

Key Issues Discussed in the Rio Roundtable  
27 July 2006

### Questions and Concerns Regarding Innovative Financing Mechanisms

- What are the equity effects of the innovative finance mechanisms – where does the money raised come from and where does it go?
- What would be the side effects of innovative financing mechanisms?
- What sort of revenue can they create for development? Can they promote pro-poor growth?
- How will we be able to mobilise political will to implement them if we can't even implement traditional commitments?
- How can they help ensure long-term and predictable financing for development?

### The Solidarity Levy on International Travellers and the International Facility for Drug Purchase

- The tax and the facility receiving the funds are two separate mechanisms, although obviously interlinked.
- Indicating how funds raised will be used is a crucial element for justifying an international tax.
- Producing results in the short term is crucial for gaining broad support.
- Involving all stakeholders (especially civil society) in developing the mechanism is important.
- The tax can be collected from international flights, national flights or both.
- The money raised will only complement official development assistance – it will not be used for development in general, but specifically to fund health care (against AIDS, Malaria and Tuberculosis).
- There is no need or intention to create a new mechanism for managing the money raised – it will be channelled to existing international funds (Gates foundation, UNICEF, etc.).
- The main difficulties faced are: what are the criteria for choosing target countries (income per capita, prevalence of the diseases, state of their administrative systems or health care system in particular, etc.); what will the system of governance of the funds be like; who will participate in the governance (governments, civil society organisations, international organisations)?

### The International Financial Facility

- So far only the IFF for Immunisation has been implemented. It aims at generating an additional \$4 billion for immunising children against diseases such as Malaria, but also at demonstrating the technical feasibility of the general IFF.
- IFF has been criticised as being a costly way to mobilise money: IFF bonds will have to carry a higher interest rate to compensate for lending money to developing countries (thus having a higher risk). That criticism is overplayed, however, as the UK Treasury estimates that bonds could be issued close to the credit rating status of e.g. World Bank bonds.

- Another open question has been whether the bonds would be counted towards the public debt of the governments issuing them. In the EU, EUROSTAT has ruled that immunisation IFF will be recorded as the borrowing of a non-governmental unit, which is important for encouraging potential additional EU governments to sign up to the IFF.
- Donor payments will also only be recorded on an annual basis as they are paid back.

### Global Premium Savings Bond

- The Global Premium Savings bond has been suggested as a result of criticism against the Global Lottery Proposal: the initial investment is not lost, the lottery only concerns the interest paid on the initial investment.
- In addition to being investments in personal portfolios, bonds could be issued as person to person or school to school transfers, giving private individuals the possibility of gifting premium bonds to other individuals or schools.
- It is not a tax, which avoids many criticisms e.g. from the USA.

### Currency Transaction Tax

- Currency transactions are the largest market in the world, they amount to about 50 times the value of global trade.
- They are concentrated markets –80% of transactions occur through some 30 banks.
- Currency transactions represent a relatively small part of the profits of the banks, and currencies traded are the major currencies (USD, EUR, GBP, etc).
- The currency transaction market encourages volatility –this is what the CTT tries to counteract.
- A low-level tax (0,005%) would be introduced on normal currency trade, but if the currency is traded at a level higher than the limit set by the central bank, a punitive tax would be introduced as a circuit-breaker.
- Benefits of the CTT: it is a direct contribution to development (could provide between \$10 and \$15 billion a year); there is already effectively a global “tax” on development and stability – currency volatility; winners would be development, governments of the South, business (due to removal of uncertainty about the value of currencies) and even banks (currency transactions only account for some 15% of their income –new FDI could easily make up for this).
- The CTT would not require universal implementation. The Belgian legislation could be used as a template.
- The CTT would not be technically difficult to implement –a bank already exists, which could collect this tax. Banks would also be unlikely to try to evade the tax because it is so small.
- Obstacles: the European Central Bank is a huge problem in Europe – perhaps Finance Ministers could persuade it to adopt the CTT; the USA opposes the CTT – maybe the USA could be persuaded to adopt it on the grounds of the potential advantages to American banks and companies; political will by governments is lacking – governments have to take the initiative now, civil society can only help in this.

## Migrants Remittances

- Migration should be seen as a positive phenomenon, contributing to the economies of the recipient countries as well as potentially to the countries of origin.
- Remittances amount to more than ODA – reducing the cost of these transfers would leave more money to the people who have earned it and want to send it back to their relatives. It would also support the banks in the countries of origin of migrant workers.
- Reducing the cost of the transfer of remittances should be done in partnership with countries of origin and receiving countries, involving civil society, and other, actors.

## Development

- A new paradigm for autonomous development should be developed before looking at implementing concrete mechanisms, which are still based on archaic structures. This new approach to development should bring centre stage the national project – i.e. the right of countries to determine development on their own terms.
- A clear distinction must be made between development and welfare. Making sure the people themselves are empowered is the only way to turn welfare into development. Two suggestions for empowering people are: 1) to ensure that any supplementary funds or budgets are conditional participatory democratic acceptance; 2) to make sure people are empowered by giving them responsibility for themselves and their own lives.
- In a world with multiple centres of power, democratic global processes are needed for solving problems and redistributing wealth [Three questions need to be answered in this context: 1) what is our paradigm for development; 2) what should be financed from those mechanisms of redistribution of wealth; 3) how to put the different mechanisms together (philanthropy, remittances, global lottery, etc.)?].
- Many development problems do not require financing but rather improved national governance and democracy.
- Ways of providing more policy space for developing countries and of returning to national development projects need to be found. It is clear that the majority of the resources to fund these must come from domestic resources, followed by official development resources. What could innovative mechanisms contribute to this?

## Innovative Development Financing Mechanisms in General

- It maybe the case that some of the initiatives discussed could be more effectively implemented at the regional level, rather than the global level.
- The purpose of innovative financing mechanisms would not be to replace national financing or traditional official development assistance, but rather to provide complementary funds, perhaps in order to target specific problems (e.g. health, environmental problems, etc.).
- There would be a whole separate world of currencies which could be discussed under innovative financing mechanisms. For example, in Brazil, children who help other children in their studies can earn points, which they can later use to pay their tuition at university. This would be a good approach to multiply development efforts through popular participation.

## Mechanisms to be Prioritised

- At this stage creating new products that can facilitate ethical investments would be the best place to start. There is a market for products, such as the IFF and Global Premium Bond, and even governments sceptical of innovative financing mechanisms in general would be unlikely to oppose them.
- Out of the proposals discussed today, the Currency Transaction Tax links both the money-raising potential and creation of stability, which is a precondition for development. That should be a priority.
- Terrorism and organised crime are major global problems today. Controlling financial transactions could help to curb terrorism and organised crime, thus providing a politically attractive justification for introducing mechanisms of controlling financial transactions.
- Special Drawing Rights: many countries are amassing huge piles of foreign stock reserves, which leads to inflation of the global market – there should be some way to pool reserves in order to avoid this inflation but still have economic stability.

## Proposals for Action

- The MERCOSUR countries should discuss the possibilities of creating a regional lending facility. An alternative source of financing would create much needed competition and could also provide policy space for the developing countries.
- Selected innovative financing mechanisms should be implemented at the regional level (e.g. IFF and Travellers' Levy) by MERCOSUR, NEPAD, ASEAN, and other regional organisations.
- Representatives of the Helsinki Process and the Leading Group should discuss possible cooperation to jointly further innovative finance mechanisms. A meeting of the representatives could be organised in the context of the UN General Assembly in September 2006.
- Research existing innovative financing mechanisms already operating at national and local levels.