

## They Break Taboos But Don't Go the Whole Hog

A huge funding gap threatens to torpedo efforts by the international community to cope with critical global development and environmental challenges. At least \$324 billion will be required each year between 2012 and 2017 -- a reason pressing enough for a Committee of Experts to break taboos and explore innovative financing sources, well ahead of the MDG Summit 2010.

But the search for novel funding sources is proving a herculean task because, having broken the taboos, the experts are reluctant to go the whole hog, not the least because they are far from immune to external pressures. As a result, the resources needed to meet existing commitments and to contain economic and social instability appear to embrace the realm of utopia.

The Committee's report, web posted mid-July, will be considered by the international Leading Group on Innovative Financing for Development, which was created in 2006 at a ministerial conference arranged by President Jacques Chirac of France and President Denis Sassou Nguesso of the Congo Republic. Presently Japan heads the Group that now has 60 members.

The Committee of Experts was convened on October 22, 2009 in Paris by the Taskforce on International Financial Transactions and Development. The Taskforce has its roots in the New York Declaration on Action Against Hunger and Poverty on September 20, 2004, initiated by President Luiz Inácio Lula da Silva of Brazil, and in recommendations of the Leading Group on Innovative Financing for Development that complements the work of the Taskforce on innovative financing for health systems.

The Committee points out that combining the funds needed to meet the Millennium Development Goals (MDGs) by 2015, the official development Assistance (ODA) target of 0.7 per cent of GNI (gross national income), and environmental crisis targets, the resource gap is in the range of \$324-336 billion per year between 2012 and 2017 (\$156 billion for climate change, \$168-180 billion for ODA).

Compounding the challenge, developed country governments are now struggling with vast fiscal consolidations as a result of the financial crisis and global downturn it precipitated. By 2009, the IMF estimated the net direct cost to advanced economies of the support to the financial sector at \$862 billion or 2.7 per cent of GDP (gross domestic product).

In November 2009, the Paris-based Organisation for Economic Cooperation and Development (OECD) predicted unprecedented post-war levels of government budget deficits and public debt for the coming decade. Total OECD government budget deficits and public debt are forecast to exceed 7.6 and 103 per cent of GDP respectively by 2011, compared with 1.3 and 73 per cent in 2007.

Based on UN estimates and its own projection for the ODA gap, the Trade Union Advisory Committee to the OECD has estimated the resource gap in financing development and climate change at \$324 billion per year for the 2011-2015 period.

Against this backdrop of a quantifiable crisis of public funding in general, and for global public goods in particular, 'innovative financing' has been receiving even more widespread interest as a source of predictable, sustainable and additional finance. This was clearly recognized by world leaders in the 2008 Doha Declaration on Financing for ☺

Development to Review the Implementation of the Monterrey Consensus achieved at a UN conference in 2002.

The Committee of Experts' report points out that innovative financing mechanisms have demonstrated their potential for securing additional resources for distribution to low-income countries. The success of the air ticket solidarity levy as well as the governing body of revenue (UNITAID, International Drug Purchase Facility), they say, have shown that it is possible to meet long-term needs through non-traditional financing mechanisms.

### CONFUSION

The Committee counts the International Finance Facility for Immunisation (IFFIm) and the Advance Market Commitment pilot project (AMC) among innovative sources. AMC is however not a resource mobilization instrument but a disbursement tool. Its inclusion among financing mechanisms reflects the confusion that prevailed in the Committee.

When considering issues of governance, the Committee sees in UNITAID a good example. The composition of its board however is anything but worth emulating, according to knowledgeable sources.

UNITAID was launched in 2006 with the aim to scale up access to treatment for HIV/AIDS, malaria and tuberculosis for the poorest people in developing countries by lowering the price of quality drugs and diagnostics and accelerating the pace at which they are made available. This relied on stable and predictable financial source generated by the air-ticket solidarity levy.

Several countries have already introduced the air-ticket solidarity levy with a progressive scale based on destination and class. Apart from Chile, France and South Korea, it is the French "dependencies" such as Ivory Coast, Madagascar, Mauritius and Niger. They allocate all or a share of the revenues to a drug purchasing facility (UNITAID) aimed at combating the major pandemic diseases affecting the developing world. Others, like Brazil contribute by budget contribution based on air travel.

### CURRENCY TRANSACTION LEVY

Assessing different financing options, the report says that a global Currency Transaction Levy (CTL) is the most appropriate financing mechanism for global public goods. The report reviews the complex legal and technical issues that surround the implementation of a Currency Transaction Levy at the point of settlement, and concludes that the implementation of a global CTL is "technically and legally feasible".

"To further strengthen trends towards increased central settlement of foreign exchange transactions, we support the proposal for regulators to apply an additional capital adequacy requirement for counterparties, for those transactions that are not settled through an approved settlement arrangement, ☺

## They Break Taboos (Continued from page 4)

➤ and as a consequence, represent increased risk to the financial system. "As the impact of such additional capital requirement would exceed the cost of the small CTL proposed, it would discourage evasion of the CTL, even though its main aim would be prudential," says the Committee comprising of nine experts from Brazil, Europe, Japan and the U.S.

The Committee adds: "Such a strong and systemic device would frustrate, if not eliminate, geographical tax avoidance in an efficient way, comparable to the stamp duty on UK -- issued share transactions. It could be legally re-enforced by the UK technique of non-enforceability on non-taxed contracts."

However, the clarity of the report ends there. The experts do not reveal which central settlement arrangement they have in mind. They refer, for example, to the CLS (Continuous-Linked Settlement) Bank in London.

Continuous Linked Settlement is a process by which a number of the world's largest banks manage settlement of foreign exchange amongst themselves (and their customers and other third-parties). The process is managed by CLS Group Holdings AG and its subsidiary companies and include a settlement bank regulated by the Federal Reserve Bank of New York.

Yet, the report tells us little about how it might be possible to authorize, even mandate CLS to collect the Currency Transaction Levy.

Statements such as the following do not make the reader wiser -- at least not the uninitiated, non-specialist reader (and many politicians would perhaps fall into this category): "The legal monopolies held by the Central banks of the currencies exclusively issued by those Central Banks, offer a unique international legal opportunity to combine tax techniques with the international legal dimension of the currency trade -- the national currencies being the exclusive legal tender within each of the participating jurisdictions."

Explaining one of the Committee's proposals, Inge Kaul, member of the Expert Group, tells IDN: "Our report is not a final word on the feasibility and desirability of a CTL. It is a further step. We identified a possible approach that needs systematic, in-depth follow-up studies. The report should perhaps not have said 'the global CTL is feasible'. More correct would have been to say 'it could be feasible, provided the following hurdles are being overcome'."

### HURDLES

First, the countries with major markets would need to agree to include, for example, in Basle III a stipulation that banks that avoid central currency exchanges would need to have higher capital requirements because they face higher counterparty risk. But while such a stipulation would create an incentive for banks to use a platform like CLS, it would not yet give a levy.

Therefore, the second point to clarify would be how to mandate, authorize or even compel CLS and other potentially arising central currency exchange places to impose the proposed levy.

A third issue to clarify -- with all countries, as Kaul emphasizes -- would be the use of the money. The report also proposes to this end, the creation of a Global Solidarity Fund, whose board -- of representative composition -- should receive and supervise the disbursement of the levy proceeds."

"Care must be taken that the levy proceeds are not crowding out current ODA resources and undermining unfulfilled ODA commitments. The global public -- more or less all of us -- contribute to the CTL," argues Kaul. Because "it is important to note that the proposed CTL is NOT a tax; it is de facto a user fee," adds Kaul who is Adjunct professor at Hertie School of Governance in Berlin, Germany.

"CTL would be paid by all those who are the main beneficiaries of a more stable, less crisis-prone globalization process. These are many, including foreign investors, foreign travellers, foreign traders and all of us, who buy and consume imported goods," she states.

Kaul was Director at the UNDP's Office of Development Studies in New York (1995-2005) and director, UNDP Human Development Report Office (1989-1994).

"Of course, those who are more deeply involved -- and with huge sums of money -- would pay more. Those, who would buy some textiles from Bangladesh or a TV set from South Korea or nails produced in China would pay but a minuscule amount, while, at the same time, being able to enjoy these imported -- and pricewise, usually very competitive -- goods," Kaul tells IDN.

All who are involved in globalisation and would benefit from a less crisis-ridden globalisation process are also somehow linked to currency exchanges. Therefore the Committee believes that finance is the most appropriate sector in which to impose such a user fee. However, the report dithers also on "what precisely is the CTL". Is it a user fee, as Kaul suggests? Or is it to be a global solidarity fee, as the report says in various places, a means to redistribute global wealth? Perhaps the proposed CTL can be seen in both these ways; or maybe, this would be another point the Experts' Committee would clarify in any follow-up studies that might be undertaken.

A clarification of the nature of the levy and its purpose(s) would however be important in order to determine the "right" composition of the board of the proposed Solidarity Fund. Not surprisingly, the report does not offer much clarity on this point either besides noting that the governance of both the levy raising authority and the fund would uphold principles of accountability, representation and transparency.

How then to move forward? Two steps would be important, says Kaul: "First, our group has made a step forward by pointing to new issues and raising new questions. They now need careful further study. Just think of how much research has been done to develop other new financial instruments! Our expert group met only a few times; had very little money for background studies -- but was supposed to come up with financial innovation for the global common good. So, let's be fair: if we invest a lot into private-finance R&D, let's also invest into financial innovation for the global public good. "Second, we could already now begin to explain to our politicians that no country alone could collect a user fee of the global CTL type proposed in the report. This requires international cooperation: **CONTINUED ON PAGE 6** ➤"

## Eminent Personalities Galvanize Support

The United Nations is leaving no stone unturned to galvanize action toward achieving by 2015 the global anti-poverty targets known as the Millennium Development Goals (MDGs).

In run-up to a gathering of heads of government and state at the UN in September 2010, Secretary-General has set up an advocacy Group of eminent persons. A "real collection of superheroes in defeating poverty" has been chosen to serve on the Group, co-chaired by Rwandan President Paul Kagame and Spanish Prime Minister José Luis Rodríguez Zapatero.

The "superheroes" include two Nobel Peace Prize laureates – the Bangladeshi pioneer of microcredit Muhammad Yunus and the Kenyan environmental activist Wangari Maathai – as well as former Chilean president Michelle Bachelet and businessmen and philanthropists Bill Gates and Ted Turner.

Also participating are Jeffrey Sachs, the Secretary-General's Special Adviser on the MDGs, and Ray Chambers, the Secretary-General's Special Envoy for Malaria.

Qatar's First Lady, Sheikha Mozah Bint Nasser, and the former Mozambican First Lady Graça Machel have also been named as advocates, along with former General Assembly president Jan Eliasson and Philippe Douste-Blazy, the UN Special Adviser on innovative financing for development.

The other members are: Stine Bosse, the chief executive of TrygVesta Group and the chairman of Børnefonden (the Children's Fund); Dho Young-Shin, the chairman of the UN World Tourism Organization's (UNWTO) Sustainable Tourism for Eliminating Poverty Foundation; Julio Frenk, the former Mexican health minister and the Dean of the Harvard School of Public Health; Akin Adesina, the Vice-President of the Alliance for a Green Revolution in Africa; and Hiromasa Yonekura, the chairman of the Japan Business Federation.

Distinguished personalities from China, India and the United Kingdom "will also join the group soon", Ban said in an announcement on June 23, 2010.

Speaking to the 'UN News Centre', Chambers said that "it's a privilege to join such an accomplished group of leaders who have the experience and ambition to ensure that all MDGs remain on track at this critical juncture".

He added that "from our experience with malaria, we know that achieving the MDGs is within sight, and by coordinating our efforts and sharing best practices, we will maximize the likelihood that all eight Goals will be met by 2015."

The MDGs, which include targets for slashing poverty, boosting school enrolment rates, improving maternal health and increasing access to clean water and decent sanitation, were devised at the Millennium Summit in New York in 2000.

The latest UN assessment report on efforts to reach the Goals shows that there has been mixed progress in the developing world. Extreme poverty is falling rapidly but maternal health and sanitation are lagging and there are still large gaps between rich and poor, men and women, and urban and rural communities.

In another move toward achieving the MDG targets, meeting at a United Nations forum, leaders from the private sector, civil society and the creative world have underscored the critical role played by broadband networks in spurring global development. In what is being described as "private gathering" in Geneva, the Broadband Commission for Digital Development

conferred on July 11, 2010 on how to deploy the networks worldwide to accelerate progress towards the MDGs with a 2015 deadline.

Chaired by Rwandan President Paul Kagame and Carlos Slim Helú, Mexican businessman and one of the world's wealthiest people, the body will deliver its conclusions to Secretary-General Ban Ki-moon on September 19, 2010 at an official side event of the high-level gathering on the MDGs in New York.

Serving as the joint vice chairs of the 30-member Commission are Hamadoun Touré, Secretary-General of the International Telecommunications Union (ITU), and Irina Bokova, Director-General of the UN Educational, Scientific and Cultural Organization (UNESCO).

"The global deployment of broadband networks will be as powerful a transformational force for the 21st century as the progressive installation of electricity networks was in the first decades of the 20th century," Touré said.

"Just as connection to the power grid is now seen as a basic element of social and economic empowerment, so ubiquitous connectivity to broadband networks will be vital to the ongoing development of every nation worldwide," he added.

Bokova stated that the latest information and communication technologies (ICTs) have created new opportunities to create, preserve, disseminate and use information.

"We aim to go further, towards the construction of inclusive knowledge societies in which people can transform information into knowledge and understanding that empowers them to improve their livelihoods and contribute to their social and economic development," she said in a message to the July 11 meeting.

Other members of the Commission include Richard Branson, Founder and Chairman of the Virgin Group; Jeffrey Sachs, Director of the Earth Institute and Special Advisor to the UN Secretary-General; and Muhammad Yunus, Nobel Peace Prize laureate and Managing Director of Grameen Bank. Also during the soccer World Cup in South Africa, world's biggest sporting event, community festivals, television shows, posters, electronic games, multimedia campaigns and even a new song, the Millennium Development Goals were under the spotlight. ☑

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"We, the global public, have the right to expect from our leaders global concern in our enlightened self-interest. Most politicians have grown up in an era in which a primary goal was still the creation and delineation of nation states. They have learned to be preoccupied with pure national interests. Moreover, many donor country politicians are worried about ongoing power shifts. This stymies their willingness to think beyond national borders and to innovate.

"But in order to break out of the current spiral of global crises, we need more 'new type' of policymakers -- policymakers who recognize that international cooperation is today, under conditions of openness and interdependence, oft the best way to promoting and securing national interests," says Kaul, an eloquent member of the Committee. – Ramesh Jaura ☑