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Progress report on innovative sources of development finance

Report of the Secretary-General

Summary

Pursuant to the request to the Secretary-General in paragraph 51 of the Doha Declaration on Financing for Development (see A/CONF.212/7), the present document presents a progress report on the issue of innovative sources of development finance, taking into account all existing initiatives.

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I. Introduction

1. The Monterrey Consensus on Financing for Development[1] recognized "the value of exploring innovative sources of finance" (para. 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 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" (E/2008/7, para. 1). 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 the light of the creativity that has been unleashed building on the 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 Commission Report on Innovative Development Funding Solutions in 2004. On that occasion, the Presidents of France and Brazil made a joint declaration on "Action against Hunger and Poverty" at the United Nations. The 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 General Assembly sessions.

3. The pilot phase is now 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 towards widening the sharing of the benefits of globalization.

4. New actors have also emerged. The topic of innovative financing has received considerable international attention, in particular through the work conducted by the

[1] *Report of the International Conference on Financing for Development, Monterrey, Mexico, 18-22 March 2002* (United Nations publication, Sales No. E.02.II.A.7), chap. I, resolution 1, annex.

High-Level Task Force on Innovative International Financing for Health Systems, as well as the Leading Group. The Leading Group, bringing together countries, international organizations, and non-governmental organizations, 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 globalization and market inefficiencies and facilitating international cooperation in an unprecedented manner. Innovative financing is in the avant-garde of rethinking 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 the Prime Minister of the United Kingdom and the World Bank President, made recommendations at the sixth plenary meeting of the Leading Group in Paris on 29 May, 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. Following upon 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, the I-8 Group/L.I.F.E. (Leading Innovative Financing for Equity) has recently been created to promote innovative finance even further.[2] The 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, to prepare the ground for new initiatives, and to coordinate the channelling of funds in order to achieve maximum impact on the ground. This is particularly relevant, as it is part of an overall debate on the evolving health architecture and the need to reduce transactions costs.

5. *Solidarity as a basis for 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 raising 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 an 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 frameworks, of which the Leading Group is an example. As other countries joined the effort with their own funding mechanism proposals, a

[2] The 8 Mechanisms of I-8 are: the International Finance Facility for Immunization, created to support the Global Alliance for Vaccines and Immunizations, UNITAID, the Advance Market Commitments for vaccines, the "Debt2Health" initiative of the Global Fund to Fight AIDS, Tuberculosis and Malaria, (PRODUCT) RED, the Responsible Social Investment initiative of the Agence Française de Développement, the use of revenues from the Carbon Market and the Millennium Foundation for Innovative Finance for Health.

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"[1] 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 10 times the level of official development assistance (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 towards 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, 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 (whereby an outcome is not the best one in the long term even though the market suggests that it is in the short term) 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, local governments, private foundations and international organizations 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 at the United Nations Millennium Summit by 2015, the level of 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 gross national product (GNP). Since 2002, there have been significant shortfalls to meet these goals. Under the Monterrey framework, there is a general agreement 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 mobilization and awareness. The Leading Group 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 organizations and civil society, widening considerably the coordination of all efforts related to innovative financing.

II. 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 risks faced by developing countries, addressing obstacles identified, with a view to 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, counter-cyclical 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 President of France, together with the Presidents of Brazil and Chile and with the cooperation of the Secretary-General, launched a technical group on innovating financing mechanisms, 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 in New York joined the ongoing international efforts, with 79 countries endorsing the Declaration on Innovative Sources of Financing for Development, co-sponsored by Algeria, Brazil, Chile, France, Germany and Spain.

16. Another meeting was convened by the President of France in Paris, from 28 February to 1 March 2006, at which a second, more numerous group, 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 signalled 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, World Health Organization (WHO), United Nations Children's Fund (UNICEF), United Nations Development Programme (UNDP) and non-governmental organizations. The Leading Group has a permanent secretariat in Paris and a six-month-rotating presidency, which has been held by Brazil, Norway, the Republic of Korea, Senegal, Guinea and France. Plenary meetings have been held in Brasilia, Oslo, Seoul, Dakar and Conakry, with the most recent one held in Paris in May 2009.

17. The activities undertaken by the Leading Group (or the Pilot Group, as it is also known by translation from the French) have made it possible to identify several families of initiatives: solidarity levies on globalized activities, implemented at the 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, advance market commitments, "solidarity levies" on items such as international airplane tickets, enhanced efforts to combat tax evasion and illicit financial transfers, and a world lottery.

18. Today a series of 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 in the form of an international airline solidarity contribution was the first such mechanism. In 2006, the President of France and the then Foreign Minister, together with the President of Brazil, and the Governments of Chile, Norway and the United Kingdom, established a small levy 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. The levies on airline tickets, charged to passengers taking off from airports in the territories of the countries implementing the scheme, have had no measurable effect on air traffic and hence provide a stable source of finance. The contributions levied at the 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 $300 million every year — without negatively impacting the airline industry. UNITAID was officially launched at the 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 possible number of States on the continent to implement this solidarity levy in accordance with their own characteristics.

21. Currently, 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; third, 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 goal of the Millennium Foundation, which was established in November 2008, 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 currently developing this innovative fund-raising 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, which will be the principal recipient of funds mobilized. The Millennium Foundation is governed by a Board composed of representatives of donors and recipient Governments including France, the United Kingdom, Brazil, Chile and Norway, and representatives of African and Asian countries; representatives of non-governmental organizations specialized in HIV/AIDS, malaria and tuberculosis and of communities living with diseases; and the Bill and Melinda Gates Foundation.

22. The International Finance Facility for Immunization was the next successful project. It was based on the International Financial Facility proposal initially made by the United Kingdom in 2003, which the United Nations Secretary-General called upon the international community to launch in 2005. Following the Monterrey Conference, the United Kingdom promoted the "big International Financial Facility" initiative for raising funds for the Millennium Development Goals. 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 front loading long-term aid flows, this resource-mobilization instrument seeks to lock in precious resources over a given period of time and

achieve a critical mass of funding to allow for quick progress towards the Millennium Development Goals.

23. The International Finance Facility for Immunization was launched in January 2006. Spain, Italy, Norway, Sweden and the Bill and Melinda Gates Foundation took part in the International Finance Facility for Immunization 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 International Finance Facility for Immunization are structured as rising cash flows over 20 years, enabling it to carry an AAA rating. Donors have pledged close to €4 billion over 20 years to fund immunization programmes in developing countries. In effect, the 20-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 International Finance Facility for Immunization 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 International Finance Facility for Immunization 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 70 of the poorest countries in the world from 2006 to 2015.

26. GAVI manages the funds and allocates resources to immunization projects with a track record. The International Finance Facility for Immunization 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 more than 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 Advance Market Commitments, 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 Advance Market Commitment concept to its Group of 8 partners, in the context of funding health programmes as a crucial element in the fight against poverty. The first report (2005) on Advance Market Commitments generated a great deal of interest and the G-8 agreed to further explore its feasibility. A long, complex, preparatory process to translate the idea into reality started soon after, with the World Bank, the GAVI Alliance and UNICEF contributing to the process with technical expertise. The first technical meeting of the Advance Market Commitment took place in Rome in

September 2006, with the participation of G-8 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 the 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 Advance Market Commitment, government donors commit money to guarantee the price of vaccines once they have been developed, thus creating a viable future market. Advance Market Commitments also provide incentives for the development of a suitable vaccine for poor countries.

29. Italy's announcement that it would establish an Advance Market Commitment facility for a new pneumococcal vaccine was followed by pledges totalling $1.5 billion — the recommended size of the pilot Advance Market Commitment project for pneumococcal vaccines — on 9 February 2007 in Rome by six donors (Italy, the United Kingdom, Canada, Norway, the Russian Federation 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 Advance Market Commitment 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 the needs of developing countries. A consensus was also reached on the institutional structure of GAVI to host the Advance Market Commitment 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 Action against Hunger and Poverty Declaration on Innovative Sources of Financing for Development, with the launching of a high-level task force 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 repayment 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 HIV/AIDS, Malaria and Tuberculosis, 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 carbon dioxide emission rights. The proceeds will be distributed to member States, with the proviso that a minimum of 20 per cent of them 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 European Union 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 European Union 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, avoid deforestation, develop renewable energies and improve energy efficiency as well as to promote 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" 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 the 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 such as the Democratic Republic of the Congo, Indonesia or

Brazil. The Clean Development Mechanisms arrangement under the Kyoto Protocol is a similar arrangement that allows industrialized countries or their businesses with 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 and Debt2Health — are ultimately funded from public sector sources. Three approaches are notably derived from private sector commercial flows. The air-ticket levy is applied to travellers' airfares. Revenues from trading carbon dioxide 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 payment for environmental services and Clean Development Mechanisms, 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-mobilization 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 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 the participation of other interested countries and civil society organizations. 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 1 per cent solidarity levy to finance the 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 the information technology sector. The World Conference on Digital Solidarity, which took place in Lyon, France, on 24 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.

III. 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 support for the provision of vaccines, 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 them 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 currently an important priority. A variety of proposals for voluntary contributions at the point of payment are being pursued. A concrete idea is the contribution of $1 on web pages 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, the report of the High-level Panel on Financing for Development (see A/55/1000) 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*. This tax is the conceptual successor to the Tobin tax 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 Tobin tax rate needed to be high enough to influence foreign exchange market behaviour, the currency transaction tax rate would be at a miniscule level to raise money without disrupting market transactions. Estimates of revenue from a currency transaction tax differ widely because of differences in proposed tax rates and range from $24-$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 per cent 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 per cent, 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 United States 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 currency transaction tax 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 at the Paris International Conference on Solidarity and Globalization by Jacques Chirac, former President of the French Republic: “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 a 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 ODA, 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 the 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 in reducing their carbon emissions. For instance, according to a Swiss Government proposal, a $2 per ton levy on carbon dioxide would raise about $48 billion per year, but given the high returns in 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 European Union considered a carbon tax covering member States prior to starting its emission trading scheme in 2005 and Australia, Italy, the United Kingdom, the United States of America 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 carbon dioxide tax revenue. Projected aggregate revenues from such charges on carbon emissions range from an 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, for the purpose of financing climate change adaptation and mitigation, build on the dynamics that were launched by the United Nations Framework Convention on Climate Change and the United Nations Climate Change Conference held at Bali in 2007 as well as the United Nations Climate Change Conference to be held in Copenhagen in 2009.

51. *Reducing emission from deforestation in developing countries*. The United Nations, with financial support from Norway, has launched a plan for countries with tropical forests to issue tradable carbon credits obtained from the saving and planting of trees. 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 $1 billion a year. An alternative proposal, coming from the United Kingdom, 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*. Resuming allocations of special drawing rights (SDRs), which were initially created as a new international reserve asset managed by 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, the Group of 20 countries called on IMF to issue the equivalent of $250 billion in new SDRs to be allocated in proportion to existing IMF quotas.

53. From a purely technical point of view, new SDR 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 Agreement 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 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 counter-cyclical activity for international stabilization, including allocating more SDRs for underrepresented 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 per cent of combined quotas would yield SDR 20 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 on 28 May 2009 in Paris by the Organization for Economic Cooperation and Development (OECD) on innovative financing perspectives in the new global economic outlook, its Secretary-General, Angel Gurría, 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 play a part in helping 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 economies, but some non-governmental organizations 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 by 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. Enhancing consensus on standards of cooperation in international tax matters is best generated in universal forums such as in the United Nations. The participation at such a policymaking level by ministers of finance is critical in this regard and consideration should be given to establishing an intergovernmental commission for the coordination of standard setting in tax cooperation as recently suggested by the Commission of Experts of the President of the United Nations General Assembly on Reforms of the International Monetary and Financial System.

57. Innovative financing mechanisms have demonstrated their strong potential to complement traditional development aid to achieve the Millennium Development Goals, even though the quantitative impact has been limited, having raised about $2.5 billion 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 sixth plenary meeting in Paris, on 28 and 29 May 2009.

58. The time has come to build upon the wealth of experience 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 Adviser'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.