



## 8th plenary session of the Leading Group (16-17 December 2010, Tokyo)

### Summary

On 16 and 17 December the Eighth Plenary Session of the Leading Group on Innovative Financing for Development was held and chaired by the host country, Japan. The meeting was opened by Japan's Foreign Minister, Seiji Maehara, and consisted in seven workshops centred on needs (health, education, poverty, climate) and possible financing means (financial transactions, migrant flows, fighting illicit flows). All participants (States, international organizations, NGOs, private sector representatives) considered the meeting a success. It was concluded by a Chair Summary setting out a framework for future Leading Group action. Three new countries joined the Leading Group: Equator, Sri Lanka and Bhutan. Mali, then Spain, will take over the presidency in 2011.

Several ministers (Japan, Mali, Cambodia, Indonesia, Sri Lanka), directors general and directors from the 63 countries represented as well as many heads of international organizations (UN, WHO, UNICEF, UNESCO, FAO, World Bank, OECD) and civil society leaders (foundations, NGOs, private sector) attended the Leading Group meeting. In a context that gives innovative financing for development a special bearing in international bodies (United Nations, European Union, G20, international organization agendas), the Leading Group is becoming the principal forum for discussion and sharing best practices. Participants were able to discuss current initiatives and determine specific ways in which new mechanisms could be considered.

Several notable advances were announced at the end of the plenary session:

- New countries joined the Leading Group (Equator, Sri Lanka and Bhutan), and Russia expressed interest in possibly joining in the future;
- A working group on health is to be created in the Leading Group (which several countries wished to see in partnership with WHO, the GAVI Alliance and the Gates Foundation);
- A side-event is to be organized on the sidelines of the United Nations Summit on LDCs in May 2011 in Istanbul;
- Desire was expressed to see the G20 give special attention to innovative financing in its agenda;
- A study on private sources of financing for development is to be drafted along with an analysis of how economic sectors benefiting most from globalization are contributing to development.

## Executive summary of workshops

**1-Health.** The seminar highlighted the successful results of various initiatives promoting access to medicines to fight major pandemics (air-ticket levy financing UNITAID), to accelerate vaccination (IFFIm/GAVI Alliance), and to ensure viable research (advance market commitments-AMCs). The focus was on gains in terms of efficiency and impact (lower costs of medicines and vaccines) and on developments in this regard (patent pools). Philippe Douste-Blazy, Chair of UNITAID, pointed out that UNITAID funded treatment for 8 of the 10 children being treated for HIV in the world. The air-ticket levy in addition to multiyear budgetary contributions helped raise nearly \$2 billion in four years. Action by the GAVI Alliance helped prevent 3.9 million deaths by distributing vaccines to poor people in 19 countries by raising funds in the bond market backed by a sovereign guarantee, with a 90% reduction in prices. The pilot project for advance market commitments is expected to provide funds to purchase 600 million vaccine doses by 2023 and prevent 700,000 deaths from pneumococcal disease. WHO presented its idea of a micro-tax on tobacco (a five, three or one cent tax on a pack of cigarettes depending on each country's income), which could raise over \$7 billion a year worldwide. A portion of proceeds from this tax (30%) could go to international actions. The Global Fund stressed the importance of debt swap mechanisms (debt-to-health) with the support of Germany, as well as encouraging voluntary consumer contributions (RED products, partnerships with stock market indexes such as the Dow Jones Global Fund 50 Index). The United Kingdom, Brazil and the Gates Foundation confirmed their commitment to such mechanisms.

**2-Education, a new area of action for innovative financing.** One of the first contributions focused on the fragile nature of the progress made in terms of education in relation with the Millennium Development Goals (MDGs). Although access to primary school education has significantly increased since 1990, progress has slowed since the financial crisis began (72 million children are not attending school), and the quality of education has not improved in the same proportions. However, access to education is a key factor in fighting poverty and for growth. Annual education needs that are not covered by ODA and domestic tax revenues are estimated at \$16 billion a year. In response, a detailed presentation was given on two avenues explored in a report of the Task Force on Innovative Financing for Education: raising a **wide range of new resources** (tax on international financial transactions, local currency education bonds, education venture bonds, diaspora bonds, voluntary contributions from migrants, debt-for-education swaps) and **actions raising the profile and awareness of education for all** (sports levy, private-public partnerships, micro-donations from individual bank transactions). There was broad agreement to recognize the need to focus greater attention on potential solutions that innovative financing could provide in the area of education and to further develop the avenues set out in the experts' report in 2011.

**3- Using innovative financing as leverage for food security.** The FAO representative suggested that a working group be established on innovative financing for food security and proposed three possible applications: directing migrants' remittances towards the agricultural sector with a matching grants system; establishing an advanced market mechanism; and using lotteries or other voluntary contributions to combat hunger in the world.

**4- Climate change: a challenge and source of financing.** Issues related to the Copenhagen Green Climate Fund, whose creation was confirmed in Cancun, were underlined (\$100 billion a year in 2020) and AGF Report proposals (UN High-Level Advisory Group on Climate Change Financing chaired by Meles Zenawi and Jens Stoltenberg) were discussed. Germany presented a mechanism that aims to allocate a portion of proceeds from carbon credit auctions to development. Germany decided to auction 10% of its carbon allowances from 2008 to 2012, then 100% from 2012 on: the ensuing revenues are collected in a special account apart from the general budget and distributed to cover domestic needs (60%) and international spending (40%). As a result, an additional \$120 million was raised for development in 2008 and \$230 million in 2009 and 2010.

**5- Financial transaction tax.** The Leading Group continued its work on a very low tax to fund development (and not a regulation Tobin-type tax) based on globalized activity and coordinated internationally without generating economic distortions. Participants pointed out that a number of countries introduced taxes on financial activities (based on a bank report) since 2008 but whose purpose was essentially domestic (financing the general budget or funds to resolve future bank crises) and that the time was right to discuss a financial transaction tax to fund international solidarity-based action. Lieven Denys and Takehiko Uemura, who have worked for the Task Force on International Financial Transactions for Development established in the Leading Group in 2009, explained that a financial transaction tax for development (MDGs and Global Public Goods) needed to pass a five-criteria test: sufficient resources, no distortion, technical feasibility, stability and predictability. With regard to these criteria, a tax based on currency transactions seemed to be the best option among the five studied. On behalf of the non-governmental organization, Stamp Out Poverty, David Hilman stressed the need to avoid any requirements for universal implementation: financial transaction taxes are not uncommon, nearly 40 countries, including the United Kingdom with its stamp duty, already use this type of tax instrument. In response, several participants underlined the technical feasibility of such a mechanism and their interest in it. To conclude, Belgium stressed that the stage of demonstrating technical feasibility was over and decisions could now be made as to whether this type of instrument is politically advisable.

**6- Combating illicit flows to increase traditional budgetary revenues.** Work conducted by the Task Force led by Norway and the Global Financial Integrity association was presented. Efforts to fight corruption and money laundering in tax havens need to be stepped up because illicit flows are reducing domestic financing capacities of developing countries. The OECD offered to share its experience to remedy the lack of knowledge and coordination of those working in this area.

**7- Improving migrants' remittances.** All participants highlighted the ability of remittances to withstand the crises and their contribution to development, along with the need to reduce remittance costs and to use new technologies to promote access of the poorest peoples to financial services. Italy talked about the L'Aquila G8 Summit commitment to reduce remittance costs from 10 to 5% in 2014. France recalled its commitment to improve migrants' remittances, reflected in its analytical work conducted in partnership with the African Development Bank and IFAD, as well as in a website it created that compares remittance costs. Future efforts will focus on improving the regulatory framework and developing electronic payment and remote banking services. Delegations were particularly interested in such efforts stressing the need to further develop their work on south-south remittances, especially in Africa.

## Conclusion

Japan's ambition to broaden the Leading Group meeting's discussions to include new Asian countries was extremely successful. Japan's Foreign Minister Maehara underscored in particular the outstanding progress made in the health sector and the first stage of future action consisting in six countries signing a Declaration on Financial Transactions. He also stressed the need for the private sector to become more involved in financing development. As host of the Permanent Secretariat, France stressed ways in which innovative financing has been scaled up:

- i/ The Leading Group was broadened to include new participants (States, international organizations and civil society, particularly Japan's);
- ii/ The substance of the debates for this plenary session workshops provided the Leading Group with figures, data, expert reports (notably in the sector of education and international financial transactions) which are indispensable to action;
- iii/ The Leading Group has been recognized internationally in international declarations (MDG Summit, European Union Council conclusions) and debates in major international organizations, including the IMF.

For the Leading Group, 2011 will be a crucial year during which Mali and Spain will be able to play their full role. The Leading Group is now made up of 63 countries and a number of international organisations and NGOs. It remains original, in that it is inclusive and innovative, informal and a source of expertise. In this regard, the Permanent Secretariat of the Leading Group was asked to draft two background papers for 2011 on private philanthropy incentive mechanisms and on the analysis of economic sectors benefiting most from globalization and their contribution to development.