



### Innovative financing

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## High-Level Taskforce on International Financial Transactions for Development

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### High-Level Taskforce on International Financial Transactions for Development

*Terms of reference as agreed in october 22nd*

#### I/ Background and objectives

1.1. Even before the current economic and financial crisis, the question of innovative financing, including a financial transaction levy or voluntary contributions on international financial transactions, aroused the interest of a number of countries and many NGOs.

1.2. The report submitted in 2004 to the United Nations Secretary-General by the quadripartite group made up of Brazil, Chile, Spain and France (Technical Group on Innovative Financing Mechanisms) raised the possibility of such a levy and concluded that: "Despite the (...) obstacles, the proposal to levy a tax on financial transactions at a very low rate would lead to the collection, on a stable and predictable basis, of a significant amount of resources for development while not interfering with the normal functioning of the market." The same report likewise raised the potential of credit-card based voluntary financing mechanisms for development.

1.3. The advisability of introducing such mechanisms has also been discussed in the Leading Group on Innovative Financing for Development since its inception in 2006, in line with discussions on the coordinated introduction world-wide of taxes to finance development using the same base. This would be a way to redistribute a small fraction of wealth generated by globalized activities. The air-ticket solidarity levy is one such example.

1.4. The international economic and financial crisis has been another reason for the re-emergence of the issue of innovative financing: its global impact underpins both the need to renew our approach to development and the need to mitigate external shocks in order to meet the essential needs of developing countries. The challenges related to attaining the Millennium Development Goals justify a "scaling up" of the use of innovative financing mechanisms. Today their added value is recognized: they can provide more stable and predictable finance flows, which complement traditional ODA and redistribute wealth generated by globalization and the opening up of borders. Proof of such renewed interest, the issue has been discussed in several international forums including the UN, the European Union. The G20 has also asked IMF, to "prepare a report on the range of options countries have adopted or are considering as to how the financial sector could make a fair and substantial contribution toward paying for any burdens associated with government interventions to repair banking system.", which may examine financial transaction taxes. Many political leaders, representatives from international organizations and regulatory agencies have recently indicated that such a mechanism could be used to finance development and/or regulate international financial flows to reduce volatile flows and/or penalize excessive risk taking.

1.5. To address such a growing interest, at its Sixth Plenary Meeting in Paris on 28 and 29 May 2009, the Presidency of the Leading Group on Innovative Financing for Development, principal forum for galvanizing support for such mechanisms, recommended to create a taskforce to assess the technical and legal feasibility of a financial transaction levy and voluntary contributions based on international financial transactions and explore all options in this regard. The Taskforce on Innovative Financing for Health Systems chaired by Gordon Brown and Robert Zoellick is relevant to this initiative. At its meeting on 29 May in Paris, it retained the idea in its menu of options –including exploration of the feasibility of a financial transaction tax, taking account of its potential impact on financial markets, competition between financial jurisdictions and the relocation of capital flows.

#### II/ The Paris Taskforce on International Financial Transactions and Development (IFTD): participants, aims and operation

2.1. The establishment of the Taskforce on International Financial Transactions and Development was recommended by the presidency's final conclusion of the Leading Group on 29 May in Paris. It is made up of representatives from the countries. As necessary, it will consult representatives from international organizations and NGOs. It will meet three or four times at ministerial level or at the level of senior officials from now until May 2010, deadline for the submission of a report to the Leading Group.

2.2. The first countries to have expressed interest in the taskforce and attended the preparatory meeting in Paris on 15 September 2009 are Austria, Belgium, Brazil, Chile, France, Germany, Japan, Norway, Senegal, Spain and the United Kingdom. As the Leading Group's Permanent Secretariat, France has offered to support and facilitate these discussions, which should remain open to a significant number of interested countries.

2.3. The Taskforce's objective is to define an updated menu of options with a view to exploring the feasibility of a tax or voluntary contribution on international financial transactions and thereafter its potential for financing for development. The Taskforce should, on the basis of proposals from the Committee of Experts, propose recommendations to the ministers. Participants will endeavour by all means to reach a consensus on these recommendations. The recommendations should be presented in order to how much support can be provided to them. To this end, the Taskforce will conduct a cost/benefits analysis of the different options in a realistic framework (including assessment of technical feasibility, potential revenues, market impact, spillover to the real economy etc.). In its recommendations, it will pay particular attention to the risks of distortion of competition and circumvention. It will seek to ensure objective debate on the issue by drawing a distinction between technical and legal feasibility on the one hand and political advisability on the other.

2.4. The work will analyse the place, role, volume of international financial transactions and its actors (banking sector including intermediaries and market regulators) in the global economy, the financial needs for development in the context of the 2015 deadline to achieve the MDGs, and the way in which innovative financing based on financial transactions can contribute to achieving them. At the end of the process, it will be up to the political leaders to assess, drawing on the experts' work and if all the conditions are present, whether or not the mechanisms proposed should be introduced.

#### III/ International Committee of Experts: participants, aims and operation

3.1. The Taskforce relies on a small group of high-level experts (6 to 8 maximum). The experts, chosen by consensus by the participating countries on the basis of their competence in macroeconomy, tax, financial issues and/or development financing and legal matters, are tasked with drafting a report on the different options available to be submitted to the Taskforce by May 2010. They will present a progress report by January 2010, a provisional report by March 2010 and a final report by April 2010.

3.2. The experts will be tasked with drawing up a report on the different technically possible options to finance development using taxes and voluntary contributions on financial transactions including how they would operate in practice, their conditions for implementation, their effects (cost/benefit analysis, possible risk of distortion), their coherence with existing development financial instruments and the objective sought (raising additional resources for development). They will address both the options for financial transaction levies, including a currency transaction levy and voluntary solidarity mechanisms based on international financial transactions (cf. initiatives in the banking sector in the areas of corporate environmental and social responsibility and ethical finance). Detailed questions to be addressed are attached. Others might be raised at a later stage.

### 3.3. Budget and meeting location

It will be important in securing funding to have a clear project plan, with estimates of costs involved. Voluntary contributions by taskforce members will cover the expenses of the Committee of Experts, unless otherwise covered by their employer. Wherever possible, experts will liaise through electronic means, e.g. videoconferencing/ e-mail, in order to sensibly manage expenses of the Committee. The Secretariats of the Taskforce and Committee of Experts will be ensured by the Leading Group Permanent Secretariat. The Taskforce and Committee of Experts Meetings could be held in participating countries upon their invitation.

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