EXECUTIVE REPORT

INNOVATIVE FINANCING FOR THE MDGS, A PRECONDITION FOR SUCCESS

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by Laia Bertran & Manuel Manonelles

From left to right: Aldo Caliari, Centre of Concern; Alberto M. Den Hartog, Ministry of Foreign Affairs of Brasil; Manuel Manonelles, Ubuntu Forum; Sharan Burrow, ITUC; Kumi Endo, UN FFD Office and Cony Reuter, SOLIDAR /Photo Ubuntu Forum

From September 20 to 22 the UN Headquarters in New York hosted the High-Level Plenary Meeting on the Millennium Development Goals (MDGs), with only five years to go before the 2015 deadline. In this framework, the **Ubuntu Forum** and the **International Trade Union Confederation (ITUC)** organized a side-event to tackle an essential issue regarding the effective fulfillment of the MDGs: the need of new funds to finance these commitments. The event was organized in collaboration with the **United Nations Non-Governmental Liaison Service (UN-NGLS)**, the **Center of Concern** and **SOLIDAR**. The morning of the 21st of September over a hundred representatives of civil society organizations, different UN agencies and of delegations of member states participated actively in the discussion.

The event was moderated by **Manuel Manonelles**, director of the Ubuntu Forum, and counted on the interventions of **Sharan Burrow**, General Secretary of the ITUC, **Carlos Alberto M. Den Hartog**, General-Coordinator for Innovative Mechanisms of Financing for Poverty and Hunger Eradication from the Ministry of Foreign Affairs of Brazil, and **Kumi Endo**, who serves as the focal point for innovative finance at the UN Financing for Development Office. **Aldo Caliari**, director of the "Rethinking Bretton Woods" Project at the Center of Concern, and of **Conny Reuter**, Secretary General of SOLIDAR, also participated in the dialogue.

As stated in the background paper of the event, the Panel was organized to explore the political and practical agenda of Financial Transaction Taxes (FTT's) as an important and urgently needed revenue raising mechanism for financing the MDGs, and explore strategies for moving this important debate forward. Among the current proposals on the table is that of raising revenue from taxation on a broad range of financial sector transactions or a Financial Transactions Tax (FTT). Among the existing options of financial taxes, the Currency Transaction Tax is receiving much attention, as it has been identified as the mechanism that would raise the resources needed to attain the MDGs in the most effective way. These taxes are gaining traction among key development and economic actors, and galvanizing the energies of civil society organizations advocating for social and redistributive justice.

Ms. Sharan Burrow started her intervention by stating the ITUC's support of the FTT and highlighted the need for comprehensive regulation of the world financial system. There needs to be at the global and national levels a mechanism to constrain speculative behavior to ensure that the financial system pays for the costs of the crisis it has generated. There is a need for collective financing for solidarity to fund development in broad terms and to invest in areas that need to be improved, such as decent work.

Ms. Burrow stressed that there is growing political will towards taxing the financial system. Although there are many dimensions still to be addressed (the IMF, for instance, says that the FTT is feasible but it would have a negative impact on trade), it is now possible to impose such taxation. In order to achieve this goal a partnership between civil society organizations and trade unions is critical.

Mr. Carlos Alberto M. Den Hartog pointed out that the creation of a Unit for Coordinating Innovative Mechanisms of Financing for Poverty and Hunger Eradication inside the Ministry of Foreign Affairs is a positive sign. It indicates that such a policy has become structural and therefore will remain as a priority for the country after future changes of Government. The work done by Brazil in this area will continue to be focused strongly in the Leading Group on Innovative Financing for Development, the framework where all decisions regarding new mechanisms have been taken so far. In this context, Brazil has an explicit position in favor of the Currency Transaction Tax, which has recently been identified as the strongest option to raise revenues for development, among other kinds of financial transaction taxes analyzed in a Report elaborated by a Committee of Experts by command of the Leading Group. The tax is feasible, but some prior questions are still to be addressed. In the first place, no reference to the Tobin Tax should be made anymore. This tax was designed to put sense in the financial market, while the CTT intends to collect resources that make a difference in what regards to the fulfillment of the MDGs. Moreover, Brazil is not supportive of dealing with climate change and environmental issues in the Leading Group, as its main focus should be fighting hunger and poverty.

Regarding the contents of the proposal of the CTT, there are still some issues to clarify. The Committee of Experts affirms that the most feasible way to implement it would be through the CLS Bank System. The Brazilian currency (the *real*), however, is not in this system (only 15 currencies are), so from a technical point of view it is not clear how it could contribute to the application of the tax. On the other hand, the functioning of the CLS Bank System is based on the rules of the US Federal Reserve, although the US itself is not involved in the discussion re FTTs, so this is another question that needs to be managed. These items must be addressed, but will not be a major problem to apply the tax once it has finally been approved. It should also be made clear which would be the target of the tax. There have been some references to the idea of funding global public goods, but given that this is a much too broad concept, Brazil stands on the implementation of the CTT to fulfill the MDGs, and perhaps to invest in education.

Ms. Kumi Endo began her intervention by affirming that there is a serious shortfall in meeting existing aid targets and long-standing commitments, while multiple crises, natural disasters and climate change have further increased the funding needs in many developing countries. The *MDG Gap Task Force Report 2010* estimates that, to reach an ODA target of $300 billion, from 2011 to 2015 an annual incremental increase of $35 billion is required. Given the limited time we have left to deliver on the MDGs, the efforts to close this funding gap must be accelerated. Since the 2002 Monterrey Consensus, the importance of innovative sources of development finance has been highlighted by the UN Member States. Mechanisms already existing, such as UNITAID, have demonstrated their potential to tackle the health-related MDGs, and many Member States of the UN agree that the effective use of innovative mechanisms should be applied to other development challenges, such as education, food security and climate change adaptation and mitigation. However, the scale of innovative financing mechanisms remains marginal, compared to what is needed in addition to the traditional sources of development finance. Therefore, and taking into account the time left before 2015, the challenge is to identify the most useful and realistic mechanisms and move quickly towards their implementation. All these points were reiterated by a number of Member States at the UN Informal Event on Innovative Sources of Development Finance, held in June 2010. In this meeting Mr. Douste-Blazy, the UN Secretary-General's Special Adviser on Innovative Financing for Development, expressed his strong support on the global CTT in relation to the Leading Group's report. He also stressed the importance of international coordination in the global CTT to minimize negative impacts and maximize benefits.

In this framework, the UN system has an important role to play as a catalyst for new ideas, a forum for consensus-building and an agent for implementation. In the Informal Event on Innovative Sources of Development Finance in June, it was proposed that an expert group within the UN intergovernmental framework be created to explore new proposals on innovative financing mechanisms, the scale of which should be significantly greater than the existing ones. These steps will hopefully generate the momentum we need to scale up innovative financing mechanisms, and extend their application to a wider area of development challenges.

Mr. Aldo Caliari expressed that civil society should be pleased with the current prominence that the debate around financial transaction taxes is having in the UN, something that should not be taken for granted, as pointed out by the fact that this discussion was almost forbidden some years ago. It is essential to avoid that the FTT leaps out of the agenda without significant political commitments, as important steps must be done regarding regulation and revenue rising. In 2000 the Millennium Development Goals were minimalist, but nowadays we are not even close to achieving them. FTTs are important to generate the funds needed, and also to address other issues (to avoid speculation and volatility from commodity futures, for instance). There is another reason underneath the importance of implementing a FTT: it is a tool for redistribution. Besides its effects on regulation and on revenue, it would have a redistributive effect on many dimensions: from finances to labor, from the negative effects of the financial crisis to resolution and recovery, or between countries, by promoting equity in the redistribution of wealth.

The Center of Concern and CIDSE consider that the centrally-collected CTT proposal contained in the Leading Group's report is set in the right direction, and recognize the leadership of the Group in this area. There should be, however, other steps in the right direction: a general and uniform FTT should eventually be introduced, and cover all derivative transactions, to create an environment more conducive to the MDGs.

Mr. Cony Reuter stated that political confrontation is needed regarding FTTs. It is important to shape public opinion by explaining that these taxes would not penalize individuals, but the actors who are currently mobilizing a huge amount of money in the financial sector. The difficulty for Civil Society is not on the technical aspect of an FTT: the great challenge is to make the financial system responsible for its activities. Thus, regulation is needed. It must not be mixed up with protectionism, so anything should be done to achieve it. An FTT would also make the financial system pay for the crisis and its consequences, and would contribute to achieve development in its many dimensions.

Before giving the floor to the audience, **Mr. Manuel Manonelles** summarized the interventions of the speakers, enunciating their common positions and the issues that are still to be addressed. He also referred to the last statement of the Ubuntu Forum, which focuses on the need of applying a Currency Transaction Tax to achieve the MDGs on time, and sums up the position of the network re the issue of financial taxes.

The discussion that followed the interventions by the panel pointed out the broad consensus that exists regarding the key role that innovative financing must play in the fulfillment of development commitments. Because of the need for regulation in the financial system and the potential revenue that Financial Transaction Taxes would generate, this tool is under in-depth discussion at many levels, as it is assumed that it must be the next innovative mechanism to be implemented. The discussion also showed that there are some issues that need to be clarified, such as which option should be prioritized (a general FTT or the CTT), or which should be the development dimension it should tackle (the fulfillment of the MDGs and the fight against poverty and hunger or also climate change, among other options). It also raised the question of who would manage the resources collected if the tax were finally implemented. What seems to be clear, in any case, is that the momentum created by several factors (the consensus on the need to regulate the financial system and the impulse given by the Leading Group, especially) pictures a unique framework to move forward the debate and enter into the phase of implementation.

Notwithstanding, the current framework involves a grave risk that civil society cannot overlook: the political debate and the process of decision making regarding FTTs must keep the prior goal of dealing with development needs. Only afterwards the focus can be shifted into the reparation of the effects of the financial crisis and the avoidance of future crashes. This is probably the best moment in our recent history to effectively implement a financial tax, but it requires of strong coordination among the many stakeholders, and of the establishment of clear priorities and commitments.

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