

Brasilia Conference - 6 & 7 July 2006: a continuing dynamic process

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Background

On 6 July, the follow up conference to the Paris Ministerial (held 4 months previously) on Innovative Financing for Development was opened by Brazilian Foreign Minister, Celso Amorim. The Brazilian Government invited the “*Leading Group on Solidarity Levies to Fund Development*”, which had been established in Paris, to this conference in Brasilia (see below for Chair’s Summary).

In marked contrast to Paris, Brasilia felt much more like a working meeting. It was smaller - there were about 150 people as opposed to the 400 in Paris. There was far less pomp and ceremony – Paris was opened by President Chirac and UN Secretary General Kofi Annan and attended by 70 Ministers. In Brasilia, representatives from governments were at a senior departmental level rather than Ministers or dignitaries. Unlike Paris it was not, therefore, a Ministerial meeting. The outcome was, at one level, less spectacular – because Paris clearly marked the official beginning of a new chapter in development financing – however Brasilia was a positive and constructive continuation of on-going work on the Air Ticket Levy (ATL) and on-going discussion of further ideas for innovative financing.

Main Outcomes

1. The **number of countries** participating in the Air Ticket Levy has **increased** from 13 in Paris up **to 18**, with the addition of Cambodia, Guatemala, Guinea, Mali and South Korea. The latter announced that they will implement the tax in 2007 - this is an important step since South Korea is an OECD country.
2. Although the contribution of the developing countries will be small in quantitative terms (Chile expects \$5-6 million as revenue, Brazil: \$10-12 million) the political-symbolic value is high, as it underlines the character of the project as a **North-South partnership**.
3. There is strong pressure to move into the implementation phase of the *International Drug Purchasing Facility* (IDPF) with a planned **launch in mid-September at the UN General Assembly** meeting in New York.
4. **Norway is to become the chair of the core group from September** (for 6 months) and to **organise the follow-up conference** to Brasilia – likely to take place in **February 2007**. It is promising that the Norwegian government is **keen to keep up the momentum** and play a strong role in pushing the process forward.
5. Although civil society participation was, due to geographical reasons, quantitatively weaker, than in Paris, the space to participate and the readiness to listen to the NGOs was far greater. The representative of the Brazilian NGO-Network, ABONG, made a detailed statement in the opening session. **Brasilia was more inclusive for NGOs than Paris** - an opportunity that was enjoyed with contributions made in all sessions. As well, NGOs made several presentations in the working groups, including on the Currency Transaction Tax (CTT), Tax Justice and the International Finance Facility (IFF).
6. The proposal from civil society to **improve the on-going work on the CTT and Tax Justice** by separating them and giving them stand-alone status (in Paris and Brasilia the issues of ‘Financial Transaction Taxes’ and ‘Tax Havens’ were combined into one workshop session) was agreed. From now on ‘the CTT’ and ‘Tax Avoidance and Tax Havens’ will command their own sessions. The tax justice network had a strong presence, which helped move their agenda forward. Responding to this, the German Ministry for Development announced a study to identify which actors avoid what taxes, where they do this and how. It was also positive that some progressive NGOs and not only mainstream organisations were present.
7. Looking behind the diplomatic rhetoric, it seems as if the large-scale International Finance Facility (IFF) – to create \$50 billion per year via a borrowing mechanism - is effectively being

taken off the table. It is clear that no major players will join this initiative. Instead, a mini-version of it (due to generate about 10% of the original projected income), a so-called '**pilot IFF**', **will be launched this year**, with revenues going to immunisation programmes.

8. The CTT appears to be winning ground. The leading governments are choosing to keep the CTT on the agenda – there were a number of presentations in favour of the proposal in Brasilia. The audience comprise some of the most interested, well-placed, Government officials from countries that are involved in the 'Innovative Financing' process. The idea was firmly planted that it is now **time for a 'pilot CTT'**. Some countries, such as Norway and France, have sent positive signals that they are interested in seeing the CTT progress.
9. **Breaking new ground:** It became clear during the conference that the innovative theme is not only about new funding mechanisms creating sustainable revenues but also about an innovative and inclusive process with i) both developed and developing countries being donors (see point 2, above) and ii) the opportunity for new and better drug purchase practice to be introduced. The potential, therefore, is that by creating better practice the IDPF brings far more than \$200 - 300 million pa to the table.
10. **Numerous pilots:** It is worth noting that over \$1 billion will be generated through pilot schemes launched in 2006: \$200 - 300m from the ATL, \$500m from IFF Immunisation (IFFIm) and \$400m from a Global Lottery to fund the World Food Programme. (As well, although migrant remittances are not strictly an "innovative source" of development finance, Spain is piloting a scheme to facilitate the flow of remittances from some of its migrant communities to Morocco, Ecuador and Senegal).

There are some important points to reflect about this. Firstly, all initiatives that have moved forward have been clearly linked to outcomes ie ATL for drug treatment, IFFIm for immunisations, Global Lottery to the World Food Programme.

Secondly, the concept of 'complementary' mechanisms is now accepted and has prevailed over the idea of one massive initiative (such as the large-scale IFF), which operated as 'competitive' to all other initiatives.

Thirdly, we can identify three different strands of financing. The first, and most close to the heart of NGOs, is the ATL, which is a *tax*; the second, IFFIm, is a *borrowing mechanism* and the third, the Global Lottery, is a *voluntary contribution*.

Fourthly, there is a growing realisation that the innovative financing initiative is more than about aid quantity. It is also crucially about aid quality - secure on-going revenue streams provide predictability of finance, essential for development planning. As well, the ATL may provide 'innovation' in the area of drug procurement (see *Challenges* section, below, point 1) – the potential to create precedents that improve the culture of drug purchase.

Challenges

1. **Effectiveness of the IDPF** – clearly it is critical that IDPF is a success or it will undermine all efforts for other future innovative 'tax' initiatives, such as a CTT. Specialist NGOs working in developing countries with people affected by diseases like HIV/AIDS, Malaria and TB, such as 'Medecins Sans Frontieres' (MSF), brought important expertise to the table, especially concerning drug sourcing and disbursement. There is a major worry about IDPF revenue simply serving the profit interests of pharmaceutical trans-nationals from the North.

MSF identified two key areas where we need to see urgent progress. Firstly, the true value of the IDPF rests in its potential to be an 'innovative' instrument for the purchase of effective drugs. The facility must, therefore, be able to purchase generic copies of drugs and ensure that intellectual property (IP) and patent issues are robustly dealt with to ensure that the funds stretch as far as they can, thus treating as many people as possible. The target is to reduce the cost of various fixed-dose combinations. Secondly, the current blueprint for the governance structure of the IDPF does not include civil society. Given the expertise that civil society has to

offer, especially specialist NGOs, it is crucial that there is a formal civil society presence in the IDPF's Managing Council (MC).

(Note: there has been a clear willingness of the core group of countries to listen to NGOs. Subsequent to Brasilia, we have been informed that there will be a civil society presence on the MC, but as yet we do not know how large this will be. As well, they have been listening to the calls for use of generics to decrease prices of medicines and commodities and have said that these issues will be addressed in the detailed business plan, which is currently being prepared).

2. Participation

Some important actors have not yet joined into this process. Italy, for instance, after their change of Government (and given that some ministers have supported the CTT in the past) ought to be pressured to participate as a leading player.

There is also concern over the absence of certain Northern European countries such as Sweden, the Netherlands and Denmark and some G8 countries, such as Canada and Japan.

More widely, there is potential for wider involvement of civil society including the environment movement, which is not yet locked into the process.

3. Concerns

Although the German study on tax avoidance was highly appreciated both by the Government delegations and NGOs, the German Ministry for Development Cooperation does not have the power to break the blockade by the Finance and Trade Ministries against the Air Ticket Levy.

The UK has still not made a financial commitment to the IDPF, though its existing Air Passenger Duty raises more than \$1 billion per year. At the same time France has committed \$2 billion over 20 years to the, UK-driven, IFF Immunisation. The UK Treasury insists that it cannot support the IDPF until the scheme is more thoroughly developed but this failure to reciprocate will grow more problematic as we approach the IDPF launch date in September. (See below for extract from G8 Russia communiqué, annex: France and UK).

There is an overarching concern that, even though the principle of additionality was emphasised by many Governments during the conference, that revenue from innovative instruments would be used to consolidate national budgets. An example is the recent announcement by Austria to consider financing the EU with a CTT. The agreed principle for innovative finance is that it is ring-fenced, additional to 0.7% and dedicated to a development outcomes.

Next steps

Urgent issues exist concerning the very rapid timetable for the launch of the IDPF, most importantly concerning intellectual property & patent issues and the extent of civil society presence in the IDPF's Managing Council. Specialist NGOs, such as MSF, will take the lead on this. It should be urgently considered how civil society finds a way to best organise to maximise input into the IDPF business plan. Our European Network, which concentrates on Innovative Finance, could potentially play a lead role in this.

Next occasions to plan for are the UN General Assembly in September and the Norwegian 'Innovative Finance' conference early next year.

Berlin/London July 26th 2006

PLENARY SESSION OF THE PILOT GROUP ON INNOVATIVE FINANCIAL MECHANISMS

http://www.solidarity-globalization.org/IMG/PLENARY_SESSION_OF_THE_PILOT_GROUP_ON_INNOVATIVE_FINANCIAL_MECHANISMS.doc

Brasília, July 6-7, 2006

Chair's Summary

The Meeting of the Pilot Group on Innovative Financing Mechanisms was held in Brasilia, July 6-7, 2006. The Opening Session was presided over by Ambassador Celso Amorim, Minister of External Relations, and was attended by Luiz Dulci, Minister-Chief of the President's Office's Secretariat, Jacques Lapouge, Director of the Economic and Financial Affairs Department of France's Ministry of Foreign Affairs, and Jorge Durão, President of the Brazilian NGOs Association (ABONG). Forty countries, in addition to international and nongovernmental organizations also participated in the meeting, as shown in the attached list.

The Meeting took place at a new stage of the Action against Hunger and Poverty launched by President Luiz Inácio Lula da Silva in September 2004. This new stage is characterized by the definition of specific actions aimed at raising funds and channeling them to the promotion of economic and social development.

The Plenary Meeting demonstrated the growing consensus about the role innovative mechanisms may play in raising the amount of resources available for developing countries, as a supplementation of the traditional sources of funds, so that they can achieve the Millennium Development Objectives by 2015.

In less than two years we have managed to raise the international awareness of the hunger and poverty issue and to make significant progress. The issue is now part of the agenda of the major international organizations.

The ripening of the discussion and assessment of innovative financing mechanisms already makes possible the adoption of specific, concrete projects, as witness the Paris Conference in February and March of this year convened at President Jacques Chirac's initiative. On that occasion, the proposal for the establishment of a solidarity levy on airline tickets met with broad support.

This meeting worked through panels at which government, civil society, and private sector representatives furthered the debate about innovative financing mechanisms and the advantages of their implementation.

Studies were presented on the potential for raising funds from the levies on international financial transactions, particularly in view of the advances of globalization and the increased volume of transactions. On the other hand, urgent attention must be given to the issue of tax evasion, which erodes the tax base of several countries, thereby reducing the resources available for combating hunger and poverty. In this connection, several participants suggested that international institutions devoted to this issue should amplify their action on behalf of developing countries, and proposed that a specific conference on tax evasion should be held.

The discussion of the issuing of special drawing rights for development projects was carried further.

The participants called attention also to the role the International Financing Mechanism could play in anticipating disbursements of resources needed for achieving the Millennium Development Objectives. It is thus promising that a pilot project for the financing of vaccination in developing countries will be launched in the short run.

With respect to emigrant remittances, it was thought that, although they are not a properly called innovative mechanism, they inject significant resources into the developing countries.

Obstacles to be overcome in this regard include the excessive cost of transfers, the scarce geographical coverage, and the lack of a banking culture. It would also be necessary to enhance the impact of remittances on the development of the receiving countries while respecting the transfer's private character.

In addition, the participants thought that it is important to further encourage voluntary contributions through international and nongovernmental organizations, and the private sector. Civil society has an equally important role in monitoring the use of resources, so as to make project implementation more effective and transparent.

The Meeting confirmed the broad support to the proposal of a solidarity levy on airline tickets and provided the opportunity for an exchange of information on the modalities to be implemented. The pilot project on this matter is already being implemented in several countries. The participants reiterated the legitimacy of this contribution, which is based on a sector that does not suffer from a heavy tax burden.

The Meeting made decisive progress also toward the establishment of the International Drug Purchase Facility. With resources from the solidarity levy, this Facility will play a major role in combating AIDS, malaria, and tuberculosis.

Also examined were issues pertaining to the structure of governance; there was also broad consensus on the need to ensure the participation of civil society in decision-making processes. In this connection, the meeting gave opportunity for consultations with representatives of civil society, who made suggestions on various aspects of the initiative. During the meeting a precise timetable was agreed for encounters up to the

opening of the United Nations General Assembly, when the establishment of the Drug Purchase Facility will be made official at high level.

This encounter has also served to identify other innovative projects, thereby fulfilling an essential Pilot Group task. As indicated by the panels, some of these projects are already yielding fruit, such as the Social Stock Exchange and the Global Digital Solidarity Fund. Other projects, such as the humanitarian lottery, are also very promising.

The Guyana representative informed that that country, as Pro-Tempore President of the Rio Group, intend to hold a workshop on innovative financing mechanisms.

The representative of Norway, which will assume the rotating chairmanship of the Group in September, announced the intention of organizing a technical workshop with international organizations, NGOs and the academy. The results of this workshop will serve as an input to the meeting of the Leading Group, to be held in Oslo early in 2007.

The representatives of Spain and Chile put forward proposals of new pilot projects, relating, respectively, to remittances and child malnutrition. These proposals could be death with by the Group in the next months.

Encouraged by the progress made at this Meeting, the participants expressed the hope that, as new pilot projects are adopted, other countries will decide to join the Group and adhere to the innovative financing mechanisms, thereby reinforcing concrete actions and increasing the resources available for combating hunger and poverty.

Fight against infectious diseases

Annex

France

France will spend € 1,4 billion for the period 2006-2008 for multilateral actions related to the fight against emerging and transmissible diseases.

Regarding innovative financing, France has launched an air ticket solidarity contribution, which so far 17 countries expressed their intention to endorse. At least 90 percent of the proceeds of this contribution (estimated to around € 200 million a year), which is effective from 1 July, will finance an international drug purchase facility-UNITAID, aimed at ensuring an uninterrupted supply of pre-qualified products at reduced price for beneficiary countries. The IDPF-UNITAID will be launched at the time of the UN General Assembly in mid-September. France also contributes to the pilot International Finance Facility for Immunization (IFFIm), with the first bond issuance expected to take place in 2006 in order to finance GAVI. With a commitment of \$2 billion over 20 years, France will be the second contributor to this initiative.

France will make an increased contribution to the Global Fund (€ 225 million in 2006 and € 300 million in 2007) and will therefore be its second contributor.

For the period 2006-2007, France will spend € 290 million through its bilateral ODA for the achievement of health-related MDGs and for the strengthening of health systems in developing countries.

United Kingdom

The UK is committed to the achievement of the objectives set at Gleneagles, including universal access to drugs against HIV/AIDS by 2010. The UK is committed to spend £1.5 billion on HIV/AIDS from 2005/06 to 2007/08 and will contribute £360 million to the Global Fund between 2002 and 2008. The UK also supports innovative financing mechanisms: it will provide £1.4 billion over 20 years to the IFFIm to tackle preventable diseases, and has announced that it is prepared to make a long-term financial contribution to the IDPF-UNITAID. The UK is prepared to make a long-term financial contribution to pilot AMC. It supports the launch of a Pneumococcus Advance Market Commitments (AMC) by the end of 2006 and believes that a Malaria AMC should be explored. The UK also funds seven product development public private partnerships, which carry out research into new drugs, vaccines and microbicides for tackling communicable diseases. The UK is providing £60 million between 2006 and 2008 towards the cost of eradicating polio.