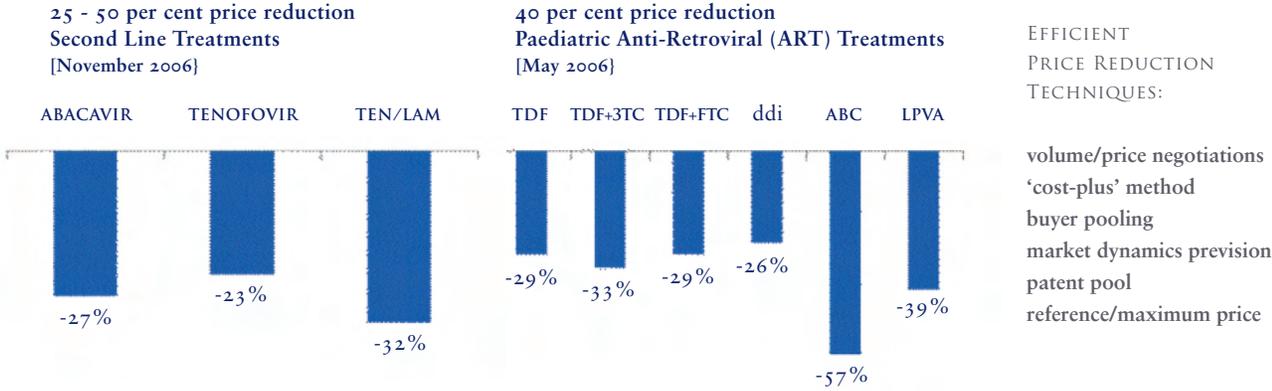
Few question the value of innovative sources of finance as part of the global response to the challenge of securing sustained financing for development and the fight against poverty. With its strategic health focus on increasing access to qualitative medicines, diagnostics and related commodities in HIV, malaria and TB by impacting the market, UNITAID constitutes an inspirational example of what such funding models may achieve in a short time. Its catalytic interventions are proving that UNITAID may successfully galvanize efforts to increase the momentum needed to attain the Millennium Development Goals, and its ever-broadening membership is contributing to reversing the traditional/persistent dichotomy between donor and recipient, North and South.

Through the novel way in which it raises sustainable and predictable funds – mostly through a tax on airline tickets – and thanks to its tactical partnerships, UNITAID is truly additional to the existing agents in the global health financing landscape. Its pointed market interventions, primarily benefitting low-income countries, serve to scale up access to crucial medicines, diagnostics and related commodities by provoking price reductions, stimulating the production of qualitative and more user-friendly treatments, and speeding up their availability and delivery, thereby complementing and reinforcing those of other development actors.

Since its inception in 2006, by leveraging market dynamics, UNITAID's funding has prompted concrete results, including:

- 50 per cent reduction in the price of AIDS drugs following negotiations with pharmaceutical companies (together with the Clinton Foundation),
- 3 in 4 children in the world on HIV therapy financed by UNITAID, and 100,000 new HIV-positive children treated each year (through financing of the Clinton Foundation programmes),
- scaling-up national Prevention of Mother-To-Child Transmission of HIV (PMTCT) programmes,
- support to the World Health Organization's programme on assessment of drugs to guarantee that only quality treatments are bought by low-income countries and to provide better quality drugs to the most deprived,
- ACT delivery times reduced by 40 - 50 per cent for emergency delivery.

UNITAID IS ALSO PUSHING PRICES DOWN ON HIV/AIDS TREATMENTS



UNITAID’s secure funding base allows for significant injection of finances into a given market. New producers are incentivized to enter the market as a result not only of the promise of additional buyers, but also as a result of the proactive negotiation undertaken with manufacturers through the UNITAID-supported procurement model. Competition is thus increased, thereby encouraging the development of both better and cheaper products, and on a larger scale. It is of course critical that these supply-focused actions be consistently matched in terms of the quality of interventions at country level. The newly affordable and prequalified medicines and diagnostics need to be rapidly accessible to those that need them the most. Hence, all interventions must be integrated into national health plans and the system strengthened to ensure appropriate use. This tripartite exchange between UNITAID, implementing partner agency and partner country, is mutually reinforcing and constitutes the basis on which the essential participatory ownership by key stakeholders is sustained.

UNITAID’s partners are becoming more diverse. Up to now, we have collaborated on specific projects with the Clinton HIV/AIDS Initiative (CHAI), the Foundation for Innovative New Diagnostics (FIND), the Global Drug Facility (GDF), the Global Fund To Fight AIDS, Tuberculosis and Malaria, the Green Light Initiative (GLI), UNICEF, and WHO amongst others, and we continue to strive for closer cooperation with the Joint United Nations Programme on HIV/AIDS (UNAIDS), Roll Back Malaria (RBM), PEPFAR and the World Bank to name some of our global compatriots with whom we seek to engage in dialogue to best leverage our added value so as to centre our contribution on the most needed areas and in the most effective manner.

Ultimately, UNITAID’s mission is to reduce the toll of preventable deaths that access to crucial diagnostics, medicines and related commodities may bring about. In the fight against the pandemics of HIV, malaria and TB, which claim a combined 3.7 million lives a year according to WHO estimates, UNITAID’s funding support is utilised to treat those most affected, thereby reducing transmission and contributing to the overall goal of better global health, which in turn helps to break the self-perpetuating downward spiral of disease, death and poverty, and the associated inequities for both those directly affected and the population at large as productivity falters and the reliance on aid grows.

Sustainable health outcomes are reflected in the number of persons diagnosed and treated. In this regard, the corresponding achievements enabled through UNITAID-funding support over 2008 are far from negligible, with total number of deliveries of 11.76 million.

TOTAL DELIVERED: 11.76 MILLION TREATMENTS

Specifically:

- Pediatric ARVs for over 195 300 children provided
- 46 000 Second Line ARVs provided
- PMTCT: 820 000 pregnant women tested for HIV
- 10.32 million of ACTs supplied
- 1598 MDR-TB treatment courses supplied
- 117 361 pediatric TB treatments supplied/ delivered
- 451 000 First-Line TB treatments provided

Niche	Treatments Delivered
HIV/AIDS	479,940
Tuberculosis	970,168
Malaria	10,308,650
Total	11,758,758



UNITAID INTERVENES, THROUGH ITS PARTNERS, IN ALL REGIONS OF THE WORLD

HIV/AIDS 49 Countries	Malaria 29 Countries	Tuberculosis 72 Countries
<p>AMERICAS Dominican Republic, Haiti, Jamaica</p> <p>ASIA Cambodia, China, India, Laos, Papua New Guinea, Vietnam</p> <p>NORTH AFRICA/MIDDLE EAST Morocco, Tunisia</p> <p>SUB-SAHARAN AFRICA Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Chad, Democratic Republic of Congo, Côte d'Ivoire, Ethiopia, Ghana, Guinea, Kenya, Liberia, Malawi, Mali, Mozambique, Namibia, Nigeria, Rwanda, Senegal, Tanzania, Uganda, Zimbabwe</p>	<p>ASIA Bangladesh, Cambodia, China, Indonesia</p> <p>SUB-SAHARAN AFRICA Angola, Burundi, Central African Republic, Congo, Democratic republic of Congo, Côte d'Ivoire, Djibouti, Eritrea, Ethiopia, Cambodia, Ghana, Guinea, Guinea Bissau, Liberia, Madagascar, Mali, Mauritani, Mozambique, Namibia, Nigeria, Somalia, Sudan, Tnzania, Zambia, Zimbabwe</p>	<p>AMERICAS Dominican Republic, Haiti, Guatemala</p> <p>ASIA Afghanistan, Azerbaijan, Bangladesh, Bhutan, Cambodia, India, Indonesia, Kazakhstan, Korea, Mongolia, Myanmar, Nepal, Pakistan, Thailand, Turkmenistan, Ukraine, Uzbekistan, Vietnam</p> <p>NORTH AFRICA/MIDDLE EAST Egypt, Iraq, Jordan, Lebanon, Morocco, Syrian Arab Republic, Yemen</p> <p>SUB-SAHARAN AFRICA Angola, Burundi, Central African Republic, Congo, Democratic republic of Congo, Côte d'Ivoire, Djibouti, Eritrea, Ethiopia, Cambodia, Ghana, Guinea, Guinea Bissau, Liberia, Madagascar, Mali, Mauritani, Mozambique, Namibia, Nigeria, Somalia, Sudan, Tnzania, Zambia, Zimbabwe</p>

Although it is no small feat that has been achieved thus far, many challenges remain, relating both to sustaining the inflow of funds in the current economic climate with ever-competing funding objectives and to optimizing the effectiveness of UNITAID's available funding support. UNITAID is results-

based and hence its strategy is driven by findings emanating from the monitoring and evaluation of the interventions it funds. Market impact attained is measured against progress in four market levers:

- long-term price reductions or price containment,
- improved product quality,
- shortened lead-times of product delivery, and
- development of user-friendly treatments.

The UNITAID-funded project component is limited to products, with partners assuming responsibility and funding for the technical aspects of the intervention at country-level. For UNITAID to measure its performance, it must be in a position to monitor progress made not only towards attaining the overall health goals of the intervention, but also the progress towards achieving market impact. This means that the product components of the projects must be evaluated and thus must be tracked by the partners as part of their overall monitoring and evaluation role. However, this has consequences on the reporting at country-level. Striking the balance between the commitment to not overburden countries with reporting obligations, but rather adhering to a coordinated agency-monitoring approach, and ensuring that UNITAID obtains the necessary data to effectively assess and refine its funding model, is a central challenge not only for UNITAID, but for other donors of targeted undertakings.

The UNITAID-Partner co-dependency is thus multi-layered: it pertains to UNITAID's reliance on partners to ensure that a holistic approach is systematically applied to interventions where UNITAID's contribution is limited to product supply; it relates to the monitoring which provides UNITAID with access to the data required to analyse its model whilst seeking to support a coordinated cross-agency approach at the field-level, and it concerns the financial landscape not only for the duration of the project, but also thereafter. If UNITAID-generated market results are to be reaped in the long term, partners need to commit to assuring the projects' transition so that clients may be retained on treatment once UNITAID's catalytic intervention has achieved its objectives.

Not withholding the challenges outlined, the lessons learnt from UNITAID's first two years advocate forcefully for the unprecedented impact that such innovative and truly pioneering financing can have when undertaken as a consortium not only of donors and implementers, but also as a syndicate of new ideas focused on a common goal: impelling lasting improvement in the health of each global citizen.

UNITAID'S FUNDING MODEL

Out of the thirty-eight (38) countries that currently provide funding to support UNITAID, fifteen (15) apply the air tax, with the other Governments and the Bill and Melinda Gates Foundation contributing through multi-year contributions or as part of a tax on carbon dioxide emissions. The funds generated from the air tax represent over 70 per cent of UNITAID's finances.

The air tax is paid by passengers when purchasing their tickets, with airlines assuming responsibility

for declaring and collecting the levy. Rates are set according to countries' incomes and vary according to the distance travelled and the class of travel, ranging from US\$1 for economy tickets to US\$40 for business and first class. Translated into treatments, a US\$2 contribution on an airline ticket purchased in Chile is equivalent to two pediatric treatments for malaria; a business class ticket bought in Niger for international travel generates US\$24, which pays for curing an adult of first-line TB; and the 40 euro tax on a business class ticket bought in France can treat a child with HIV for a year.

UNITAID HAS RAISED SIGNIFICANT AMOUNTS OF MONEY THROUGH A DEDICATED LEVY ON AIR TICKETS



- 1 Billion Dollars Collected in 3 Years
- 60 per cent Price Reduction for Children's medicines in 2 years
- 10 New TB treatments prequalified with UNITAID support
- 20 million Bed Nets to be purchased

The levy on air tickets has been implemented in fifteen (15) countries including:

France | Chile | South Korea

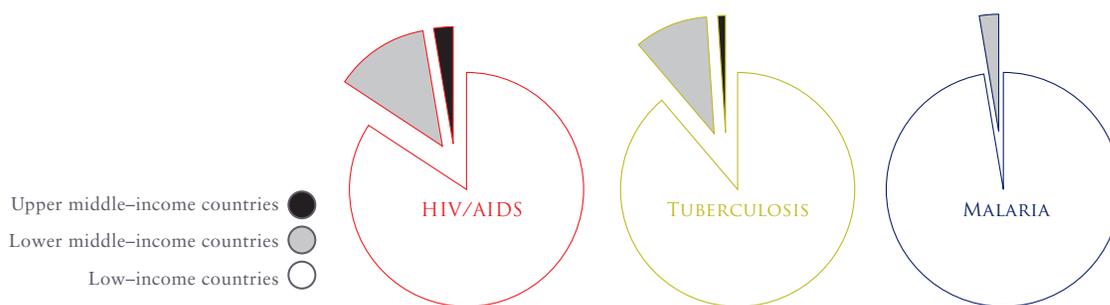
Twenty-three (23) other countries also contribute to UNITAID, including:

Norway | United Kingdom | Brazil

UNITAID IN ACTION

UNITAID funding support is governed by the principles of eligibility and additionality, anchored in its Constitution. In respect thereof, 85 per cent of UNITAID's funds should be dedicated to low-income countries in accordance with the given World Bank classification; no more than 10 per cent to lower-middle income countries; and no more than 5 per cent to upper middle-income countries; with priority given to those with high disease prevalence and to vulnerable groups. The exact attribution of funding across the income categories varies depending on the niche due to the difference in geographic distribution of the highest disease burden. Thus, for instance, Sub-Saharan Africa receives most of the UNITAID-funded medicines for HIV, whereas for TB the picture is a little different.

INCOME CLASSIFICATION OF RECIPIENT COUNTRIES

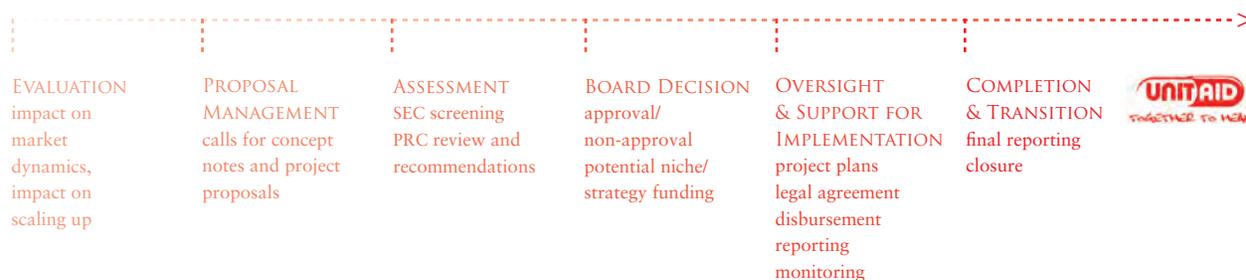


To be deemed ‘additional’, UNITAID funding support must not replace, divert or substitute existing contributions, but rather complement the funding provided or committed through other national or international efforts, or through public or private institutions. Additionality is assessed both in terms of funding and treatments provided to patients.

The third pillar of UNITAID is the principle of transparency to the primary stakeholders and to the public at large. Information-sharing thus constitutes a cornerstone of UNITAID’s undertakings, promoting accountability and extending the sphere of those who may draw on UNITAID’s experience concretely, as well as raising awareness of the issues at stake.

UNITAID’s Project Cycle and Management Processes have been developed and are being refined to render UNITAID’s operations increasingly efficient and effective. Standard Project Plans and Legal Agreements have been elaborated and are adapted to individual projects. For consistency and to facilitate analysis of achievements across portfolios, UNITAID-specific disbursement and reporting formats are used; an operational manual is under development and tools for proposals management and for validating partners are being undertaken.

PROJECT CYCLE



THE MEDICINES PATENT POOL INITIATIVE OF UNITAID

UNITAID is working to establish an international system to boost the availability of new and more patient-friendly medicines for people in developing countries.

Through a collective management structure for medicines patents, known as a patent pool, UNITAID seeks to improve access to patents and foster the development and production of life-saving, more affordable and more suitable medicines.

Although such a ‘pool’ structure has shown its worth in many areas – agriculture and information technology, for example - the UNITAID initiative will lead to the first patent pool for medicines.

WHY WE NEED A MEDICINES PATENT POOL

The principle of a patent pool is to facilitate the availability of new technologies by making patents and other forms of intellectual property more readily available to entities other than the patent holder.

For health, the impact of such a mechanism could be considerable.

A medicines patent pool could for instance facilitate the production of new essential medicines that combine several pharmaceutical compounds patented by different companies into a single pill. Known as fixed-dose combinations (FDCs), these medicines have shown their worth in AIDS treatment, where they have been proven to be more user friendly for children and adults, to promote treatment compliance and to boost treatment outcomes.

In addition, the patent pool could make newer medicines more affordable for populations in developing countries. While some older medicines for the treatment of AIDS have become increasingly affordable, newer, less-toxic products are still too expensive. For example, treating a patient for one year with the most affordable improved first-line regimen for HIV, as recommended by the World Health Organization (WHO), today costs between US\$ 613 and \$1 033, using originator products. This represents at least an eight-fold increase from the price of the older regimen, US\$ 87.

With increasing numbers of AIDS patients failing on their first-line therapy, there is also an urgent need to find affordable second-line treatments.

Additionally, children’s needs are still largely overlooked by pharmaceutical research. Of the 22 antiretrovirals approved by the US FDA and currently available, six are not approved for pediatric use and seven are not available in pediatric formulations.

Improving access to IP will thus both help improve access to medicines and boost innovation that responds to patients’ needs.

WHAT THE POOL WILL LOOK LIKE

The Medicines Patent Pool will:

- be a **voluntary mechanism**, meaning its success will largely depend on the willingness of pharmaceutical companies to participate and allow their intellectual property to be managed by the pool. Other entities, including generic producers, will be able to make use of the patents in exchange for the payment of royalties.
- be a **win-win deal**. Pharmaceutical companies are rewarded for their investments into research and development; generic companies are able to access the intellectual property faster and more easily; patients in developing countries get faster access to better, more affordable treatments.
- have as its geographical target the **developing countries**.
- focus on **HIV medicines initially**, concentrating on those products that are needed but are not yet developed (such as second-line medicines and pediatric formulations) and on existing products for which the number of suppliers is insufficient to create economies of scale. Once up and running, the pool could expand to serve other disease areas of need.
- aim to ensure that producers that make use of the patents in the pool meet agreed **quality standards**.

HOW THE POOL WOULD WORK

- Collective management of patents

The idea behind a patent pool is that patent holders - companies, researchers or universities - voluntarily offer, under certain conditions, the intellectual property related to their inventions to the Medicines Patent Pool. Any company that wants to use the intellectual property to produce or develop medicines can seek a license from the Pool against the payment of royalties to produce the medicines for use in developing countries.

- Stimulus to innovation

Without a patent pool that facilitates access to patents, a company wishing to develop a fixed-dose combination for the treatment of HIV/AIDS might need to obtain licenses from at least three different patent holders to be able to develop, produce, export and sell the product. With a patent pool holding the relevant IP however, the license 'user' or licensee will only have to deal with the pool. The patent pool is in fact a one-stop-shop for all parties involved - it therefore facilitates legal and bureaucratic processes involved in obtaining licenses, reduces expenses and increases access to intellectual property essential to make important medicines.

- **Making medicines more affordable, faster**

The pool will help to speed up the availability of lower-priced, newer medicines because there will be no need to wait out the patent term (usually about 20 years – time patients can ill-afford to lose). In exchange for the payment of royalties to the patent owners, any producer can manufacture the patented medicines and sell them in countries well before the expiration of the patent term. With licenses covering a wide geographical area – developing and emerging economies - the scope of the market would be attractively large, thereby encouraging multiple producers to come forward and access the patents. The greater the competition between producers, the more one can expect the price of medicines to fall.

The patent pool initiative will be a crucial tool in addressing this mandate.

By acting as a catalyst for reductions in the price of such medicines, the patent pool will mean that for the same amount of money, UNITAID will be able to change the lives of many more people.

UNITAID TAKES THE PLUNGE

UNITAID was given the go-ahead to create a patent pool on 3 July 2008, when its Executive Board approved the plan in principle.

The next steps undertaken by UNITAID will be to develop an operational plan for the creation of the patent pool.

THE INTERNATIONAL FINANCE FACILITY FOR IMMUNIZATION [IFFIM]
CREATED TO SUPPORT
THE GLOBAL ALLIANCE FOR VACCINES AND IMMUNIZATIONS [GAVI]

PART I IFFIM, BY ALAN R. GILLESPIE, CHAIRMAN OF THE BOARD
PART II GAVI ALLIANCE, BY JULIAN LOB-LEVYT, EXECUTIVE SECRETARY

PART 1: IFFIM
BY ALAN R. GILLESPIE

Under the Monterrey Consensus (2002), the international community committed itself to the challenging targets of the Millennium Development Goals, pledged to increase official development assistance (ODA) to 0.7 per cent of GDP by 2015, and called for new approaches and instruments to generate additional funding for development.

In the intervening years a series of quite-impressive initiatives have been implemented, together mobilizing close to \$10 billion. Financing, as noted in Doha by the Emir of Qatar, is not the single key for comprehensive human development, but one of the most important tools to empower those in poverty to achieve their basic needs. Healthcare for the poor has been a particular beneficiary of innovative financing. Both The Global Fund to fight AIDS, Tuberculosis and Malaria and The GAVI Alliance now fund a growing proportion of their work from non-traditional sources.

Of six notable financial innovations created so far, the Advanced Market Commitments (AMC) and Debt2Health are ultimately funded from public sector sources. Encouragingly, three approaches are derived from private sector commercial flows. The Air Ticket Levy, initiated by France, is clipped from traveller's airfares. Revenues from trading CO₂ emission permits in Germany come from industry, a financial transfer from a "public bad" to a "public good". The imaginative product brand (Red) takes its contribution from the profit margin of suppliers of everything from coffee to clothing. These private sector mechanisms, some mandatory, some voluntary, represent real additionality.

The International Finance Facility for Immunisation (IFFIm) pioneered by the UK is a hybrid approach combining both public and private sources in a creative financial model. Following Monterrey, Gordon Brown, then UK Chancellor, promoted the "big IFF" as capable of raising billions for funding the MDGs. The concept was ignited at the Gleneagles G8 Meeting (2005), when IFF was stapled to child immunisation through GAVI, which had been initiated by the Bill and Melinda Gates Foundation and still required front-loading of billions of dollars. The compelling premise – there is zero value vaccinating a child in 2012 or 2015 (when gradually rising ODA might be available) when it will probably die from disease this year – prompted six European governments to pledge over \$5 billion to fuel this new arrangement.

Irrevocable sovereign financial commitments to IFFIm are structured as rising cash flows over twenty years, enabling it to carry an AAA rating. In effect, the twenty-year government pledges are, via placing bonds in the capital markets, converted into cash today. Since its launch, IFFIm has raised \$1 billion from a global benchmark bond and \$220 million equivalent from a placement with Japanese retail investors. During this period only \$230 million of cashflows from the underlining government pledges have been paid. In a world today where financial leverage has taken a beating, this is leverage of the most constructive form.

Healthy children are the mainstay of any strong society, and IFFIm's resources will permit 500 million children across 72 of the poorest countries to have immunity from disease. IFFIm has transformed the capacity of GAVI, with all of the \$1.2 billion raised in the last two years already dispensed in vaccination programmes.

The IFFIm financing initiative illustrates three things.

First, political will. Will to innovate, to bring a new flexibility to public finances, to accelerate capital availability. Will to fund on a scale (\$5 billion) and for a duration (20 years) never before evident in the aid system. And will to work multilaterally, pooling resources into a global collective effort.

Second, IFFIm is as targeted as the sharp point of an injection needle, a tightly focused healthcare intervention, delivering vaccines, and strengthening health delivery systems. This, as Jeffrey Sachs appeals for, provides measurable inputs and outputs and true traceability.

Third, it is effective both in its financial and medical terms of reference. IFFIm Bonds have a high appeal to investors, providing solid AAA credit backing to their capital, a market based interest rate and the “socially responsible return” of knowing their investment or savings is put to such good use. This double sweet spot is IFFIm’s win–win, bringing together capital market investors and children. Both benefit.

Looking ahead, the Doha call to governments for the next six years is to continue to innovate in development finance. The current crisis in the capital markets must not diminish the appetite to access the \$125 trillion global pool of savings to fund development. While the financial engineering of casino capitalism may be a thing of the past, governments need to find inventive ways to harness the private capital markets.

IFFIm has plans for 2009 to place vaccine bonds with private investors in Japan, the UK and France. Encouragingly, investment bankers are offering their creativity to design new routes to market. Rich–country governments will need to make their pledges to development assistance in new and novel ways. Thinking and structures from yesterday, and today, are obsolete...policy flexibility, legislative flexibility, budgetary flexibility and funding flexibility will be required. After all, there has been no greater demonstration of such flexibility than the government bailouts of the Western banking system. If we can act with such urgency and expediency to save ourselves...extraordinary measures for extraordinary times...then the poor with whom we share this earth deserve equivalent and proportionate treatment.

Finally, it is notable that each of the innovative financing mechanisms reviewed in Doha had their origins in Europe. This is no time to be self congratulatory. But it would be good to see the United States under a new president deliver some of its apparently bottomless capital resources and its ability to be financially inventive to the process of development–finance innovation. A bailout for the bottom billion too!

PART II: GAVI ALLIANCE

BY JULIAN LOB-LEVYT

The Global Alliance for Vaccines and Immunisation (GAVI Alliance) was established in 2000, bringing a new approach to development aid. GAVI's mission is to save children's lives and protect people's health by increasing access to immunisation in poor countries. In its first decade, GAVI has been a leading force in innovative financing for development. It has nurtured the development of two new multi-billion dollar financing mechanisms - the International Finance Facility for Immunisation and Advance Market Commitments.

The International Finance Facility for Immunisation (IFFIm) is a unique public-private partnership that brings together donor governments and the international capital markets to vastly accelerate the availability of funds for GAVI immunisation programmes.

Advance Market Commitments (AMCs) are innovative market-shaping mechanisms with the potential to save millions of lives in the world's poorest countries by accelerating access to affordable vaccines that would not otherwise be available to developing countries for many years.

IFFIm has already delivered proof of concept - public funds can harness the power of capital markets to finance development. Its aim is to frontload aid funding by transforming long-term donor government pledges into immediately-available cash resources. In this way, IFFIm has radically shortened the timeframe while increasing the scale of immunisation programmes in the world's poorest countries. IFFIm has redefined the concept of long-term predictable aid funding – never before in the history of development financing have donor governments been prepared to make legally binding commitments that project twenty years into the future.

Funds from IFFIm greatly increase the GAVI Alliance's ability to support the purchase and delivery of vaccines in the world's poorest countries. A total anticipated disbursement of US\$4 billion over 10 years is expected to protect more than 500 million people through immunisation.

Advance Market Commitments address two important challenges. First, vaccines are currently not being developed for diseases which mainly affect poor countries. Secondly, vaccines for diseases in rich countries are not being made available quickly and affordably to poor countries. In an AMC, government donors commit money to guarantee the price of vaccines once they have been developed, thus creating the potential for a viable future market.

GAVI has brought together leading thinkers in the development and finance worlds, and fostered the design and implementation of AMCs and IFFIm. At the core of GAVI's approach is a belief that innovative public-private partnerships can deliver results in development.

IFFIM AND AMC: FURTHERING GAVI'S MISSION

These innovative finance mechanisms have been designed to progress GAVI's mission.

- Fit for purpose: IFFIm and the AMC fit GAVI's particular immunisation needs and goals. Frontloading

funds from IFFIm allows rapid scaling up in countries to provide important ‘herd’ immunisation to populations by lowering disease rates, thereby ensuring more lives are saved sooner. AMCs aim to speed up the development and production of vaccines appropriate for the developing world at affordable prices.

- Responding to MDGs and development needs: IFFIm injects funds for immediate and significant impact on child health and survival through acceleration of country immunisation programmes and strengthening the health systems that enable access to vaccines for the hardest to reach. Once operational, AMCs will improve health equity between rich and poor countries.
- Supporting countries with long-term predictable funding: IFFIm and AMCs are supporting the country-led approach by addressing their needs for multi-year secure funding and prices. After the first year of GAVI’s health system strengthening support, for example, countries are planning with confidence and ambition, using resources strategically and scaling up programmes.
- Shaping markets for vaccines: IFFIm’s support of the new five-in-one pentavalent vaccine has stimulated country demand, which has had an effect on market size, the number of suppliers and a resultant lower purchase price for countries. The core objective of AMC is to shape vaccine markets for the benefit of poor countries.

IFFIm and AMCs truly are win-win development tools. IFFIm provides investors with a solid financial investment, while the world’s poorest countries receive a life-saving injection of funds to ensure their populations are protected from disease and go on to live productive and healthy lives. Similarly, AMCs will enable poor countries to purchase vaccines at an affordable price, while providing adequate incentive to the vaccine industry to develop vaccines tailored to developing countries’ needs.

“The International Finance Facility for Immunisation has been raising funds for programmes through the Global Alliance for Vaccines and Immunisation. GAVI is delivering on its promise of providing reliable, long-term and stable funding for children’s vaccination.”

– UN Secretary-General Ban Ki-moon at the UN Conference on Financing for Development, Doha, Qatar, 28 November 2008

THE INTERNATIONAL FINANCE FACILITY FOR IMMUNISATION (IFFIM)

The goal of IFFIm is to provide US\$4 billion for immunisation between 2006-2015. It aims to:

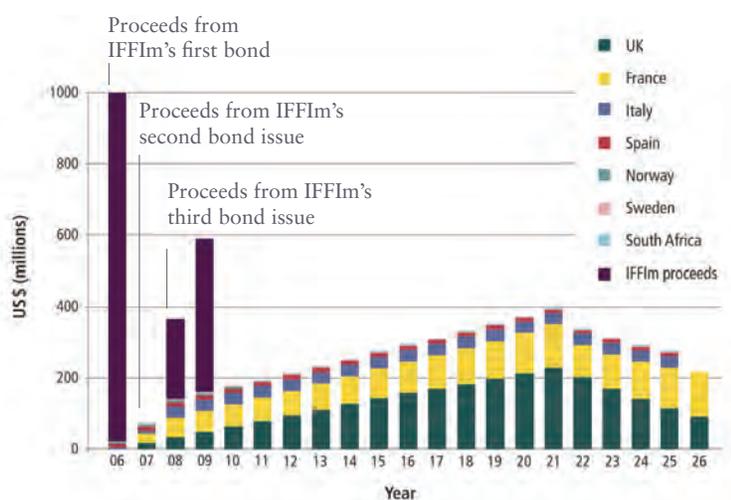
- support achievement of the MDGs by scaling up funding to prevent infectious diseases,
- focus on results, economic efficiency and a high return on investment,
- enable long term, stable and predictable funding to countries,
- frontload funds for immunisation and immunisation delivery.

THE POWER OF FRONTLOADING FUNDS FOR IMMUNISATION

The principle behind ‘frontloading’ is that long-term grants from donor countries are leveraged so that a greater amount of funds can be brought to bear in the short-term for the immunisation needs of poor countries.

In concrete terms, pledges of US\$ 5.4 billion from donor countries for up to 20 years will be used to raise approximately US\$4 billion over the first 10 years.

The frontloading achieved by IFFIm is the difference between direct grants payments, which would only be available in significant amounts from 2015 to 2025, and immediate cash funds and their impact on GAVI’s programmes and on lives saved.



In human terms, the benefit from increased spending now, as compared to the future, is tangible. It has already enabled the early expansion of immunisation coverage in countries, and the scaling-up of immunisation campaigns against a number of diseases, including measles, polio, yellow fever and tetanus. The value of preventing disease in a child *today* is incalculable to that child’s health and future. But additionally, wide-spread immunisation coverage creates ‘herd immunity’: the more members of a population who are immunised, the lower the rate of disease and risk of contracting the disease even if not immunised. This can only be achieved with rapid widespread coverage, and is a key to the control of infectious diseases. The larger pool of funds available for vaccines is also an inducement for vaccine manufacturers to invest in larger-scale production. This both secures supply and potentially reduces prices to countries.

The impact of IFFIm’s frontloading was modelled by an independent think tank, The Centre for Global Development. It concluded that, despite certain financial costs of private sector borrowing (e.g. interest

and financial transaction costs) inherent in the IFFIm model, the benefits significantly outweigh those costs:

...IFFIm's approach can increase the impact of vaccine coverage by 22 per cent. This is because stable and long-term financing allows vaccine manufacturers and countries to plan for long periods of time, knowing that resources will be available. Front-loading helps to reduce the spread of disease and to immunize large groups of people faster.²

HOW IFFIM CAME ABOUT

The concept of using the markets to fund development was conceived in the late 1990's, when G8 governments recognised that the MDGs provided a more focused aim for development, but what was still needed were innovative ways to deliver and fund it.

The idea of an 'International Finance Facility' or IFF, emerged from the Millennium meeting of the UN in 2000, was pioneered by the United Kingdom as blending both public and private forces into a new creative financial model. In 2003, Gordon Brown, then UK Chancellor of the Exchequer, put forth the idea of the 'big IFF' as a development finance mechanism capable of mobilising billions of dollars in funding for the MDGs.

In parallel, the Bill & Melinda Gates Foundation founded a new model for more effective immunisation delivery in 2000: The Global Alliance for Vaccines and Immunisation, or GAVI.

Arising from the New York Millennium Review Summit and the G8 Meeting at Gleneagles in 2005, GAVI and the pilot IFFIm came together: an innovative public-private partnership for immunisation plus an innovative public-private mechanism for development funding; a marriage of vision and opportunity.

DONORS TO IFFIM	YEARS OF COMMITMENT	AMOUNT
United Kingdom	+20	€ 1,380.00 m
Republic of France	+20	€ 1,239.96 m
Republic of Italy	+20	€ 473.50 m
Kingdom of Spain	+20	€ 189.50 m
Kingdom of Sweden	+15	SEK 276.10 m
Kingdom of Norway	+5	US\$ 27 m
Republic of South Africa	+20	US\$ 20 m

Almost immediately, six European countries – the United Kingdom, France, Italy, Spain, Norway and Sweden (South Africa joined in 2007) – pledged over US\$ 5 billion to the initiative. In November 2006, IFFIm's inaugural bond was launched in London. A new era of development funding had begun.

HOW IFFIM WORKS

IFFIm receives legally-binding financial commitments from donor countries that stretch over up-to 20 years. Using these donor commitments as security, the triple-A rated bonds are placed in the capital markets for institutional or individual investors.

² *The Costs and Benefits of Front-loading and Predictability of Immunization* by Owen Barder and Ethan Yeh, Centre for Global Development Working Paper Number 80, January 2006, pg. 1. Available at: www.cgdev.org

IFFIm has secured a triple-A rating on the basis of a number of factors: the fundamental credit ratings of its government sponsors; prudent financial management by the World Bank as its Treasury Manager; and a legal framework that mandates protection of its triple-A status and provides the necessary supporting tools such as a conservative approach to ensuring that there is always enough cash to make debt-service payments on the bonds.

Proceeds are managed through the World Bank until they are disbursed through GAVI to recipient countries for vaccines and immunisation-strengthening programmes. With its experience, and knowledge, the World Bank is well-suited to provide treasury management services to IFFIm. These services include not only issuing bonds in the capital markets, but also managing IFFIm's investments in a fiscally conservative manner.



Source: World Bank

THE 'VACCINE BOND': RAISING FUNDS ON THE CAPITAL MARKETS

The so-called IFFIm 'Vaccine Bonds' have been snapped up by retail and institutional investors. The first benchmark global issuance was followed by retail offerings in Japan and the United Kingdom, widening the opportunity for individuals to directly invest in improving health in poor countries. As well as a market-based rate of return, investors benefit from the knowledge that their money will be used by GAVI to protect people's health in the world's poorest countries.

IFFIM'S FIRST BOND ISSUANCE: NOVEMBER 2006

IFFIm's inaugural bonds were issued on 14 November 2006. The bonds were priced comparably to other sovereign/supranational issuers and were bought by a broad range of investors – both geographically and by investor type – including several central banks, pension funds, fund managers and insurance companies.

Reflecting its fundamental humanitarian purpose, individuals such as His Holiness Pope Benedict XVI; Her Majesty Queen Rania Al-Abdullah of Jordan; Cardinal Renato Raffaele Martino; Archbishop of Canterbury, Dr Rowan Williams; Chief Rabbi, Dr Jonathan Sacks; Iqbal Khan of the Muslim Council of Britain; Ramesh Khalidi of the Hindu Forum; Indrajit Singh OBE of the Sikh Council of Britain; as well as music celebrities, Bono and Bob Geldof, supported the IFFIm initiative.

CAPITAL MARKET RECOGNITION

IFFIm's inaugural bond won several financial market awards:

- In Euroweek's 'Deals of the Year 2006':

FIRST PLACE AS BEST NEW BORROWER
SECOND PLACE IN SOVEREIGN, SUPRA-NATIONAL AND AGENCY DEAL OF THE YEAR
FOURTH OF THE OVERALL TOP TEN DEALS OF THE YEAR

- Top prize in ISR's award ceremony, with Innovation of the Year
- Financial Times 2007 Sustainable Deal of the Year Award

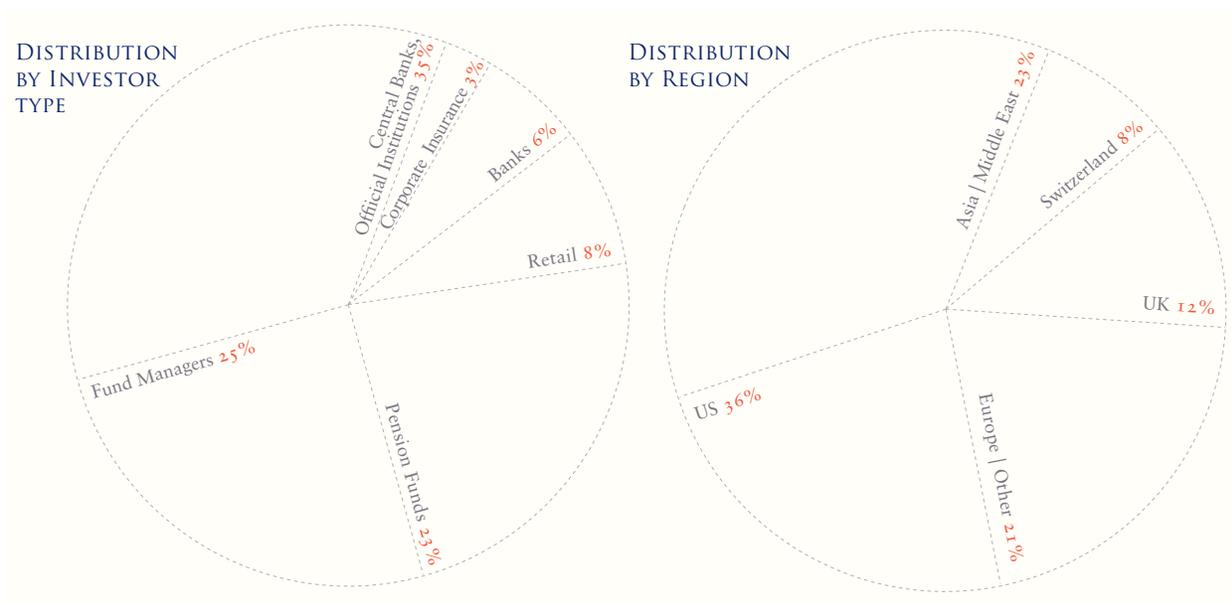
November 2006

US\$1 billion 5-year benchmark bond, 5 per cent coupon due on November 14, 2011

Joint Lead managers
Deutsche Bank and Goldman Sachs

AAA/Aaa/AAA rating
(Fitch, Moody's and Standard & Poor's)

Diverse geographic and institutional interest: North America 36 per cent, UK 12 per cent, Switzerland 8 per cent, rest of Europe 21 per cent, Middle East & Asia 23 per cent



IFFIM'S SECOND BOND ISSUANCE: MARCH 2008

Japanese investors welcomed the launch on 4 March 2008 of IFFIM's second bond offering and debut in the Japanese retail market: a South African rand (ZAR) 1.7 billion (equivalent US\$ 223 million) two-year "uridashi" issue. "Uridashi" bonds are sold in foreign currency to the Japanese retail market.

The Japanese Vaccine Bonds were arranged by Daiwa Securities SMBC Co. Ltd., the wholesale securities firm under Daiwa Securities Group, and distributed by Daiwa Securities to Japanese investors. The first retail vaccine bonds were purchased by men and women in nearly equal proportion, who were mainly aged between 50 and 60 years old.

March 2008
South African rand (ZAR) 1.7 billion, 2-year uridashi (public Japanese retail market) bond, 9.9 per cent coupon due on 18 March, 2010

Lead managers
Daiwa Securities SMBC Europe Ltd.

AAA/Aaa/AAA rating
(Fitch, Moody's and Standard & Poor's)
Fully sold during 5-day subscription period and upsized from ZAR 1.0 to 1.7 billion

IFFIM'S THIRD BOND ISSUANCE: JANUARY 2009

IFFIM's revisiting of the Japanese market was also arranged by Daiwa Securities and distributed to individual retail investors. This bond was offered in South African rand (ZAR), New Zealand dollars (NZD) and Australian dollars (AUD). The largest tranche is in rand, ZAR 3.17 billion, or the equivalent of US\$ 310 million.

Together these three bonds have raised approximately US\$ 430 million.

"[That] the issue size is larger than expected is a testament to the powerful and socially responsible message involved, which, even in tough market conditions, has struck a positive chord with key investors," said Vince Purton, managing director of Debt Capital Markets Daiwa Securities SMBC Europe Ltd.

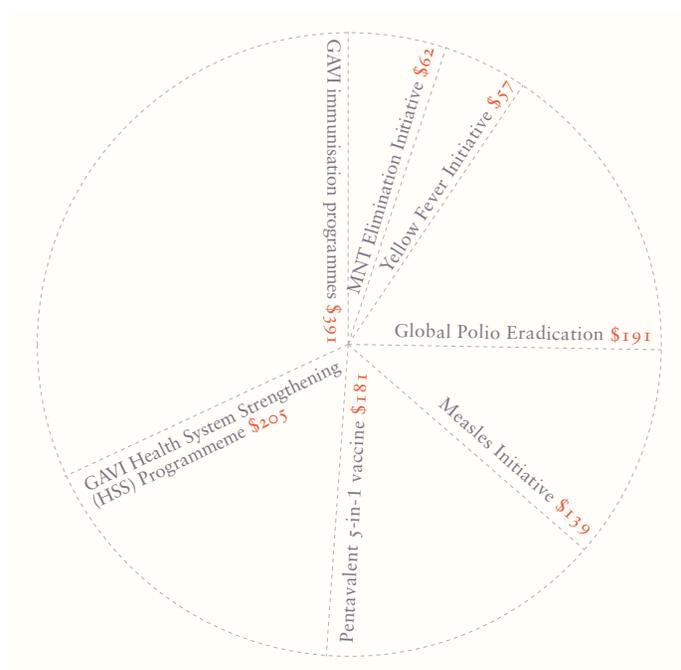
IFFIM IMPACT: AN IMMEDIATE AND CATALYTIC INVESTMENT IN IMMUNISATION

The first proceeds from IFFIm were quickly disbursed in 2007 and 2008, frontloading immunisation efforts with nearly 90 per cent of the US\$ 1.2 billion raised.

This injection of funds enabled a rapid movement forward on a number of fronts. As of December 2008, IFFIm funds are being put to work as follows:

- US\$ 391 million to support countries with a scale-up of immunisation programmes
 - New and underused vaccine support
 - Immunisation safety
- US\$ 205 million for strengthening health systems for immunisation
- US\$ 181 million for pentavalent uptake
 - Disbursed to purchase or secure supply of pentavalent vaccine. This 5-in-1 vaccine immunises children against diphtheria, tetanus and pertussis (the traditional DTP vaccine), as well as hepatitis B and Haemophilus influenzae type b (Hib).
- Providing support to immunisation programmes and stockpiles
 - Global Polio Eradication Initiative: \$191 million
 - Measles Initiative: \$139 million
 - Yellow Fever Initiative: \$57 million
 - Maternal and Neonatal Tetanus (MNT) Elimination Initiative: \$62 million

DISBURSEMENT OF IFFIM FUNDS,
IN MILLIONS OF US DOLLARS
December 2008



ADVANCE MARKET COMMITMENTS

PART I ADVANCE MARKET COMMITMENTS [AMCs], BY VINCENZO SCOTTI,
UNDER-SECRETARY OF STATE AT THE ITALIAN MINISTRY OF FOREIGN AFFAIRS

PART II ADVANCE MARKET COMMITMENTS AND GAVI, BY JULIAN LOB-LEVYT,
EXECUTIVE SECRETARY, GAVI ALLIANCE

PART I: ADVANCE MARKET COMMITMENTS [AMCs]
BY VINCENZO SCOTTI

Immunization is the best way to fight global diseases. It saves lives in a cost-effective way and fosters economic development through its beneficial impact on human capital.

Advance Market Commitments (AMCs) aim at developing a suitable and affordable vaccine for pneumococcal diseases killing up to 1 million children every year in developing countries. Although a pneumococcal vaccine currently exists, it does not cover the major strains active in developing countries. To fill this gap, AMCs were identified as a mechanism to create incentives for development of a suitable vaccine for poor countries.

The AMCs concept — an innovative approach bringing together market instruments and public financing — gained momentum some years ago in academia. What was missing was a move from a theoretical scheme to a concrete project.

Finally in 2005, Italy — regarding support to health as crucial in the fight against poverty — presented the AMC concept to its G8 partners. The first Tremonti Report (2005) on AMCs raised interest, and the G8 agreed to further explore its feasibility. Soon a long, complex preparatory process started to translate the idea into reality. The World Bank, the GAVI Alliance and UNICEF contributed to this process with their technical expertise since the outset.

In February 2007 in Rome, six donors (Italy, UK, Canada, Norway, Russia and the Gates Foundation) committed to finance a pilot AMC for pneumococcal vaccines. They made pledges in the amount of 1.5 billion US dollars, the recommended size (in nominal terms) for this pilot project.

How do AMCs work? Donors commit upfront to buy vaccines at a set price if and when they are available, meet minimum pre-specified criteria and are demanded by developing countries. Companies will receive the funds from the AMC as a top-up. When AMC funding is depleted, manufacturers continue to provide vaccines to poor countries at the set price for a specified period. GAVI will support poor countries to buy vaccines.

In a nutshell, the main features of the pneumo-AMC:

- it is a demand-driven mechanism, based on annual country requests;
- it is an example of a genuine Public-Private Partnership (PPP) with real involvement of, and value added from, the private sector;
- it will contribute to meet the health Millennium Development Goals.

AMCs are expected to be formally launched by the first half of 2009. Though not yet under implementation, AMCs have already achieved impressive results. They have:

- contributed to reinforce the idea that health is on the top of the development agenda, and that

immunization is a cost-effective measure;

- helped increase pressure on the private sector to devote resources to otherwise unprofitable cures;
- opened a new frontier in the financing of the fight against poverty and endemic diseases;
- pioneered an innovative scheme, from which valuable lessons for the future can be drawn.

Before the work on AMC started, pneumococcal vaccine was a product for the rich world only. No company thought about poor countries. No research and development was invested in a vaccine covering the strains of the disease killing many people there. With AMC, companies have started to consider developing a vaccine against pneumococcal disease to save lives in developing countries.

The AMC could be replicated in the future. However, it is necessary to wait for the results of the pilot project showing whether it can be used for other diseases and/or markets, which will necessarily require adjustments in the original design and structure.

PART II: ADVANCE MARKET COMMITMENTS AND GAVI

BY JULIAN LOB-LEVYT

Market failures inhibit rapid development of affordable vaccines for developing countries. Advance Market Commitments (AMCs) aim to address this challenge by stimulating the development and manufacture of affordable vaccines tailored to the needs of developing countries.

Through an AMC, donors commit money to guarantee the price of vaccines once they have been developed, thus creating the potential for a viable future market. These commitments provide vaccine makers with the incentive to invest the considerable sums required to conduct research and build manufacturing capacity.

Companies that participate in an AMC make legally binding commitments to supply the vaccines at lower and sustainable prices after the donor funds made available for the initial fixed price are spent. Ultimately, developing country governments are able to budget and plan for their immunisation programmes knowing that vaccines will be available in sufficient quantity, and at a price they can afford, for the long term.

Decisions about which diseases to target, criteria for effectiveness, price and long-term availability are made in advance by independent advisory groups. A pilot AMC has been designed for pneumococcal vaccines to demonstrate both the feasibility of the mechanism and its impact on accelerating vaccine development, production scale-up and introduction.

THE AMC PILOT FOR PNEUMOCOCCAL VACCINE

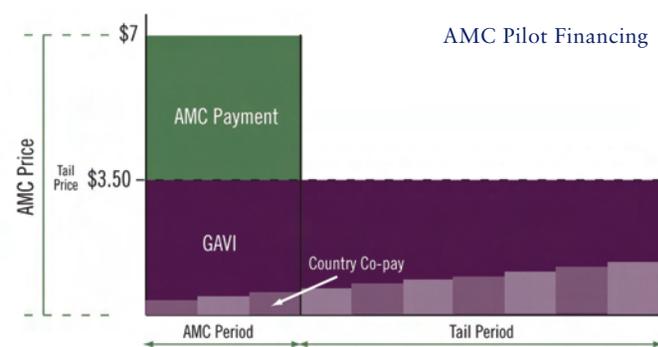
The pilot AMC for pneumococcal vaccines was announced in February 2007, upon recommendation by an independent Expert Committee. The governments of Italy, the United Kingdom, Canada, Russia and Norway, as well as the Bill & Melinda Gates Foundation, pledged US \$1.5 billion to purchase vaccines when, and if, manufacturers develop products that meet AMC criteria.

A pneumococcal pilot AMC has two overarching benefits: First, it will save lives quickly. Second, its success in stimulating industry investment will be measurable. The proposed pilot AMC will prevent more than 7 million childhood deaths by 2030, which is a significant contribution to achieving MDG 4, by accelerating access to new, life-saving pneumococcal vaccines. Pneumonia is the leading cause of vaccine-preventable deaths of children under the age of five.

HOW THE PILOT AMC WORKS

The main objective of the pilot AMC is to ensure that a vaccine is made available at an affordable price. Extensive analyses were conducted to determine the terms of the pilot AMC, including the price. Global health experts, economists, vaccine manufacturers and developing country experts made recommendations to AMC donors regarding how best to design the pilot so the public health benefits are maximised and funding is utilised as efficiently as possible.

AMCs are designed to ensure that vaccines are available and affordable for developing countries over the long term. A careful balance must be struck. The initial price of the vaccine must provide an incentive to companies to spend the substantial amounts of money needed to finalise the vaccines and build up sufficient manufacturing capacity to meet the future needs of developing countries. However, the price must also represent good value for the purchasers – the developing countries and donors who will buy the vaccines.



Manufacturers that take part in an AMC will sign legally-binding commitments to supply their vaccine for 10 years at a price no higher than \$3.50 per dose. In return, companies will receive an additional payment averaging \$3.50 per dose for about 20 per cent of the doses they provide. This additional payment is designed to provide incentive to manufacturers to make the initial investment in building extra manufacturing capacity to supply the vaccines.

The AMC price will also include a “co-pay” component to be paid by the government in the developing country that is using the vaccine, and by multilateral agencies such as GAVI and UNICEF, who traditionally assist with vaccine purchase. The country portion of this co-pay will gradually increase over the course of the AMC.

PROCESS TO DATE

International health and development groups are working together to implement the pilot AMC. The World Bank and the GAVI Alliance are providing financial and programmatic support. The World Health Organization is setting the criteria for vaccine safety and efficacy and UNICEF will be responsible for procurement and distribution of vaccines. Two groups of leading economists have created an implementation framework delineating the specific terms of the pilot AMC.

MOVING FORWARD

The pilot AMC for pneumococcal vaccines will begin the implementation phase in the first half of 2009. It is expected that a vaccine meeting the needs of developing countries will be approved for use the same year and potentially introduced in these countries as early as 2010.

Importantly, donor and developing country support for the AMC and for immunisation generally has heightened the interest of vaccine makers, resulting in a robust pipeline of vaccines for developing countries. Over the next decade it is expected that vaccines for TB, malaria and other diseases may become available. A second AMC may help to accelerate the availability of these much-needed vaccines in poor countries.

SUCCESS FACTORS FOR GAVI'S FINANCE MECHANISMS

IFFIm is proof that an innovative finance mechanism can raise crucial funds that can significantly advance progress towards the Millennium Development Goals, through GAVI's mission to save lives and protect people's health by increasing access to immunisation in poor countries.

IFFIm's success also demonstrates the power of true public-private partnership. It has brought together leading private financial institutions, the World Bank, donor governments and other GAVI Alliance partners to produce a new way of securing development funding, when they are most needed.

The IFFIm and AMC mechanisms were successfully developed as a result of the creative "can-do" culture at the GAVI Alliance, a public-private partnership with the values of innovation and accountability at its core. It took an organisation with the mission and vision of GAVI to make these development finance mechanisms a reality, and millions of lives will be saved as a result.

THE VOLUNTARY SOLIDARITY CONTRIBUTION PROJECT
FOR UNITAID

BY BERNARD SALOMÉ, MANAGING DIRECTOR
& PHILIPPE DOUSTE-BLAZY, CHAIR OF THE BOARD

Committed to revitalising the global community's efforts to achieve the health-related Millennium Development Goals, the Millennium Foundation was created in November 2008 in close collaboration with the international drug purchase facility UNITAID and its host organisation, the World Health Organization (WHO). Its overall objective is to mobilize resources to promote health for people in developing countries through the development and use of innovative sources of finance.

The fund-raising mechanism VSC is a revolutionary scheme designed to significantly increase the level of aid through hassle-free donations made by people purchasing a plane ticket.

THE FIRST FLAGSHIP PROJECT OF THE FOUNDATION IS THE VOLUNTARY SOLIDARITY CONTRIBUTION, WHICH WILL START IN THE TRAVEL & TOURISM INDUSTRY

The Millennium Foundation's first flagship project is the 'Voluntary Solidarity Contribution' project :

- US\$ 391 million to support countries with scale-up of immunisation programmes:
 - new and underused vaccine support, and
 - immunisation safety.

- The principle is to offer individuals and corporations who want to help rebalance the world the opportunity to do a micro-donation on top of their regular purchases,
 - through a simple and hassle-free process;
 - with the assurance of high-quality governance; and
 - to make, in association with millions of other individuals, a really big difference in just a few years ('butterfly effect').

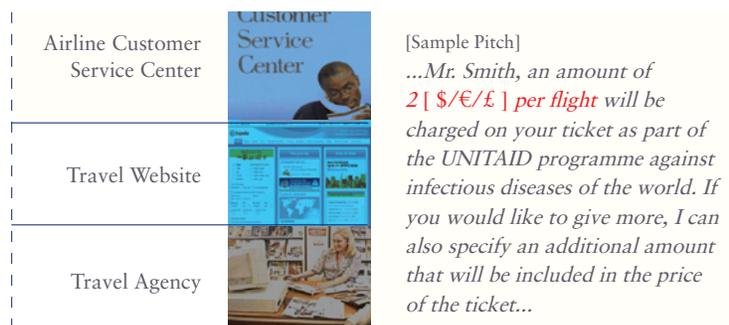
- This will be made possible through a unique 'donation solution' developed by Amadeus, a worldwide technology leader, over a period of 12 months.
 - The solution can be implemented quickly and at little cost by any company having e-commerce activities.
 - The project will first be deployed in the Travel & tourism industry, with the possibility to be expanded to any other e-commerce transaction in virtually any country.

PRESENTATION OF THE WORLDWIDE CITIZEN VOLUNTARY CONTRIBUTION IN AIR TRAVEL

Voluntary Solidarity Contribution is a concept to raise funds from individuals and corporations who purchase plane tickets.

One airplane ticket will include +2[\$/€/£] in donations to be given to UNITAID.

Individuals
& Corporations



Key elements of the assessment in the air travel industry are the followings: Voluntary Solidarity Contribution consists of proposing individuals and corporations who purchase plane tickets to voluntarily donate 2 or 10 (\$, €, £) per ticket in a simple and hassle-free process – e.g., a box to tick for online booking. These donations should be traceable to ensure donors' trust.

An assessment of the feasibility of the Voluntary Solidarity Contribution project was undertaken by a leading consulting firm (October 2007 - April 2008).

Assessment of the potential assumes people would donate 27 per cent of the time and Voluntary Solidarity Contribution would be proposed on 848 million travels out of 2,200 million worldwide air tickets.

The unique feature of the VSC is that, whereas previous fund-raising initiatives using micro-contributions on air travel have been narrow in scope, the VSC project brings together, for the first time, the three main GDS companies. Their collaboration is expected to enable the Millennium Foundation to collect funds on a worldwide basis from a large span of travel agencies and e-brokers and, altogether, represent two thirds of the indirect airline ticket market.

The VSC is managed by the Millennium Foundation for Innovative Finance for Health, established as an independent non-profit Swiss foundation to provide additional resources in support of the health related MDGs through the development and use of innovative finance mechanisms.

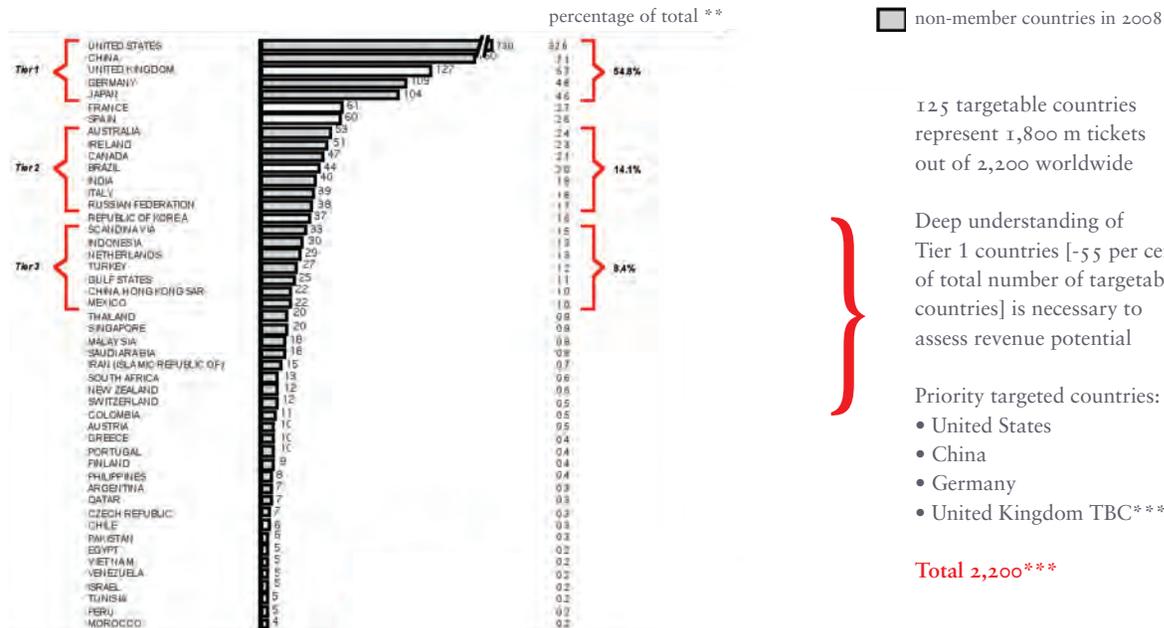
The principal recipient of the funds mobilized by the Millennium Foundation will be UNITAID, a global health partnership, established in 2006 to combat HIV/AIDS, malaria and tuberculosis in developing countries (MDG 6). UNITAID aims to increase access to treatment for HIV/AIDS, malaria and tuberculosis by lowering the price of high-quality drugs and diagnostics, and accelerating the pace at which they are made available to patients in need.

The VSC has already prompted support from major personalities, institutions and governments, including France, Norway, the United Kingdom, the Bill & Melinda Gates Foundation, the Clinton Foundation, Google, and the three main Global Distribution Systems (GDS), namely Amadeus, Sabre and Galileo/Worldspan (Travelport GDS), without which the implementation would not have been feasible.

Indeed, the Millennium Foundation is working in close partnership with them to develop a technical solution which will offer air travellers the possibility to make a small contribution (say, 2 \$/£/€) on top of the price of their tickets. This option is available at the moment of ticket purchase, thus enabling the traveller to make such a contribution in an immediate, hassle-free way, rather than requiring the

125 TARGETABLE COUNTRIES REPRESENT 1,800 MILLION TICKETS OUT OF 2,200 WORLDWIDE

Number of airline tickets* sold [in millions], 2006



125 targetable countries represent 1,800 m tickets out of 2,200 worldwide

Deep understanding of Tier 1 countries [-55 per cent of total number of targetable countries] is necessary to assess revenue potential

- Priority targeted countries:
- United States
 - China
 - Germany
 - United Kingdom TBC****

Total 2,200****

* Approximated from number of passengers carried, 2006
 ** 48 first countries account for 95 per cent of number of tickets sold
 *** Among which ~1.88 billion tickets sold in non-UNITAID member countries
 **** UK will be assessed separately as it is a UNITAID-member country but does not contribute to UNITAID's funding through the tax-levy mechanism (State's direct contribution instead); Japan will not be targeted in priority as it is currently negotiating the implementation of the tax with UNITAID
 Source: ICAO 2006, www.unitaid.eu, Project Team analysis

traveller to take several steps that too often remain untaken.

The GDS have been working on a technical solution (based on a white label mechanism implemented into the partner's IT architecture) which allows payments collection. The launch of the scheme in the United States will be key to the VSC success.

The VSC contribution will be collected at worldwide level by the Millennium Foundation, and then redistributed by the Foundation through a grant allocation mechanism and distribution programme to promote health for the people in developing countries, thereby crucially contributing to the reaching of the three health related MDGs.

Within this overall purpose, the Foundation will give highest priority to providing support to UNITAID (a global health partnership administered by WHO), to achieve the maximum effectiveness of its strategy and mission up to the extent of UNITAID's capacity to absorb the funds.

Whereas, under its Statutes, the primary objective of the Foundation is to mobilize additional resources for UNITAID, the Millennium Foundation is also, to the extent of its remaining resources, charged with supporting market interventions for products and technologies to alleviate other high health burdens in developing countries, including maternal and child health.

THE FUNDS TO BE RAISED ARE LIKELY TO REACH A SCALE NEVER ATTAINED BEFORE AND CAN SAVE MILLIONS OF LIVES

<p>THE VOLUNTARY SOLIDARITY CONTRIBUTION PROJECT</p> <p>the potential to raise hundreds of millions of dollars per year</p> <p>the potential to save millions of lives</p>		<p>+2 billion Air passengers per year</p>	<p>}</p>	<p>40€ enables 1 HIV positive child to be treated for 1 year</p>
		<p>+200 million Booked hotel rooms per year</p>		<p>\$24 enables 1 adult to be cured from Tuberculosis</p>
		<p>+110 million Car rentals per year</p>		<p>\$2 enables 2 children suffering from malaria to receive treatment</p>

THE MILLENNIUM FOUNDATION HAS SET STRICT RULES AND GOVERNANCE MECHANISMS TO ENSURE MAXIMUM TRANSPARENCY AND EFFICIENCY OF FUNDS USED

How will the funds be used?

The Foundation has the explicit mandate to invest the funds raised as follows:

- support UNITAID up to the maximum effectiveness of its interventions;
- if there are resources left, support interventions to improve markets for products and technologies against other health problems than HIV/AIDS, malaria and tuberculosis;
- if there are resources left, support interventions to strengthen systems needed for the effective delivery of these health products and technologies to populations in need.

How will appropriate governance be ensured?

The Foundation’s statutes plan to have strict mechanisms to ensure its integrity:

- The Foundation is supervised by the Swiss Federal Board on Foundation, and is in the process of getting international organization status.
- The Board of the Foundation is composed of:
 - Seven governments (the same as UNITAID’s)
 - The Gates Foundation
 - The Civil Society, with major NGOs represented
 - Communities living with diseases
- All Board members have a long experience in piloting charity projects and charity organisations. The WHO participates as an observer.

How involved will the Board be?

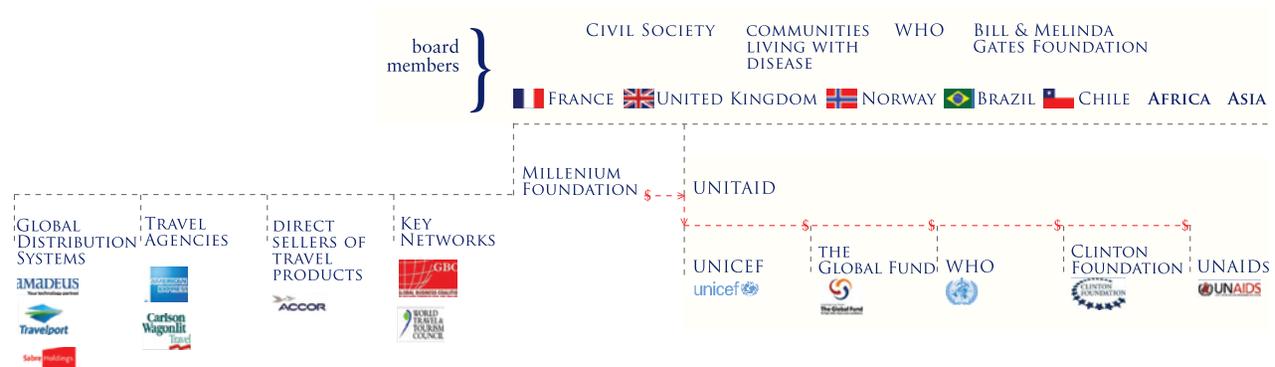
All important decisions are subject to the Board’s approval.

- To validate a decision, all reasonable efforts are made to reach a consensus. If no consensus can be reached, the decision is then made based on a two-thirds majority.
- As the Foundation develops, the Board may be extended to include members’ representatives of the private sector, in particular of the Travel & Tourism industry.

OUR BRAND, SYMBOL OF A NEW MOVEMENT OF GLOBAL CITIZEN SOLIDARITY, WILL SHOW A MODERN AND POSITIVE APPROACH TO CHARITY

<p>VALUES OF OUR BRAND [X]</p> <p>positive</p> <p>can make a big difference through millions of microactions</p> <p>built by everyone and for everyone</p> <p>joyful</p> <p>easy</p> <p>is not in opposition to our modern lives, but in sync with them; does not ask to do things differently, just a bit better</p> <p>celebrates those who enjoy discovering other cultures and, at the same time, cares for those in need</p> <p>empowers and inspires</p>	}	<p>BRAND [X]</p> <p>We want to create a brand that individuals and therefore corporations will be proud to get associated to, as a symbol of new, positive, capitalism</p> <p>Our brand will be promoted by high profile personalities as well as common individuals through web 2.0 based tactics for a maximum viral marketing effect</p>
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HIGH-PROFILE PARTNERS FROM THE PRIVATE SECTOR HAVE ALREADY COMMITTED TO OUR CAUSE, CREATING ONE OF THE MOST PROMISING PRIVATE-PUBLIC PARTNERSHIPS



(RED) AND THE GLOBAL FUND:
PUBLIC-PRIVATE PARTNERSHIP IN ACTION
BY MICHEL KAZATCHKINE, EXECUTIVE DIRECTOR

(RED)* is a brand created to engage business and consumer power in the fight against AIDS in Africa. (RED) works with major corporate partners such as Gap, Emporio Armani, Apple, Starbucks and many others to earn funds to support Global Fund HIV/AIDS grants in African countries. Since its launch in 2006 in the US and UK, (RED) has generated US\$120 million for the Global Fund, and greatly strengthened awareness and advocacy for AIDS in Africa among ordinary consumers. New partnerships and activities are ongoing. (RED) is a genuine and sustainable success story in deploying private sector marketing expertise to bring new resources to bear on global health issues.

For the Global Fund, (RED) funding constitutes a highly significant increase in private sector support, and also acts as an inspiration for other private sector donors and partnerships. By communicating with ordinary citizens and consumers through brands they know and trust, (RED) has been able to engage millions of hearts and minds in the fight against AIDS in Africa. Through its high-powered marketing partnerships, (RED) has provided the Global Fund with invaluable exposure in media coverage and advertising. Online, (RED) has been able to connect millions of young people to the fight against AIDS in Africa, helping to create networks of concerned citizens, who may contribute to keeping AIDS in Africa on the agenda of governments in rich countries, and become advocates for development issues, and the MDGs more generally.

This paper will examine the genesis of (RED), explore the (RED) model, and discuss prospects for (RED) in the medium term, outlining how (RED) offers a genuinely innovative new model to development financing.

GENESIS OF (RED) AND THE (RED) MODEL

(RED) grew out of the same sense of ambition, urgency and commitment that led to the creation of the Global Fund to Fight AIDS, Tuberculosis and Malaria in 2002. The Global Fund was established under the auspices of the G8 and UN Secretary-General Kofi Annan as a financing instrument attracting and disbursing additional resources to fight AIDS, TB and Malaria in the countries most threatened by the diseases. Alongside its country-owned, performance-based funding model, one of the core founding principles of the Global Fund was that the new body would be an effective public-private partnership. Not only would private sector representatives participate in governance mechanisms globally and at country level, but the private sector would bring its competencies to bear in implementation and providing resources.



*2008. (RED) is a trademark of the Persuaders, LLC. All rights reserved. The goods and services of (RED) partners bear the (PRODUCT) RED trademark to support (RED).

After its establishment, the Global Fund faced the immediate challenge of scaling up both in terms of resources and in treatment results achieved. By the end of 2005, governments led by the G8 had contributed \$4.7 billion to the Global Fund—a considerable sum, but insufficient if further rapid scale-up was to be achieved. Private sector contributions were modest. With the notable exception of the Bill and Melinda Gates Foundation, which had contributed \$150 million by year end 2005, other private sector contributions of all forms amounted to \$7.1 million.

It was in this context that concept of (RED) was developed by Bono, Bobby Shriver, and a small group of committed partners and supporters. Bono and Bobby Shriver had cooperated on social issues since working together on “A Very Special Christmas”, a music project in 1987 which raised \$100 million for the Special Olympics. In 2002, the same year that the Global Fund was established, Bobby Shriver and Bono co-founded “Debt, AIDS, Trade, Africa” or DATA to campaign on key development issues in Africa. Bono and Shriver had been amongst those lobbying the US government to capitalize the Global Fund. In the years that followed, US officials started inquiring as to when the private sector was going to provide its expected share of resources for the fund alongside governments. Responding to this challenge, Bono and Bobby Shriver began brainstorming ways to engage the power of the business community and the vast numbers of people who were not committed activists but who would want to help if “the ask” was simple.

The idea that evolved was to create a brand that would be trusted and valued by consumers. The (RED) brand was born. From discussions with partners and interested organizations, the following key operating principles for (RED) were developed:

- (RED) is a brand.
- It engages businesses and consumer power to help eliminate AIDS in Africa.
- (RED) works with the world’s best brands to make unique (PRODUCT)RED branded products.
- These brands direct up to 50 per cent of their gross profits from (PRODUCT)RED sales to the Global Fund to invest in African HIV/AIDS programmes which have a focus on the health of women and children.
- 100 per cent of the money earned for the Global Fund through (PRODUCT)RED is spent on programmes in Africa. No overhead is charged by the Fund or (RED).

A specified percentage of profits, up to 50 per cent of the profits, from the sales of (RED) products would go directly to the Global Fund. None of this money would be passed through (RED). (RED) would be funded by a licensing fee paid directly by each company for the use of the (RED) marks and paid before any product was sold. As a result, 100 per cent of the money generated by the sale of (RED) items for the Global Fund would be put to work on the ground in Africa, and no overhead would be taken out.

Given the long-term implications of placing people on ARV treatment, sustainability needed to be a core part of the model. Similarly, the aim of the venture was to create new and truly additional funding flows for the diseases, rather than ‘competing’ with other organizations for a share of philanthropic donations. By working with the companies’ marketing budgets, rather than in a purely philanthropic arena, (RED) was able to achieve both these objectives. (RED) itself, although operating in an extremely

lean fashion, needed sustainability itself through license fees. For the partners, the partnership with (RED) also needed to be sustainable financially. Although they agreed to give up a proportion of their profit margins on (RED) products, the partnerships nevertheless remained profitable and the companies could hope to secure new customers, allowing them to apply considerable resources and the talents of their best people in product development and marketing.

EXAMPLES OF (RED) PRODUCTS.
SOURCE: (RED) COMPANY DOCUMENTS



From the very beginning, the Global Fund Secretariat was a strong supporter of the development of full partnership between the Global Fund and (RED), arguing it provides the fund with a channel to secure genuinely additional and sustainable resources from the private sector, as well as the opportunity to promote its mission. Although many of the structural elements for a successful partnership were in place, the Global Fund needed to be responsive in adapting itself, so that the partnership could work most effectively. In particular, the Global Fund Secretariat and Board needed to consider the possibility of allowing the ‘targeting’ or ‘earmarking’ of funds to certain grants. For (RED) and its partners, such earmarking would, however, allow the close association of funds with particular grant results— invaluable for communicating to consumers about

the impact of their contribution. In April 2007, the Global Fund adopted a policy allowing private sector contributors, such as (RED) and some public financing instruments (such as UNITAID), to make contributions ‘restricted’ to certain Global Fund grants or activities.

In order to make (RED) a success, the implementing countries would have to contribute to the partnership by cooperating in the development of case histories and other content, and facilitating celebrity and media visits. (RED), the Global Fund and its country partners undertook a review and consultation process, after which Global Fund grants in Rwanda and Swaziland were selected as the initial recipients of (RED) funding (although their actual disbursements would remain identical under the Global Fund grant model.) Both Rwanda and Swaziland had grants which were well-performing, with many activities reaching women and children. Rwanda and Swaziland offered rich opportunities to tell individual stories dramatizing the realities of AIDS in sub-Saharan Africa, set against dramatic national contexts. As an example of the perspective of implementer countries, Dr. Agnès Binagwaho, Permanent Secretary of the Ministry of Health in Rwanda, comments, “(RED), through Global Fund, allows us to join in the international mobilization of finding resources to fight AIDS. It gives us the opportunity to spread awareness about the successes, challenges, and continuing need of HIV and AIDS in Rwanda.”



GAP STORE PROMOTING (RED)

LAUNCHING (PRODUCT)RED

Bono, Bobby Shriver, the Global Fund and the launch partners (Gap, Emporio Armani, American Express, and Converse) announced (PRODUCT)RED to the world at the annual World Economic Forum meeting in Davos, Switzerland, in January 2006. Within a few months, (PRODUCT) RED had completed a ‘soft launch’ with a limited product range in the United Kingdom, including a UK-only (RED) American Express card. The official global launch of the campaign in the United States followed in October 2006, with products from six initial partners:

Gap | Converse | Emporio Armani | Apple | Motorola

The launch of (RED) was accompanied by a promotional campaign encompassing all forms of media, with partners such as *The Independent* newspaper in the UK, and the social networking site MySpace. (By Spring 2008, (RED)’s MySpace site had registered over 600,000 online ‘friends’.) Perhaps the single most highly publicized launch event was the televised “shopping spree” involving Bono and television personality Oprah Winfrey in downtown Chicago. The event reportedly drew one billion media impressions. More importantly, Gap’s iconic INSPI(RED) T-shirt, worn by Oprah, sold in record quantities.

RESULTS AND EVOLUTION OF (RED)

With such high-profile products and media partnerships, the impact of (RED) was immediate. Within three and a half months, (RED) had raised \$25 million for the Global Fund. This represented more than three times the private sector fundraising achieved by the Global Fund (excluding the Gates Foundation) in its first three years, and comparable to the annual contribution of several donor governments. As significant funding began to flow, Ghana became the third African country to have (RED) funds allocated to support its outstanding Global Fund grant.

(RED) achieved a very high level of U.S. consumer awareness in a short period of time. Prior to launch, less than 1 per cent of US consumers were aware of the (RED) brand. By January 2007, just three months later, 17 per cent of US consumers were aware of (RED), and that it supported AIDS programmes in Africa. In just three months (RED) had significantly raised awareness and engagement in the fight against AIDS in Africa among US consumers, particularly the young. This enabled (RED) to persuade the popular and influential US magazine *Vanity Fair* to publish its first-ever Africa issue, edited by Bono, with 20 different covers by eminent photographer Annie Leibowitz promoting (RED).



VANITY FAIR
MAGAZINE COVERS

As (RED) moved from its start-up phase to becoming an established brand and venture, executive leadership was assumed by a new CEO, Susan Smith Ellis, who had previously held a number of senior roles in the advertising industry. Over the course of the following year, (RED) launched two major new partnerships—Hallmarks Cards, and a cooperation between Dell and Microsoft producing (RED) laptop computers—launched at the World Economic Forum in Davos in January ‘08. The (RED) art auction at Sotheby’s raised over \$42 million for the Global Fund on Valentine’s Day 2008 from the sale of works by leading artists such as Damien Hirst, Banksy, Cecily Brown, Anselm Kiefer, Jeff Koons and Chuck Close.

(RED) TODAY AND TOMORROW



(RED) AUCTION, FEB '08

By year-end 2008, (RED) has generated more than \$120 million to support Global Fund grants in Africa. Lesotho has followed Ghana to become the fourth country to receive (RED) funding, with more countries under consideration as funds continue to flow. Far from being a short-lived 'campaign', (RED) is showing remarkable vitality as the brand continues to move into new product categories and markets.

In late 2008, two major new partnerships were launched. First, on World AIDS Day 2008, Starbucks branches in North America contributed 5 cents each from millions of beverages sold that day, marking the start of a multi-year partnership with (RED), benefitting the Global Fund. Second, (RED)WIRE was launched, a digital music magazine offering consumers exclusive musical content, as well as rich media content showing the impact of (RED) funds in Africa. Subscribers to (RED)WIRE in the US pay \$5 a month, of which \$2.50 goes directly to the Global Fund.

As well as entering new product categories, (RED) is expanding geographically. Sebastian Bishop, a UK Internet entrepreneur, has been appointed CEO, International, of (RED), with a remit to drive international expansion of (RED) beyond its 'core' markets in North America and the UK.

As (RED) has continued to grow, the Global Fund has experienced a significant increase in other forms of private sector resource mobilization. For example, the Global Fund was able to launch its own corporate partnership programme, with Chevron Corporation committing \$30 million, to become the first Global Fund Corporate Champion. Similarly the top-rated US television programme, American Idol, selected the Global Fund as recipient of \$16 million in funds 2007-8. New partnerships have been formed to facilitate private giving to the Global Fund for malaria. It is highly likely that the additional awareness of the Global Fund generated through the partnership with (RED) has contributed significantly to the increase in other private sector funding.

(RED)'s partnership with the Global Fund serves as a successful model of both an innovative financing model, and effective public-private partnership. What may make the partnership a success is that all parties, while united by a common goal, nevertheless focus on their discrete areas of expertise. (RED) and its partners contribute marketing and communications competencies of the very best quality to be found in the commercial sector globally. The Global Fund provides a grant-making and management capability with transparency and accountability mechanisms required to build a firm foundation for (RED)'s public advocacy.

DEBT2HEALTH

INNOVATIVE FINANCING OF THE GLOBAL FUND

BY MICHEL KAZATCHKINE, EXECUTIVE DIRECTOR

The Global Fund finances programmes in countries which face a high disease burden in AIDS, tuberculosis and malaria. A number of these countries are spending a significant percentage of their export earnings on debt payments, making it harder for them to invest their own resources in public health. The Debt2Health initiative of the Global Fund was conceived to help relieve the strain on resources by converting portions of old debt claims into new domestic resources for health. Under individually negotiated agreements, creditors relinquish a part of their rights to re-payment of loans on the condition that the beneficiary country invests the freed-up resources into approved Global Fund programmes.

Debt2Health was launched in Berlin on 26 September 2007. Germany was the first champion creditor in Debt2Health by committing to make available €200 million from debt-to-health conversions until 2010. German Minister for Economic Cooperation and Development, Ms. Heidemarie Wieczorek-Zeul, called Debt2Health “*an important contribution to implementing innovative financing instruments for the Global Fund and for the fight against AIDS, tuberculosis and malaria*”.

On the occasion of the global launch of Debt2Health, the first swap agreement was also signed between Germany and Indonesia for €50 million to finance urgent and lifesaving investments in HIV-services and public health interventions using Global Fund systems. At the International Conference on Financing for Development at Doha in November 2008, another Debt2Health swap was concluded between Germany and Pakistan for €40 million. Additional agreements are under discussion, including the conversion of AUS\$75 million of Indonesian commercial export credit debt by the Government of Australia. Discussions with additional creditors are on-going.

The Debt2Health mechanism is an opportunity for partnerships between creditors and debtors in the joint pursuit of better health and improved quality of life for the people hardest hit by the diseases. It is a simple and effective win-win proposition for all parties involved: the creditor, the beneficiary and the Global Fund. For the first time, bilateral debt swaps are being implemented in a partnership involving a multilateral organization, thus enhancing aid harmonization and implementing the Paris Declaration on Aid Harmonization and Effectiveness.

For Global Fund donors, participation in Debt2Health equals a contribution of a part of their rights as creditors to interest and principal payments. In this way, these donors demonstrate an additional financial commitment to the Global Fund and to the implementation of internationally-agreed targets of Official Development Assistance (ODA) levels and other international resolutions. For the beneficiaries of Debt2Health, the freed-up domestic funds that are invested in health amount to additional domestic spending in the health sector, which is a pre-requisite for the long-term financial sustainability of the fight against AIDS, tuberculosis and malaria. For the Global Fund, Debt2Health offers the opportunity to diversify

DEBT2HEALTH IS A WIN-WIN PROPOSITION

A successful Debt2Health transaction is built on a convergence of financial and public health interests of all parties.

FOR THE CREDITOR, THE INCENTIVES ARE:

- implementing political commitments to global health issues
- stabilizing or increasing the ODA quota
- recovering and donating a claim that might otherwise not be recouped
- harmonizing aid according to the Paris Declaration on Aid Effectiveness.

FOR THE BENEFICIARY, THE INCENTIVES ARE:

- reducing debt stock
- reducing debt service payments
- receiving a discount on the convertible amount
- receiving up-front cancellation
- increasing domestic investment in public health
- paying in local currency
- becoming a donor to the Global Fund
- signaling strong political commitment to global health.

FOR THE GLOBAL FUND, THE INCENTIVES ARE:

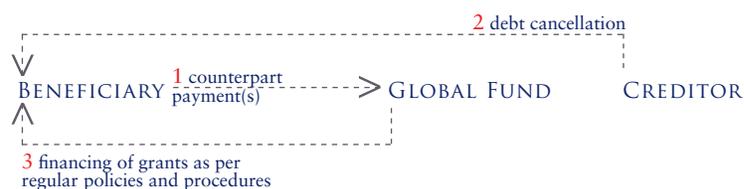
- increasing the resources available.

and augment resources available to finance lifesaving education, prevention, treatment and care.

HOW DEBT2HEALTH WORKS

Together with partners, the Global Fund identifies opportunities for conversations and then facilitates a three-party agreement. Under this agreement, creditors forgo repayment of a portion of their claims on the condition that the beneficiary country invests an agreed-upon counterpart amount in health through Global Fund-approved programmes. The counterpart payment can be a one-time payment or installments that correspond to the debt service payments. The Global Fund then disburses the counterpart funds through the same systems and on the same principles as it does to regular grants.

The Debt2Health mechanism is built on the existing principles and policies of the Global Fund. There is no new system or administrative arrangement invented for Debt2Health. On the contrary, careful attention has been paid to respecting Global Fund principles such as accountability, local ownership, participation of civil society and performance-based funding.



DEBT2HEALTH MECHANISM

Once a Debt2Health agreement has been concluded, the first step is the counterpart payment by the beneficiary to the Global Fund, either as a one-time payment or in installments that correspond to the annual interest payments. Therefore, it is assured that the counterpart payment does not come from health-related budgets or expenditures by health ministries.

Once the counterpart payment has been made, the creditor reduces the debt stock and/or interest covered by the swap. This usually involves a bilateral side agreement or amendment to existing bilateral agreements concerning outstanding claims. The side agreement is signed at the same time as the overall Debt2Health agreement to maintain complete understanding of the various parts and stages of the Debt2Health transaction. An early or “upfront” debt stock reduction is possible because both parties rely on the credibility and effectiveness of the established and proven systems of the Global Fund. This includes systems for soliciting proposals through the Country Coordinating Mechanism (CCM), technical review, and performance-based funding and performance- and results-based monitoring. For example, the CCM ensures coordination with all local activities in government, civil society, and other donors. The Technical Review Panel (TRP) consists of international health and development experts and reviews all proposals for technical and scientific merit. The TRP review assures all three parties involved (creditor countries, beneficiary country and the Global Fund) that funds are used for proposals that are technically sound, that follow best practices and that fit into the country’s overall health priorities.

Debt2Health funds are disbursed through normal Global Fund channels and procedures. Once a grant is approved, the funds are disbursed in small tranches based on disbursement requests filed by the Principal Recipient (PR) of a grant. Debt2Health resources are disbursed on a first-out basis as the Secretariat honors a disbursement request.

The Debt2Health agreement comes to an end upon successful disbursement of the counterpart payment to Global Fund programmes in the beneficiary country. In the unlikely event that Debt2Health funds are not able to be disbursed because either the country's grants were terminated or because the country was not successful with new proposals, an exit clause is invoked. This exit clause is subject to negotiation between the parties, but it is generally thought to be acceptable that if the beneficiary country is not able to use Debt2Health funds within a period of five to eight years, the Global Fund Secretariat can re-allocate the money to successful proposals in other countries.

The Global Fund does not charge any fees or other expenses related to the Debt2Health mechanism to the two parties involved in the transaction. The full value of the counterpart payment goes to finance grants.

In the first Debt2Health agreement, which was signed in September 2007, Germany cancelled €50 million of Indonesian foreign debt granting a 50 percent discount. This resulted in a counterpart payment by Indonesia of €25 million toward approved Global Fund programmes in their country. The payment schedule arranged with Indonesia was aligned to the interest payment due to Germany every year, thus avoiding any impact on the Indonesian budget. In instances where no discount is offered by the creditor, either because of an overall economic outlook, favorable debt indicators or creditor policies, the counterpart payment would correspond to the full amount converted.

THE POTENTIAL

Over the years, debt relief by the official sector has been coordinated through an informal grouping of major creditors known as the Paris Club. Arrangements in the Paris Club go hand in hand with two broad-based debt relief initiatives for the poorest countries—the Heavily Indebted Poor Countries (HIPC) Initiative, which began in 1996, and the Multilateral Debt Relief Initiative (MDRI), which was created in 2005. Under these initiatives, the poorest countries receive a substantial debt write-off according to terms and conditions set and monitored by the International Development Association (IDA) and the International Monetary Fund (IMF).

Countries which are not eligible for relief under the two initiatives can receive assistance in restructuring their debt which comprises rescheduling, cancellation of debt and conversion of debt for a broad range of development-related purposes. Therefore, Debt2Health is primarily for countries that have high debt levels and high disease burdens but have not benefitted from the large debt relief initiatives. The potential to convert debt from those countries remains significant as Dr Ngozi Okonjo-Iweala, Managing Director of the World Bank and former Nigerian Finance and Foreign Minister pointed out: “There are still so many opportunities out there beyond traditional debt relief. The Debt2Health initiative helps countries that are politically and financially committed to seize these opportunities.”

There are five types of debt that can be turned into new resources for health under Debt2Health, together amounting to several billions of outstanding old claims, that can be subject to Debt2Health agreements:

- bilateral official claims that have not been subject to Paris Club agreements,
- bilateral official claims that have been subject to Paris Club agreements,

- non-performing commercial claims on non-HIPCs,
- commercial and bilateral official claims on HIPCs,
- remaining multilateral claims on HIPCs.

PERFORMANCE AND ACCOUNTABILITY

Global Fund financed programmes help to save 3,000 lives every day. The programmatic targets and results of activities funded by Debt2Health resources are subject to the same stringent accountability mechanisms applied to all Global Fund investments. No new governance structure or administration for Debt2Health is required and all activities are based on already-existing structures. Therefore, 100 percent of Debt2Health funds will go directly toward achieving health results and impact on the ground. To date, the Global Fund has maintained a rate of calling for and approving at least one round of new financing each calendar year. In response to such a call, a country constructs a comprehensive national proposal for the scale-up of prevention, care and treatment by soliciting proposals from organizations within the country and consulting broadly with a wide range of stakeholders through its CCM. In all grants, the results and performance indicators are set by grant recipients in collaboration with the Global Fund. They then become part of the Grant Agreement between the Global Fund and the PR.

Among the Global Fund's most notable grant management features is the system of performance based funding. This means that grant disbursements are linked to programmatic results and expenditures. Disbursements continue to be made as long as the targets set are being achieved. Programmatic results are monitored with the help of Progress Reports, which are accompanied by Disbursement Requests for the continued release of grant funds. The Progress Reports are forwarded to the Global Fund through the Local Fund Agent (LFA), an independent auditor contracted by the Global Fund to verify the data submitted. During the first year of grant implementation, the PR will typically submit Progress Reports and Disbursement Requests on a quarterly basis. Subsequently, the Global Fund and a PR may agree that disbursements should be made on a semi-annual basis.

Overall grant performance is rated by the Global Fund on a scale of A (Expected or exceeding expectations), B1 (Adequate), B2 (Inadequate but potential demonstrated) or C (Unacceptable). The score card of each grant is publicly available and posted on the Global Fund website.

PARTICIPATION AND TRANSPARENCY

The Global Fund was created based on values such as transparency, effectiveness, and inclusiveness of all groups of society. These values can only be attained by the active participation of civil society in the Global Fund processes at all levels, including governance and implementation. Consequently, civil society organizations have played a critically important role in the development and advocacy of the concepts that eventually led to the establishment of Debt2Health as an innovative financing mechanism for the Global Fund.

The first feasibility study (Global Fund Debt Conversion, 2005), which described the opportunities for resource mobilization and for increased health investments from debt restructuring, was largely

financed and conducted by civil society organizations such as the Dorothy Ann Foundation, the Ford Foundation, the Global AIDS Alliance and Advocacy International. Following the feasibility study, the Global Fund Secretariat – in cooperation with partners in government and civil society – developed the business model now under implementation (Financing the Fight against AIDS, Tuberculosis and Malaria, 2005). During this development phase, erlassjahr.de, the German chapter of the global debt cancellation movement Jubilee, was instrumental in providing technical advice and in facilitating fruitful collaboration with many members of the Jubilee network throughout the world, including Australia, Indonesia, Japan and Peru. The Bill & Melinda Gates Foundation provided financial support for the exploration and development phase of Debt2Health.

As the Debt2Health initiative entered implementation, a much wider network of civil society organizations became involved and associated with the initiative. Organizations such as Results, Make Poverty History Australia, Eurodad, the Kenya AIDS NGOs Consortium (KANCO), the International NGO Forum on Indonesian Development (INFID) and the Coalition for Healthy Indonesia, as well as the independent Friends of the Global Fund organizations, were consulted and they participated in meetings about Debt2Health. At times, civil society partners presented critical views of Debt2Health, which brought to light the more challenging areas of the initiative such as the issue of additionality of Debt2Health resources to ODA commitments and the risks of conversions of so-called “illegitimate debts”.

One of the highlights of the interaction and inclusion of civil society organizations was the first international workshop on Debt2Health for civil society, held on 25 September 2007, ahead of the official launch of the initiative at the Replenishment of the Global Fund in Berlin. On the day of the launch of Debt2Health, 22 civil society leaders submitted an endorsement letter to the German government expressing their support for the initiative.

Civil society members are regularly invited to participate in country visits and discussions with creditors and recipient governments. For example, during the presentation of Debt2Health to the government of Peru by Germany and the Global Fund, a number of civil society leaders as well as representatives of people affected by the diseases participated in the discussion. Moreover, briefings for and meetings with civil society organizations have become a regular feature during Debt2Health country visits. Finally, signed Debt2Health agreements are made available publicly to facilitate transparency.

OUTLOOK FOR THE FUTURE

Debt2Health has many attractive features including very low transaction costs, immediate implementation based on existing and proven Global Fund systems and a high degree of ownership in countries that benefit and contribute counterpart payments. Debt2Health is an opportunity for Global Fund donors who are also creditors to diversify their funding and financing options using debt swaps. In this way, donors not only contribute to the fight against HIV/AIDS, tuberculosis and malaria but also help reduce debt burden in those developing countries, where they have either concessional loans or export credit agency guaranteed loans.

Based on the current Debt2Health negotiations, debt swaps will have generated an additional US\$450 million by 2010 to fight the three pandemics and the outlook is positive with a doubling of volume because of additional creditors, as well as additional debt-critical countries joining the list by 2015.

REVENUES FROM THE CARBON MARKET

BY MANFRED KONUKIEWITZ, DEPUTY DIRECTOR-GENERAL,
GERMAN FEDERAL MINISTRY FOR ECONOMIC COOPERATION AND DEVELOPMENT

The European Union has pledged to increase official development assistance to 0.7 per cent of GNP by the year 2015. In 2007, the mark of the EU-15 was at 0.40 per cent; there remains a gap of 0.3 per cent which needs to be filled by 2015. Regular tax revenues will most likely not be sufficient to fill that gap, particularly in times of economic recession. European governments in need for innovative sources to fund development assistance have lately been looking at revenues from the sale of CO₂ emission allowances. The December 2008 decision of the European Council regarding the future of the European Trading System (ETS) for emission allowances has indeed paved the way for a scheme, which has the potential to raise additional finance in the range of several billion Euro per year from 2013 on, when the expanded ETS will begin to work and succeed the present system.

Germany is the only country in the European Union which presently uses funds generated from the carbon market for development assistance. Of the revenues generated in 2008 of about 1 bn Euro, 120 mn Euro were allocated in the national budget for official development assistance, in particular for a cooperation programme in climate mitigation and adaptation managed by the Environment Ministry.

THE PHILOSOPHY

The origin of the system is an economic rationale leading to the most cost-efficient incentive system to reduce emissions from a limited number of large emitters. In fighting climate change, reducing greenhouse gas (GHG) emissions and transforming to a low-carbon growth path is key. Environmental economists have debated the best policy and regulatory framework to guide industry, consumers and governments towards lower GHG emissions. While some favor a universal carbon tax, others point towards the difficulty of installing a global tax system.

The approach chosen by the European Union is a Cap-and-Trade approach: governments put a “cap” on GHG emissions from their country by issuing a limited number of emission allowances per period, and then allow the individual emitters to “trade”, i.e. sell or buy emission allowances as they see fit in their individual situation. In the European Union, the caps are decided as an aggregate for the entire Union from 2013 onwards, while member states could adopt their individual allocation plans in the first and second trading period from 2005 – 2012.

HOW DOES THE SYSTEM WORK?

The system resembles a combination of communism and capitalism. Why?

The initial step is a political decision by the government (or the collective decision of several governments) to cap emissions, almost like the planning system for goods production in the former socialist countries. The pleasant difference is, though, that it intends to organize scarcity (less emissions) in a world of abundance (too much emissions), whereas economic planning in socialist economies sought to stimulate growth in a world of scarcity. The former is obviously easier to accomplish than the latter. The crucial point is, of course, to make emission allowances scarce by reducing the cap from one period to the next, and so on, until emissions have reached an overall level which is sustainable and in line with the international commitments under the Kyoto Protocol and its planned successor agreement. Allocation

is complete until 2012, in the system of the European Union, through a “National Allocation Plan” in each country; the plan allocates the emission allowances in great detail down to the individual power plant or other major sources of emissions which are covered by the plan.

Now the “capitalist” part of the story: the trading in the carbon market. Emitters who invest in energy efficiency, renewable energy sources or other emission-cutting measures will find themselves with more allowances than they actually need, and they use the opportunity to sell these rights on the carbon market. Emitters who have a higher marginal cost rate for reducing emissions, and have therefore not invested, may need more emission allowances than have been allocated for them. They can go to the market and buy up the allowances in the quantity they need. The “market” is presently a number of European emission allowance exchanges with daily trading, a fast-growing segment of the trading business. The trading is expected to lead to a “market equilibrium” which finds the overall most cost-effective way to reduce a given amount of emissions.

The obvious question is, why should the government hand out the emission allowances for free? Isn't it more effective to put a price on carbon and sell the emission allowances for a fixed or a market price? The European Union has answered this question with a definite “Yes”. Cap-and-trade evolves into a “cap-sell-and-trade” system. Until 2012, member states can decide individually to sell a maximum of 10 per cent of all allowances. From 2013 onwards, 100 per cent of the allowances will be sold to the energy sector in the EU-15, while there will be exemptions and a long phase-in period for heavy industry and new members states. A major motivation for this switch from free allowances to a sale of allowances were the huge windfall-profits of energy utilities. The utilities activated the “shadow value” of the allowances they had received for free in their balance sheets, thus inflating the consumer price for electricity. Governments decided that these windfall profits should be appropriated to the national budgets.

HOW DOES IT WORK IN GERMANY?

Germany has started in 2008 to sell about 10 per cent of the total emissions allocated annually to emitters in Germany; in 2009, the same amount is to be sold. The 40 mn Euro emissions allowances sold in 2008 (each for one ton of CO₂ equivalent emissions) by the national government brought a revenue of roughly 1 bn Euro. Of that income, 400 mn Euro were allocated for a comprehensive climate change programme focused on domestic measures, which included 120 mn Euro for a cooperation programme in developing countries.

In the 2009 budget, the amount allocated for development assistance has been increased to 225 mn Euro. The development ministry and the environment ministry share in the administration of these funds.

In a market-based system, one obviously faces a price risk. The market price per allowance was fairly stable during 2008 at around 25 Euro. Towards the end of the year, however, it dropped to around 13 Euro, as market actors anticipated a sharp decrease in demand due to the economic recession in the wake of collapsing financial markets. Governments will need to deal with the uncertainty. But if unpredictability of revenues is a feature of the system, the same holds true for revenues from the general tax system.

THE PERSPECTIVE

The European Union has decided through the European Council in December 2008 to expand the regulation of GHG emissions from 2013 on by further reducing the cap on overall emissions from the Union, and by moving to a large-scale system of selling emission allowances through auctions. In some sectors, up to 100 per cent of allowances will be sold. Current estimates of revenues are in the range of 20 to 35 bn Euro annually. These revenues will be transferred back to the member states and into their national budgets, improving the opportunities for increased budget allocations for development cooperation. While member states have been reluctant to make a collective decision which would earmark these resources for development assistance, many of them have indicated that they intend to earmark at least 50 per cent for climate change mitigation and adaptation, including development cooperation. The background is, of course, that the “global new deal” on the climate agenda, which is expected to be delivered by the 2009 UN climate conference in Copenhagen, will most likely include a financial package for developing countries which needs to be funded by additional revenues.

Emissions from air traffic will also be included in a similar, but separately organized cap-and trade scheme. The European Union has decided to sell 15 per cent of the allowances allocated to airlines. Since a level playing field for the highly competitive air transport market is a sensitive and important issue, regulatory moves are cautious to avoid competitive disadvantages for the European airlines.

CAN THIS INNOVATIVE FINANCING MECHANISM BE USED ONLY FOR THE CLIMATE AGENDA?

Money is fungible, and since the funds go through national budgets, there is no inherent reason to limit the purposes for which these funds will be spent to climate related programmes. However, political logic advises that citizens will be more convinced to accept an additional financial flow (partially coming from their household budgets) if the purpose is clearly linked to the source and recognized as a public good which holds benefits for everyone.

On the other hand, eradicating poverty and hunger is recognized as an equally important challenge, and at least one major driver for global warming – deforestation – is directly linked to poverty and population growth. Lacking capacity to implement a low-carbon growth path for clean development, or to build resilience against climate change, is part of a “development needs syndrome” which can be addressed only by a comprehensive strategy for sustainable development. Looking at it from this angle, a specific earmarking for a limited agenda would be self-defeating.

SOCIALLY RESPONSIBLE INVESTMENTS
EXAMPLE: A MUTUAL INVESTMENT FUND
IN PARTNERSHIP WITH A FRENCH BANK

BY JEAN-MICHEL SEVERINO,
CEO, FRENCH DEVELOPMENT AGENCY

Socially Responsible Investing, which represented a 28.5 billion Euro market at the end of 2007, has had significant growth for the past several years (an annual pace of +87 per cent).

In this context, the French Development Agency has decided to launch, in partnership with a French bank, a socially responsible investment as a mutual investment fund.

This project is meant to demonstrate that it is possible to benefit from remuneration by investing on a permanent basis in the French Development Agency's projects.

Acting through its dedicated Integral Development Asset Management (IDEAM) subsidiary, the French Development Agency has chosen to work on this project with a French bank that has shown strong interest in this initiative from the outset and has an extensive national network to distribute the product, in addition to significant capacity for Socially Responsible Investing (SRI).

The mutual fund will offer a slightly higher yield than money market instruments while adopting a cautious risk profile. As well as offering SRI financial products, the fund will facilitate equity capitalization in investment funds selected by the Agency or its subsidiary. The diverse nature of this portfolio will shape a communications strategy covering all the objectives and activities of the group.

KEY ISSUES AND PROJECT TIME LINE

A key challenge will be the French Development Agency's ability, in coordination with a French bank, to explain its objectives in a way that is both explicit and aimed at a general audience. The French Development Agency will thus produce, in addition to an institutional communications strategy, specific promotional information on important operations undertaken by the group in its featured areas (agriculture and rural development, water, environment and support for the private sector).

The Agency's mission statement will impose upon it a duty to be vigilant when selecting projects that will qualify for special publicity or mutual fund investment, and also with regard to the choice of SRI instruments in the product mix. The relative emphasis given to individual operations by the French Development Agency group and specific investment decisions, which necessarily involve risk, will also be subject to rigorous scrutiny. Safeguards against money laundering and funding of terrorist organizations will be put in place, and action will be taken to promote an environmental and social agenda. Lastly, the French Development Agency will have a seat on the investment committee, thereby enabling it to monitor the selection of SRI products acquired by the mutual fund and exercise oversight over the management of the fund.

The French Development Agency will support this vehicle through a contribution of 50 million euros, or by acquiring shares in the fund through a cash investment. The capital invested by the Agency will decrease over time as savers' equity subscriptions grow.

During the initial operating period of the mutual fund, a subscription target of between 100 and 200 million euros would seem reasonable.

ADDENDUM: PROGRESS REPORT ON
INNOVATIVE SOURCES OF DEVELOPMENT FINANCES
REPORT OF THE SECRETARY-GENERAL OF THE UNITED NATIONS

GENERAL ASSEMBLY, 64TH SESSION

Pursuant to the request to the Secretary-General in paragraph 51 of the Doha Declaration on Financing for Development (A/CONF.212/7), this document presents a progress report on the issue of innovative sources of development finance, taking into account all existing initiatives. There are three sections: 1) Introduction; 2) Mechanisms of Innovative Development Financing in Operation; and 3) Innovative Development Financing Initiatives under Development.

1. INTRODUCTION

1. In March 2002, the Monterrey Consensus recognized “the value of exploring innovative sources of finance” (paragraph 44) and sparked what has become a far-ranging effort to pilot and implement a variety of new mechanisms, mobilizing countries of different levels of development to meet internationally agreed UN Millennium Development Goals. In March 2008, the Secretary-General noted that the “post-Monterrey period has seen a flourishing phase in the number and variety of new initiatives for financing development. In the context of a new spirit of partnership between developed and developing countries, various groupings have explored together innovative ways of raising financing for development. This partnership “modality” could increasingly become the distinguishing feature of the exploring and implementing of new initiatives for financing development” (paragraph 1, E/2008/7). In the midst of a global financial and economic crisis, it is important to continue to support efforts in this new modality of international development cooperation in light of the creativity that has been unleashed building on consensus for enhanced cooperation in the revenue-raising side and the potential for large scale funding that could be generated. The features of this approach also have a potentially important role to play in addressing the issue of providing global public goods, including, for example, addressing the challenge of climate change.

2. The first concrete outcome in the innovative financing framework came with the publication of the Landau report in 2004. On this occasion, the Presidents of France and Brazil made a joint declaration on “Action against Hunger and Poverty” at the United Nations. This report called for partnership between developing and developed countries to address the “challenges and risks” “common to humanity as a whole.” It identified the feasibility of new financial sources such as solidarity levies and market-based mechanisms which could be coordinated internationally but implemented at a national level. In 2005, at the United Nations, the Declaration on Innovative Sources of Financing for Development was endorsed by 79 Heads of State. This high-level declaration has been regularly readdressed, at the call of the Leading Group on Solidarity Levies to Fund Development, which was renamed in May 2009 as the Leading Group on Innovative Financing for Development (hereinafter referred to as “The Leading Group”), during the United Nations General Assembly sessions.

3. Now, the pilot phase is completed. Several mechanisms are in place and new ones are being planned beyond the initial activities in the health sector. Innovative sources to fund development today include a wide range of different types of mechanisms. They are not limited to taxes, but include voluntary contributions, market-based mechanisms, and loans guarantees as well as levies. They are characterized by being stable, long-term and complementary to official public aid and oriented toward widening the sharing of the benefits of globalisation.

4. New actors have also emerged. The topic of innovative financing has received considerable international attention, in particular through the work conducted by the High-Level Task Force on Innovative

International Financing for Health Systems, as well as the Leading Group. The Leading Group, bringing together countries, international organisations, and non-governmental organisations, serves as a federating platform for different initiatives and new ideas. Indeed, this new framework has strengthened international solidarity while seeking to correct the negative effects of globalisation and market inefficiencies and facilitating international cooperation in an unprecedented manner. Innovative financing is in the avant-garde of re-thinking international development cooperation. A High Level Task Force has been created to explore and recommend actions to allow the strengthening of international assistance during this time of crisis. Social sector investments need to be protected regardless of economic fluctuations. The Task Force on Innovative International Financing, co-chaired by UK Prime Minister and the World Bank President, made recommendations at the Sixth Plenary Meeting of the Leading Group on Innovative Financing for Development in Paris on May 29th, to raise additional funds for 100 million of the world's most vulnerable people who remain trapped in poverty as a result of the food crisis that preceded the economic downturn. Given the high level prominence provided to the topic of innovative finance through the High-Level Task Force for Innovative International Finance for Health Systems, and the Leading Group on Solidarity Levies to Fund Development, and the "I-8 Group/L.I.F.E." have been recently created to promote innovative finance even further. This Group is closely linked to the work of the United Nations. Its purpose is to bring together the most promising existing innovative finance initiatives in order to share experiences, to work on one common set of messages to reinforce the current initiative from the High-Level Task Force for Innovative International Finance for Health Systems and the Leading Group on Solidarity Levies to Fund Development, to prepare the ground for new initiatives, and to coordinate the channeling of funds in order to achieve maximum impact on the ground. This is particularly relevant as this is part of an overall debate on the evolving health architecture and the need to reduce transactions costs.

5. Solidarity as basis for the international cooperation in raising resources. A key feature of the innovative financing for development framework is human solidarity. The aim of achieving the Millennium Development Goals by 2015 is shared by the international community as a whole. The innovative source of financing framework has encouraged both developed and developing countries to propose and implement new financing mechanisms jointly in an unprecedented way. The innovative financing for development framework has a strong element of partnership, joint design and decision-making between developing and developed countries in the aspect of raising the resources, whereas the traditional financing approach has emphasized partnership only in the use of the resource. Thus, it is a key feature that mechanisms such as air-ticket levy continue to be implemented both in developed and developing countries around the world.

6. This feature can also be seen in the new partnerships emerging from innovative financing framework, of which the Leading Group is an example. As other countries joined the effort with their own funding mechanism proposals, a wide range of creative ideas have emerged. The original innovative source of development financing example in paragraph 44 of the Monterrey Consensus of "special drawing rights allocations for development purposes" already carries the feature of cooperation in the revenue-raising side of development finance. The project pioneered by Norway on the impact of illicit capital flows on development, which has the potential of making available resources almost ten times the level of ODA for development, also satisfies this feature.

7. Predictability and long-term sustainability. The volatility of ODA flows has long been a weakness of the international aid system. One of the characteristics of innovative financing mechanisms is that they help to enhance predictability of funding. For example, international levies collected on air travel and directed toward an agreed identified purpose do not depend on political processes in the donor countries. This would also be true of other proposed initiatives, such as the proposed "currency transaction levy." Internationally concerted and coordinated national action to collect resources for a commonly agreed purpose is a key

innovation. The levies can be derived from activities that have a shared international impact and worldwide activities benefiting from globalization, such as air travel or exchange rate transactions. This approach therefore provides a way to identify long-term funding for development purposes.

8. Addressing market failures. Another important feature of innovative financing is that of addressing so-called market failures. Beyond the International Finance Facility for Immunization (IFFIm), there are now many proposals, particularly related to climate change mitigation that may become quantitatively significant in the future. The provision of, and funding for research in, medicines for tropical diseases are underserved by the private sector because of its emphasis on short-term returns. By coming together internationally and generating the needed funding through the issuance of bonds producing a reasonable return, the time-inconsistency market-failure is solved innovatively.

9. Broader participation beyond national governments. The innovative financing for development framework has mobilized participation in the international funding effort beyond national governments and has drawn in subnational governments, private actors and private citizens. Municipalities, regional governments, private foundations and international organisations also participate significantly in many projects under the framework of innovative sources of financing development.

10. The original impetus for this expanding and appealing financing framework emerged from the realization that in order to meet the goals set out in the UN Millennium Summit by 2015, the level of official development assistance (ODA) would have to double. The aforementioned Monterrey Consensus urged all developed countries to take concrete actions to achieve ODA funding levels to 0.7 of their GNP. Since 2002, there have been significant shortfalls to meet these goals. Under the Monterrey framework, there is a general agreement that innovative sources should be additional to these commitments and that the expansion of innovative finance does not relieve developed countries of their ODA responsibilities. The positive contribution that the innovative financing for development framework can contribute is in the building up of international solidarity through concrete actions consistent with the enormous generation of political will needed to meet ODA commitments. With the global community facing the urgent imperative of climate change, the kind of solidarity which innovative financing for development exemplifies is more critical than ever.

11. It is an opportune time to consolidate efforts to deepen analytical work on innovative financing and sustain international mobilisation and awareness. The Leading Group on Solidarity Levies to Fund Development has become a key platform for the exchange of ideas on innovative financing. This initiative has brought together representatives from 55 member countries from all over the world, international organisations and civil society, widening considerably the coordination of all efforts related to innovative financing.

2. MECHANISMS OF INNOVATIVE DEVELOPMENT FINANCING IN OPERATION

12. 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 the risks faced by developing countries, addressing obstacles identified, with a view of achieving specific development impacts.

13. The concept of innovations now extends to such diverse forms as thematic global trust funds, public guarantees and insurance mechanisms, cooperative international fiscal mechanisms, equity investments, growth-indexed bonds, countercyclical loans, distribution systems for global environmental

services, microfinance and mesofinance, and so on. Tailoring these instruments to the specific needs and vulnerabilities of developing countries and well-identified market inefficiencies remains one of the ongoing challenges of development finance. Much progress has been made in terms of both practical accomplishments and international mobilization since then and innovative sources of financing for development have been recognized at the highest level in a number of multiparty declarations.

14. The exploration and piloting of innovative sources of development financing and their promotion since the Monterrey Conference have largely been conducted within the framework of rapidly growing groups of countries. In October 2003, the President of France appointed a working group on new international financial contributions, whose report was published in September 2004. In January 2004, the French President, together with the presidents of Brazil and Chile and with the cooperation of the United Nations Secretary General, launched a technical group on innovating financing mechanisms called the “Group on Action against Hunger and Poverty,” with Spain, Germany and Algeria joining them later. On 20 September 2004, at the meeting of Heads of State and Government in New York, the Declaration on Action against Hunger and Poverty was supported by 107 countries.

15. At the 2005 World Summit, the Heads of State and Government joined the ongoing international efforts, with seventy-nine (79) countries endorsing the New York Declaration on Innovative Sources of Financing for Development, co-sponsored by Algeria, Brazil, Chile, France, Germany and Spain.

16. From 28 February to 1 March 2006 another meeting was convened by the French President in Paris, at which a second, more numerous group, called “the Leading Group on Solidarity Levies to Fund Development”, was launched, establishing the first institutionalized international framework for practical action. The objective of the Leading Group was to harness support from the international community, first, for the levy on airplane tickets, implemented in France in July 2006, and, second, to continue to explore and promote similar solidarity levies, as well as other possible innovative sources of finance. A total of 44 countries joined the Leading Group and 17 signaled their intention to introduce an air-ticket solidarity levy at the Paris Conference. Now it brings together 55 member countries and 3 observer countries, as well as major international organizations including the World Bank, WHO, UNICEF, UNDP, and NGOs. The Leading Group has a permanent secretariat in Paris and a six-month-rotating presidency, which has been held by Brazil, Norway, South Korea, Senegal, Guinea and France. Plenary meetings have been held in Brazilia, Oslo, Seoul, Dakar and Conakry, with the last one in Paris in May 2009.

17. The activities undertaken by the Pilot Group, as is also known in French, have made it possible to identify several families of initiatives: solidarity levies on globalised activities, implemented at national level but within a framework of international coordination, pre-financing mechanisms based on financial markets, but backed by public guarantees or support, facilitation by public authorities of voluntary private sector contributions through tax incentives and technical facilitation, and more generally, instruments that can generate extra resources over and above those from official aid and the market. Concrete innovative sources of finance so far explored under its aegis include currency transaction taxes, taxes on arms trade, taxes on carbon emissions, an International Financial Facility (IFF), advance market commitments (AMC), “solidarity levies” on things such as international airplane tickets, enhanced efforts to combat tax evasion and illicit financial transfers, and a world lottery.

18. Today a series of the initiatives have moved from discussion to reality. Since 2006, several mechanisms have been piloted and already proved their effectiveness, particularly in the field of health. The international initiative launched on international airline solidarity contribution was the first such mechanism. In 2006, the French President and its then Foreign Minister, together with the President of Brazil, and the governments of Chile, Norway and United Kingdom, established a small tax on airline

tickets, for which the combined contributions would help 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. This levy, which is applied on airline tickets charged to passengers taking off from airports in the territories of the countries implementing the scheme, has had no measureable effect on air traffic and provides a stable source of finance. The contributions levied at national level are then coordinated internationally for allocation, for the most part, to the UNITAID international drug purchasing facility, which aims to reduce the cost of malaria, tuberculosis and HIV-Aids treatments through a mechanism that affects both demand and supply. By financing UNITAID, donors, which include States as well as the private foundations, give this global drug purchasing authority considerable purchasing power, enabling it to negotiate 25 per cent to 50 per cent rebates on the price of drugs, including antiretroviral medicine, that are then dispatched across the world to countries that need them most. By guaranteeing sustainable and predictable revenues for the purchase of drugs, UNITAID also plays an important role in influencing manufacturers, inducing them to invest in crucial research and development for drugs that otherwise would not be produced.

19. Levies on air tickets are estimated to generate 220 million Euros annually worldwide and have enabled France to generate an extra 160 million Euros in conventional aid so far. Since its inception, 29 governments have joined France in contributing finances to UNITAID, which raises approximately US\$300 million every year – without negatively impacting the airline industry. UNITAID was officially launched at the United Nations General Assembly on 19 September 2006. A hosting agreement with WHO was also signed.

20. The promotion of the levy on air tickets remains a priority for the Leading Group, which launched a task force of African countries in Conakry to bring together the greatest number of States on the continent to implement this solidarity levy in accordance with their own characteristics.

21. Now its promoters are considering an additional concept: collecting very small amounts of money from the vast number of air travellers worldwide, on a strictly voluntary basis. This would be a breakthrough in three respects: first the donation would not solely be based on developed country donors; second its stability in time would not be based on binding contributions, but rather on the addition of a great number of small donations; thirdly internet and automatic payment mechanisms would manage the system – thereby reducing collection costs to close to zero. Because similar initiatives are, first of all, likely to generate additional and much more predictable flows of resources, instrumental innovation is likely to evolve further down this highly promising path, in response to the emerging need for additional and predictable resources in many other areas. Furthermore, the Millennium Foundation was established in November 2008. Its goal is to develop and implement innovative finance mechanisms to support the three health-related Millennium Development Goals. The Millennium Foundation for Innovative Finance for Health is now developing this innovative fundraising mechanism that will make it easy for everyone who travels to make a voluntary micro-donation to UNITAID, to help fight the severe health crisis of contagious diseases threatening the world's most vulnerable populations. The start-up capital of the Millennium Foundation was provided by UNITAID, and UNITAID will be the principal recipient of funds mobilized. The Millennium Foundation is governed by a Board composed of representatives of donor and recipient Governments including France, the United Kingdom, Brazil, Chile and Norway, and representatives of African and Asian countries; representatives of NGOs specialized in the three pandemics and of communities living with diseases; and the Gates Foundation.

22. The International Finance Facility for Immunization (IFFIm) was the next successful project. It was based on the IFF proposal initially made by the UK in 2003, which the UN Secretary General called upon the international community to launch in 2005. Following the Monterrey Conference, the UK promoted the “big IFF” initiative for raising funding of the MDG's. It is a hybrid approach combining

both public and private sources in a creative financing model. The idea consisted in issuing bonds based on legally-binding 10 to 20 year donor commitments. By frontloading long-term aid flows, this resource-mobilization instrument aims to both lock in precious resources over a given period of time and achieve a critical mass of funding to allow for quick progress towards the MDGs.

23. The International Finance Facility for Immunization (IFFIm) was launched in January 2006. Spain, Italy, Norway, Sweden and the Bill and Melinda Gates Foundation took part in the IFFIm launch alongside France and the United Kingdom. They were joined by South Africa in March 2007 and talks are being held inviting other countries. This approach involves a large-scale pre-financing mechanism which is based on guaranteed bonds. Funds are raised by issuing bonds on the basis of donors' pledges, countries or private foundations. The bonds are issued regularly on the basis of the scheme drawn up when the pledges are signed and bought on financial markets. The flows of funds are predictable and stable and can be used directly for projects in the health sector.

24. Irrevocable sovereign financial commitments under the IFFIm are structured as rising cash flows over twenty years, enabling it to carry an AAA rating. Donors have pledged close to €4 billion over twenty years to fund immunization programmes in developing countries. In effect, the twenty-year government pledges are, after selling the bonds in the capital markets, converted into cash today. The first issuance in November 2006 raised \$1 billion from a global benchmark bond and \$220 million equivalent from a placement with Japanese retail investors in March 2008. In the world today where financial leverage has been questioned, this is leverage of the most constructive form.

25. The IFFIm aims to raise four times as much as the 2006 bond launch in capital markets over the next 10 years – enough to support the immunization of half a billion children through campaigns against measles, tetanus, and yellow fever. The IFFIm is expected to scale up spending by as much as \$500 million annually up to 2015 through the issuance of \$4 billion worth of floating bonds on capital markets to finance vaccination programmes via the Global Alliance for Vaccines and Immunization (GAVI) Fund in the 70 poorest countries in the world from 2006 to 2015.

26. GAVI manages the funds and allocates resources to immunization projects with a track record. IFFIm has truly transformed the capacity of GAVI, with all of the \$1.2 billion raised in the last two years already disbursed in vaccination programmes. In 2007 alone, \$862 million was disbursed to various immunization and health system improvement programmes, such as the pentavalent vaccine initiative. This could save over 500 million children in the future. Other important interventions are also being carried out against measles, yellow fever, polio and tetanus contracted during births.

27. The third scheme known as the Advanced Market Commitments (AMCs), first proposed some years ago in academic circles, is a related approach that brings together market instruments and public financing. In 2005, Italy presented the AMC concept to its G8 partners, in the context of funding health programmes as a crucial element in the fight against poverty. The first Report (2005) on AMCs raised a lot of interest and the G8 agreed to further explore its feasibility. Soon a long, complex, preparatory process to translate the idea into reality started, with the World Bank, the GAVI Alliance and UNICEF contributing to the process with technical expertise. The first technical meeting of the AMC took place in Rome in September 2006 with the participation of G8 countries when a pilot project against pneumococcus, a lethal pneumonia inducing bacteria which still kills 1.6 million people a year, most of them children, was agreed.

28. Advance Market Commitments seek to address the shortcomings of pharmaceutical markets, especially in case of the poorest countries, by establishing contractual partnerships between donors and pharmaceutical firms to focus research into neglected diseases and distribute drugs at affordable prices.

Under the AMC, government donors commit money to guarantee the price of vaccines once they have been developed, thus creating a viable future market. AMCs also provide incentives for the development of a suitable vaccine for poor countries.

29. Italy's announcement that it would establish an Advanced Market Commitment facility for a new pneumococcal vaccine was followed by pledges totaling \$1.5 billion - the recommended size of the pilot AMC project for pneumococcal vaccines - on 9 February 2007 in Rome by six donors (Italy, UK, Canada, Norway, Russia and the Gates Foundation). Although a pneumococcal vaccine currently exists, it does not cover the major strains active in developing countries. If successful, accelerated introduction of pneumococcal vaccines should begin in 2010. This AMC is expected to spur investments by two or three multinational firms and by at least one firm in an emerging country to develop new vaccines, scale them up and license them, utilizing more efficient second-generation technologies for vaccine production tailored to developing countries' needs. A consensus was also reached on the institutional structure of GAVI to host the AMC 'Secretariat.'

30. A fundamental threshold has been crossed with instruments such as GAVI and UNITAID. Both the Global Fund to fight AIDS, Tuberculosis and Malaria and the GAVI Alliance now fund a growing proportion of their work from these sources. These pilot projects need to be scaled up to their full potential and this message was reaffirmed during the High-Level Event on the Millennium Development Goals at the General Assembly in September 2008, in the Declaration entitled "Action Against Hunger and Poverty: Declaration on Innovative Sources of Financing for Development," with the launching of a high-level taskforce on innovative international finance for health systems.

31. Another innovative financing mechanism related to health, known as the Debt2Health was launched in Berlin on 26 September 2007. This initiative of the Global Fund was conceived to help relieve the strain on resources of developing countries by converting portions of their old debt claims into new domestic resources for health. Under individually negotiated agreements, creditors relinquish a part of their rights to re-payment of loans on the condition that the beneficiary country invests the freed-up resources into approved Global Fund programmes.

32. Germany was the first champion creditor in Debt2Health, committing to make available €200 million from debt-to-health conversions by 2010. The first swap agreement was also signed between Germany and Indonesia on the occasion of the global launch of Debt2Health for €50 million to finance urgent and lifesaving investments in HIV-services and public health interventions using Global Fund systems. Another Debt2Health swap was concluded between Germany and Pakistan for €40 million at the International Conference on Financing for Development in Doha in November 2008. Additional agreements are under discussion including the conversion of AUS\$75 million of Indonesian commercial export credit debt. Based on the current Debt2Health negotiations, debt swaps will have generated an additional US\$450 million by 2010 to fight the three pandemics and prospects for a doubling of volume by 2015 are good with additional creditors and debt-distressed countries joining the programme.

33. Another kind of innovation that aims for systemic impacts in the area of climate change is the set of taxation instruments that are currently under investigation. Carbon saturation and the depletion of fossil fuels, two of the planet's major environmental challenges, remain insufficiently incorporated in the pricing system. Despite its rise over the last few decades, the price of fossil fuels is still too low and too volatile to change private choices. Carbon taxes can help induce systemic changes by increasing the cost of emission. In its new 'energy and climate package', the European Union introduced a bidding mechanism for CO₂ emission rights. The proceeds will be distributed to member states, with the proviso that a minimum of 20 per cent of these will be applied to policies in favour of renewable energies. Other regional groupings can subsequently join or undertake similar arrangements.

34. International collective action will be critical in mobilizing an effective, efficient and equitable response on the scale required to face the climate change challenge. The EU climate and energy package intends to contribute towards financing actions to mitigate and adapt to climate change, in particular through the carbon market in the context of a wider international agreement for achieving, as the European Council underlines, the strategic objective of limiting the global average temperature increase to not more than 2°C above pre-industrial levels. In this context, an international energy investment strategy is a critical component of climate change efforts. As the European Council noted, Member States will determine, in accordance with their respective constitutional and budgetary requirements, the use of revenues generated from the auctioning of allowances in the EU emissions trading system. Members expressed willingness to use at least half of this amount for actions to reduce greenhouse gas emissions, mitigate and adapt to climate change, for measures to avoid deforestation, to develop renewable energies, energy efficiency as well as other technologies contributing to the transition to a safe and sustainable low-carbon economy, including through capacity building, technology transfers, research and development. Part of the funds generated could be applied to enabling and financing mitigation and adaptation to climate change in developing countries, in particular in the least developed countries, within the framework that might emerge from the Copenhagen conference at the end of 2009.

35. ‘Payment for environmental services’ (PES) is another example of an innovative scheme devised to channel resources to those delivering desired public good programmes. 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. For instance, downstream users of water cleansed by an upstream forest can pay those who manage this forest to ensure a sustainable flow of this service into the future. It can be envisaged that similar instruments could pay for the provision of global environmental services, such as the preservation of rainforests by countries like Congo, Indonesia or Brazil. The ‘Clean Development Mechanisms’ (CDM) arrangements under the Kyoto Protocol is a similar arrangement that allows industrialised countries or their businesses with a greenhouse gas reduction commitments to invest in projects that reduce emissions in developing countries as an alternative to more expensive emission reductions in their own countries.

36. Looking ahead, the Doha call to governments for the next six years is to continue to innovate in development finance. Governments need to find creative ways to harness private capital markets. Of six notable financial innovations created so far, two - the Advanced Market Commitment (AMC) and Debt2Health - are ultimately funded from public sector sources. Three approaches are notably derived from private sector commercial flows. The Air Ticket Levy is clipped from traveller’s airfares. Revenues from trading CO₂ emission permits in Germany come from industry, a financial transfer from a “public bad” to a “public good”. These private sector mechanisms, some mandatory, some voluntary, represent real additionality. With budget support, thematic trust funds and programmes, such as PES and CDM, are just a few of the new tools that have been designed to finance long-term, recurrent collaborative efforts between industrialized and developing nations. Similar to resource-mobilisation schemes, it is likely that most of these products will continue to coexist and form part of this emerging global public policy.

37. From the outset, the Leading Group on Solidarity Levies to Fund Development has paid attention to illegal financial flows from developing countries. At its plenary meeting in Seoul in September 2007, it asked Norway to lead an international task force to assess the scale of such flows and their impact on development, to clarify the existing legal framework and the obstacles to its effectiveness, to identify the actors in the phenomenon and their modus operandi and to identify possible partners and additional policy tools. As noted in the Conakry Declaration of November 2008, “substantial amounts of funds

that could have contributed to development disappear through tax evasion and other illegal means, both in the North and in the South”. This global problem is particularly serious in the Least Developed Countries, depriving them of resources essential for the financing of public services and investments.

38. In this connection, the Leading Group underlined the direct link between illicit flows and the financing of development, and set the goal to ensure that a fair share of the world’s resources are made available to its poorest people especially in developing countries. It was also decided that the task force work with new partners through a new “Global Task Force” in the Global Financial Integrity programme, under the direction of Norway and the Leading Group, and with participation by other interested countries and organizations of civil society. The first meeting of the new task force was held in Washington in January 2009 when the Leading Group set out its priorities for a number of forthcoming international meetings.

39. The Leading Group also supports the principle of digital solidarity, initially promoted by Senegal. The so-called one per cent solidarity levy to finance Digital Solidarity Fund aims at overcoming the digital gap between developed and developing countries, a major obstacle to development. This mechanism would be based on a voluntary commitment by any public or private institution to introduce such criteria in their invitations for tender on public contracts concluded in IT sector. The World Conference on Digital Solidarity which took place in Lyon, France on 24th November 2008 noted the pioneering character of the act passed by the Parliament of Senegal in 2008 setting up such a voluntary contribution and called upon all countries to support the objectives reflected in the Draft International Convention on Digital Solidarity.

3. INNOVATIVE DEVELOPMENT FINANCING INITIATIVES UNDER DEVELOPMENT

40. The widening interest and growing experience in pursuing the innovative sources of financing framework are highlighting three aspects that are important to the future of this novel approach of international development cooperation.

41. First, the exploration of this framework has uncovered the potential of innovative approaches to spending for development, now running in parallel to innovations in raising financing. In the case of the support for vaccine provision, the intervention permits market inefficiencies to be addressed in a way that also overcomes the constraints posed by income differences across countries. The application of the framework to respond to other challenges such as climate change is promising because the same kind of gaps in terms of market weaknesses and differential capabilities are involved.

42. Second, there is the challenge acknowledged by all countries and other parties deeply involved in the framework of scaling up these mechanisms and spreading these to other areas. Innovative sources of financing can generate more funding for development based on shared goals and a mode of international cooperation that has no historical precedent. Finding ways to spread and scale up these activities will require the application of both technical expertise and greater political effort.

43. Third, there is a need to strengthen coordination efforts and communications activities among existing mechanisms to enhance each of them individually and build a growing consensus on the approach. The experience of the last few years demonstrates the power of individual ideas being developed into implementable proposals under the overall framework. Improving visibility will intensify these efforts.

44. Expanding the number of actors involved in the framework is an important priority at this point in time. A variety of proposals for voluntary contributions at the point of payment are being pursued

at this time. A concrete idea is the contribution of \$1 through a clicking on a tab in webpages that provide reservations for hotels, air tickets, and other purchases through the Internet. This idea will be realized through the implementation of creative finance mechanisms, like the Millennium Foundation's voluntary solidarity contribution, which will give millions more the opportunity to give by opting for a contribution of \$2 whenever they purchase airline tickets.

45. There is a large array of innovative financing proposals, but they seem to 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. Reflecting the growing consensus, an independent experts report commissioned by the Secretary-General prior to the Monterrey Conference noted in 2001 that "Innovative sources of finance could include a currency transaction tax, a carbon tax, resuming Special Drawing Right allocations, and/or establishing an international tax organization" and these ideas could indeed serve as guideposts for defining the scope of near-term priorities in this area.

46. Currency Transaction Tax (CTT). The CTT is the conceptual successor to the Tobin Tax (TT) first proposed in the 1970s as a means of reducing the volatility of capital flows across borders to minimize the threat of exchange rate crises. The two are identical in terms of tax base and tax collection mechanisms, but differ by purpose and proposed rate. If the TT rate needed to be high enough to influence foreign exchange market behavior, the CTT rate would be at a miniscule level to raise money without disrupting market transactions. Estimates of revenue from a CTT differ widely because of differences in proposed tax rates and range from \$24 to \$300 billion per year. As the volume of international transactions is immense, at an estimated \$1 trillion per day, a very small levy on foreign exchange transactions still could raise billions, without affecting markets. For instance, a coordinated 0.005 percent tax on all the major currencies is estimated to raise at least \$33 billion every year. More importantly, it would widen the dealer spread by only one basis point and reduce transaction volume by 14 percent, which would be well within the recent range of transaction volume variability and would not be disruptive of the world foreign exchange markets. It has been estimated that such a tax levied only on the US dollar transactions against all other currencies would yield annual revenues of \$28.4 billion. A coordinated tax on just the euro and the British pound together would yield \$16.5 billion, while a tax just on the euro would yield €12.3 billion.

47. Thus the CTT is a promising source of independent and stable finance for development and the Leading Group has been pursuing this project since its establishment as an "economically viable and technically feasible" financing mechanism, and as stated by former French President, "using a fraction of the new wealth created by the globalization process, a large part of which escapes states' taxation". There is great potential to use such a tax with broad global base for global needs such as mitigation of climate change and key international development projects.

48. Carbon Taxes. Carbon taxes not only help to reduce carbon emissions but also generate a flow of revenues that could complement official development assistance, both multilateral and bilateral, as well as global funds to deal with the urgent challenges of climate change, conflict, and HIV/AIDS. Depending on the tax rate, these taxes have potential to raise revenue in support of development, estimated up to \$75 billion each year, although a major part may have to assist affected workers and industries to mitigate the costs involved of reducing their carbon emissions. For instance, according to a Swiss Government proposal, a \$2 per ton levy on carbon dioxide (CO₂) would raise around \$48 billion per year, but given the high returns to taking action now on these "global bads," a higher levy could provide a timely market signal to encourage a faster rate of innovation and adoption of clean technologies.

49. Sweden, Finland, the Netherlands and Norway introduced carbon taxes in the 1990s. The EU considered a carbon tax covering member states prior to starting its emission trading scheme in 2005 and Australia, Italy, the UK, the USA and Canada have been considering similar taxes. The IMF has recently proposed a uniform global tax on carbon dioxide as the most efficient way for managing climate change, in preference over direct regulation or performance standards. According to IMF calculations, if all countries introduce such a tax in 2013, the carbon price would reach \$86 per ton by 2040, corresponding to a \$0.27 increase in the price of a gallon of gasoline over current levels, and a yield of \$71/ton of CO₂ tax revenue. Projected aggregate revenues from such charges on carbon emissions range from insignificant 0.1 per cent in 2020 to more than 3 per cent of world GDP in 2060. The disadvantage of a global approach is that poorer countries will be taxed at several times the rate of developed countries, as a proportion of their GDP, therefore, at a minimum cross border financial transfers will be needed to assist developing countries with adjustment under this scenario. A uniform global taxation scheme could also impose hardships on low income households, whose coping strategies to higher market prices could increase environmental damage. As a climate mitigation and fiscal tool, carbon taxes would be most suitable for implementation in mature economies.

50. An international carbon tax, agreed on environmental grounds and structured to properly embody the principle of differentiated responsibilities based on capability, could build on the dynamic launched by the UN Framework Convention on Climate Change and the Bali Conference for financing climate change adaptation and mitigation at the Copenhagen conference.

51. Reducing Emission from Deforestation in Developing Countries. The UN, 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. Buyers would be those countries seeking to meet their own carbon emission limits. Since it is estimated that deforestation accounts for 20 per cent of the greenhouse gases responsible for climate change, the financing flows could be significant especially for Africa and Indonesia, where endangered tropical forests are located. It is estimated that the flow to all participating countries could amount to US\$1 billion a year. An alternative proposal, coming from the UK, is to make payments to tropical countries based on the size of their forests. Irrespective of what scheme eventually comes to pass, the trend is clear: increasing linkages between climate change interventions and flows of development finance over the next decade.

52. Special Drawing Rights (SDRs). Resuming allocations of SDRs, which were initially created as a new international reserve asset managed by the IMF, to provide global liquidity and stable international reserve assets has come to the fore in the multilateral response to the current global crisis. In April 2009, “G20” countries called on the IMF to issue the equivalent of \$250 billion in new SDR to be allocated in proportion to existing IMF quotas.

53. From a purely technical point of view, new SDRs allocations would not involve direct costs to developed countries. For this reason, among others, their potential use for development purposes has been on the agenda as early as the Brandt Commission Report in 1970. However, the proposed Fourth Amendment of the Fund’s Articles of Agreements submitted in 1997, which would have doubled cumulative SDR allocations to SDR 42.8 billion, has not been implemented despite endorsement by 111 IMF member countries because the required 85 per cent to put the amendment into effect was not been reached.

54. Research suggests that the use of SDRs for supplementing aid and providing global public goods would not compromise international stability; in fact, the pattern of recent years suggested that a decreased dependence on the currency of one country as a unit of account and to provide global liquidity could actually improve systemic stability. New SDRs could be directed primarily at the heavily indebted

countries to permit them to reduce their debt burdens independent of creditor conditionality.

55. More formalized ways of using SDR allocations for development finance and countercyclical activity for international stabilization, including allocating more SDRs for under-represented members in the immediate period could contribute to the ongoing governance reform of the IMF functions. As an illustration, an annual issue of SDRs, at an upper limit of 10 percent of combined quotas would yield SDR20 billion and, if used for development finance, with developed countries donating their share, would yield about \$25-30 billion additional development finance.

56. International Tax Cooperation. At a seminar held by the OECD on Innovative financing perspectives in the new global economic outlook on 28 May 2009, in Paris, its Secretary-General stated that “Innovative finance should contribute to build up the capacity of tax administrations in developing countries; this is the ‘new frontier’ in development policy.” Recent OECD work on combating global tax evasion will help these countries counter the use of tax havens to diminish their revenue gap. It is difficult to measure the impact of more transparent taxing regimes on developing countries’ economies, but some NGOs estimate that it could be between \$50 and 250 billion a year. Strengthened international tax cooperation should form a critical element of a more effective global system of financial regulation. In the outcome document of the conference (the Doha Declaration), governments specifically requested the Economic and Social Council to examine the strengthening of existing institutional arrangements, including the United Nations Committee of Experts on International Cooperation in Tax Matters. This United Nations activity is helping developing countries to mobilize public revenues through enhancing international cooperation in areas such as combating tax evasion, and strengthening tax administration and taxation of services and natural resource use. Strengthening its capacity and status would serve to enhance international cooperation on tax matters and would be complementary to the additional commitment made by Governments to enhance tax revenues through modernized tax systems, more efficient tax collection, a broader tax base and effectively combating tax evasion. All these agreed policies would be undertaken with an overarching view to making tax systems more pro-poor. Apart from cooperation on tax matters, the Doha Declaration also contains new or strengthened commitments in areas such as capital flight, corruption and the financing of terrorism.

57. Innovative financing mechanisms have demonstrated their strong potential to complement traditional development aid to achieve the MDGs, even though the quantitative impact has been limited, having raised around two and a half billion dollars in additional funding since 2006. Thus there exists a genuine need to scale up innovative financing as a complementary, more stable and predictable source of development finance, as the Leading Group stressed at their last plenary meeting in Paris at the end of May 2009.

58. The time has come to build upon the wealth of experiences of existing innovative financing mechanisms and to expand their role in the global aid architecture in general and their developmental impact on the ground. The Secretary General’s Special Advisor’s work with the newly created I-8 Group/L.I.F.E. involving the major existing mechanisms with a view to sharing best practices, reinforcing and coordinating current efforts and galvanizing public support for further new initiatives, will be important in this respect.

59. Innovative financing is an important element in the complex and evolving development assistance architecture that has become highly pluralistic and eclectic in recent years, including global funds and programmes, foundations, non-governmental organizations, public-private partnerships and philanthropic and voluntary contributions, as well as emerging donors. It is therefore critical to ensure adequate transparency, accountability and effectiveness of increased resources and their use due to innovative financing projects in line with efforts to reform the international aid architecture.

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