

## **Sixth Plenary Meeting of the Leading Group on Innovative Financing for Development** **Final Conclusions of the Presidency**

### **Introduction**

In three years' time, innovative financing mechanisms for development have raised well over two billion dollars in additional funds for development. In the health sector, such funds have helped vaccinate over 100 million children a year and provide paediatric AIDS treatment for 100,000 children a year.

Stable, predictable and complementary to traditional ODA, these additional resources for development rely on four types of mechanisms (mandatory contributions, voluntary contributions, loan guarantees and market mechanisms) and generate new partnerships (between the North and the South; between States, NGOs and international organizations; between the public and private sector), with the support of civil society.

With its 58 member countries, international organizations, NGOs and companies, the **Leading Group on Innovative Financing for Development** has discussed and explored new resources, new sectors for action and new instruments for development.

It has put forward solutions to galvanize progress at the urging of the international community, particularly with a view to the upcoming United Nations General Assembly where a report on innovative financing mechanisms will be submitted by the Secretary-General, following the invitation made at Doha in December 2008.

### **1. Financing development in times of crisis**

**1. With a view to the Millennium Development Goals, there is a need for a genuine scale-up of development financing** to tackle poverty more effectively and promote sustainable development for the benefit of all at economic, social and environmental levels. The developed countries' pledge to increase their ODA to 0.7% of their GNI by 2015 is key to achieving this along with ownership, good governance and sound policies in the recipient countries. Increasing traditional aid flows is an encouraging step in the right direction. Innovative financing is not a substitute for traditional ODA.

**2. The international financial and economic crisis underpinned the need to revitalize our approach to development and the need to secure the response to the basic needs of recipient countries.** As they are stable, predictable and complementary to ODA, this is precisely the role innovative development financing mechanisms have taken on. With traditional budget resources under pressure, their role has become even more important. First, they are predictable and stable and, second, they pool and coordinate resources provided by countries and private actors (foundations, companies) within the framework of new partnerships to bolster leverage of traditional aid on private funds (loan guarantees) and promote counter-cyclical instruments (highly concessional counter-cyclical loans and new SDRs, for example).

**3. Innovative financing for development uses four main types of mechanisms:** taxes on global activities which are either taxed little or not at all (air-ticket solidarity levy or international financial transaction levies), pre-financing mechanisms based on financial markets with public guarantees (the International Finance Facility for Immunization or IFFIm) or relying on States (advanced market commitments or AMCs), market mechanisms (CO2 emission auctions) and voluntary contributions by the private sector facilitated or channelled by the public authorities (migrants' remittances, voluntary solidarity contributions).

**4. Innovative financing and instruments can also help better regulate the market and global economy** (by correcting the imperfections of the market for access to drugs, applying the "polluter pays" principle at global level, helping stabilize financial markets and promoting redistributive mechanisms between countries). The Sixth Meeting of the Leading Group highlighted this regulatory function in the areas of access to drugs and of climate change, and in allocating to development a tiny fraction of international financial flows, and targeting migrants' remittances. It also mentioned new issues such as SDRs, regulating global liquidity - which is crucial for a more balanced and development-friendly globalization and the fight against tax evasion facilitated by non cooperative tax havens.

**5. In the health sector alone, innovative financing mechanisms have already raised** nearly two and a half billion dollars in additional funds, and have helped vaccinate over 100 million children a year and provide paediatric AIDS treatment for 100,000 children a year. The air-ticket solidarity levy funding UNITAID, the IFFIm and GAVI, its operator, and AMCs promoted and executed by Italy in partnership with the World Bank are responsible for the success of the pilot phase begun in 2006. New initiatives are under way including Product Red, the D-tax project, voluntary solidarity contributions and recommendations by the High-Level Taskforce on Innovative Financing for Health Systems led by the United Kingdom and the World Bank.

## **2. From words to action**

**6. Three years after its inception, the Leading Group on Innovative Financing welcomes the growing importance of the innovative financing mechanisms and their implementation.** Their quantitative and qualitative potential has prompted the international community to "scale-up" innovative financing. After the Monterrey International Conference on Financing for Development in 2002, where innovative sources of financing for development were mentioned for the first time, there was much focus on the subject at the Doha International Review Conference on Financing for Development in 2008. The European Union has welcomed the success of the pilot phase and calls on member countries to implement such mechanisms (EU Council Conclusions of 11 November 2008 and 11 May 2009) considering them indispensable in times of crisis (communication of the European Commission). The G8 points out their usefulness in achieving the MDGs. The G20 lays down reforms that contribute to strengthen counter-cyclical mechanisms. The UN is making vigorous efforts to widely implement them to address development challenges.

**7. This international mobilisation has been generated by the strides the Group's successive presidencies have made in the area of innovative financing mechanisms. Bringing together northern and southern countries at various levels of development, this Group established in 2006 is a singular structure for generating ideas, rallying support**

**and sharing best practices.** It stemmed from the High-Level Meeting of World Leaders Against Hunger and Poverty initiative supported by Brazil, Chile, France and Spain which produced a quadripartite report that was submitted to the United Nations Secretary-General in 2004. This initiative is addressed every year in the margins of the United Nations General Assembly. Brazil, Norway, South Korea, Senegal and Guinea have successively presided the Leading Group. Major international organizations, NGO networks from all over the globe and companies have participated in its work. At every plenary session, a statement is adopted which takes stock of the initiatives taken globally ([www.leadinggroup.org](http://www.leadinggroup.org)). Side events are also organized at major international meetings.

**8. The French Presidency aims at a scaling up of innovative financing mechanisms**, three years after the founding conference. Innovative financing mechanisms must comply with the ODA efficiency and ownership principles as set forth in Rome, Paris and Accra Declarations. The work carried out at this sixth high-level plenary session has shown the pertinence of innovative financing mechanisms in today's world:

- They are first and foremost new resources for development. The International Drug Purchasing Facility UNITAID, which is mainly funded by the air-ticket solidarity levy applied in 13 countries, reduces the cost of high-quality drugs to treat HIV/AIDS, malaria and tuberculosis in developing countries. Raising 4 billion dollars, the IFFIm, according to WHO, is poised to save the lives of 6.5 million children by 2015 and alone achieve more than half of the 4<sup>th</sup> Millennium Development Goal (reduce by two thirds the under-five mortality rate by 2015). AMCs now make it possible to manufacture and distribute a pneumococcal vaccine (pneumococcus currently kills more than 800,000 children a year), thanks to the involvement of different countries and the World Bank. Proceeds from CO2 emissions trading have financed almost one hundred international projects for mitigation of and adaptation to climate change.
- They are resources that can be channelled towards other sectors beyond health. The global context for better integration of climatic challenges is prompting member countries to put forward new innovative proposals concerning in particular adaptation to the effects of climate change. Regarding education, requirements with a view to achieving MDG 2 are still considerable. Migrants' remittances, which were integrated from the outset in our Group's work, can also contribute effectively to development when their transfer is facilitated and targeted towards productive investment. Moreover, the usefulness of both public-private partnerships and the development of socially responsible investments highlight the potential of innovative mechanisms to be extended to new sectors.
- Financial innovation instruments are also an important dimension. In a world where interaction between private and public flows is increasing significantly, the traditional donors are led to marshal market mechanisms. Financial innovation for development contains an *institutional* dimension (new intermediation structures with innovative modes of governance) and a *financial engineering* dimension. Financial innovation instruments, applied to the marshalling of additional resources and the ways of *using* these resources, have shown their effectiveness, notably as regards the mitigation of risks in the environmental and farming sectors, as well as their counter-cyclical nature.

### 3. Recommendations

The French Presidency thanks all members for their active participation. The attendance of a number of other countries such as Australia, Denmark, Ecuador, Ghana, Hungary, Netherlands, Portugal, Romania, Russia, Sweden, Switzerland, Tunisia, Turkey shows the growing interest for innovative financing and underlines the role of the Leading Group.

Since the last meeting, the European Commission and Japan have joined as members and Romania as an observer member.

The French Presidency welcomes the engagement of several members to proceed to the implementation of innovative mechanisms:

- Australia (Debt2Health), in cooperation with the Global Fund;
- Morocco (air ticket levy);
- Japan (introduction of a menu of options for consumers).

On the basis of the work conducted with international organizations, NGOs and the private sector which took part in the sixth plenary session, the following recommendations can be drawn:

i) Each member country is encouraged to adopt an innovative financing mechanism within a year's time and report to the Leading Group's next plenary session on progress made.

ii) Countries who have committed to implementing the air-ticket solidarity levy should undertake legislative and regulatory proceedings to do so if possible within a year (May 2010).

iii) Countries which have not yet implemented the air-ticket solidarity levy should consider opportunities offered by the project for voluntary solidarity contributions of the Millennium Foundation for Innovative Financing for Health. This project should be officially launched in September 2009 and should become fully operational by early 2010.

iv) Member countries are invited to consider where appropriate to use for development, on a voluntary basis, revenues from a portion of auctions of CO2 emission credits.

v) A working group has been set up to assess the technical and legal feasibility of a currency transaction levy and voluntary contributions based on international financial transactions, and to explore all options in that regard.

vi) In connection with work initiated by the Working Group coordinated by Norway, Global Financial Integrity and the Leading Group, a set of specific and implementable recommendations on actions that could be taken by Leading Group members (for example curtailing abusive transfer pricing, country-by-country reporting, confirmation of beneficial ownership, automatic exchange of tax information, harmonization of predicate offenses) should be proposed by the next plenary session

vii) Member countries should seek a substantial and quantifiable reduction of remittances costs, and the improvement of their impact on development in recipient countries, including through microcredit institutions.

viii) Members countries are invited to make full use of innovative instruments in the field of risk mitigation, incentive systems or counter-cyclical mechanisms. A conference will be held in Paris by the French Development Agency, the World Bank and the Gates Foundation in March 2010 (Marketplace for Innovative Finance).

ix) The chairs of the Leading Group and of the High-Level Taskforce on Innovative Financing for Health Systems warmly welcomed the converging objectives in the field of health and noted the benefits of working together.

x) The possibility of earmarking new resources from public-private partnerships to the education sector at major events, such as those held by FIFA, should be explored.

xi) To reflect the change of pace, the Leading Group will now be called the “Leading Group on Innovative Financing for Development”. With regards to the growing activities of the Leading Group, the Secretariat should be strengthened accordingly with the participation of voluntary partners.

xii) The next presidency of the Leading Group will be held by Chile.