

### **Joint statement by Brazil, Chile, France, Germany and Spain**

Our countries are united in the fight against hunger and poverty. They have decided to work together for the achievement of the Millennium Development Goals. In the present situation, there is a significant risk that those goals will not be reached. Consensus runs deep that current aid levels will not suffice to finance the Millennium Development Goals.

The year 2005 is a turning point. Decisions made will determine the shape of the aid development system for the years to come. The stakes are high: either we come out of this process with a renewed and strengthened financing system for fighting poverty; or we will, in fact, have given up on achieving the MDGs. The meeting on September 20, 2004 held under the leadership of President Lula has been a decisive step. A declaration adopted by 111 countries has welcomed the ideas and proposals put forward in the Report of the Technical Group on Innovative Financing Mechanisms.

In this joint statement we want to move the process further and focus on how to finance the MDGs. We strongly hope that we can be joined, in this endeavor, by all those countries and institutions which share our objectives and our ambitions.

#### ***the need for more resources***

To reach the MDGs, United Nations and World Bank's estimates indicate the need to increase the amount of aid currently available in the order of US\$ 50 billion per year. This is equivalent to less than 5% of the additional income worldwide.

New resources for fighting poverty may come through a variety of channels.

1 – *Trade*. For developing countries, trade is a major driver in bringing additional resources. Therefore trade liberalization is crucial to global economic growth and poverty reduction. The Doha Round should deliver substantial benefits to developing countries. We encourage both developed and developing countries to play an active role in the negotiations to ensure that an ambitious outcome is achieved.

2 – *Greater domestic resource mobilization* in developing countries is a necessity. It can be achieved both through an improvement in tax collection and a reduction in tax evasion. Given its global nature, tax evasion must be dealt with in the context of strengthening international cooperation in tax matters. There must be no relaxation of efforts currently underway. If the expected results fail to materialize, States engaged in this process should consider taking coordinated defensive measures, particularly fiscal measures.

3 – *Remittances* play a crucial role in the economy of recipient countries, since they provide for a stable source of financing, bring foreign exchange with no liabilities and complement national savings, thereby constituting an important basis for capital accumulation. Developing countries are the main beneficiaries of remittances, accounting for 65% of all inflows. For those countries as a whole, remittances represent the second most important source of capital –surpassing ODA flows. Reducing the cost of remittances is therefore an urgent priority.

4 – Whatever efforts are made to mobilize domestic resources and increase remittances, ODA will remain an essential component of any development strategy, especially for the poorest countries. It is widely recognized that a *significant increase in official transfers is a precondition for meeting the target* of halving extreme world poverty by 2015. We therefore call on all developed countries to strive to reach an ODA level of 0.7% of GDP, a target that some of them have already adopted or reached. Such a collective undertaking would give a significant impulse and enormous credibility to the commitments made when the MDGs were adopted, five years ago.

### ***the need for different resources and new approaches to development finance***

Not only do we need more resources. We also need new types of resources. For the financing of development and the achievement of the MDGs, quality of aid is as important as its quantity.

- we strongly believe that the lack of stability and predictability in aid and financing flows is a major impediment to the fight against poverty :
  - stability is necessary to ensure that programs aimed a human development (education, health) can be undertaken on a long term basis, which is a condition of their efficiency
  - stability is necessary in those high risk situations where only sustained efforts can bring results and improvements ( post conflict environments and failed states)
  - finally, stability is a precondition for the financing of the fight against hunger and poverty.
- the supply of more predictable flows is, by itself a truly public good. It will help answering the debate on absorption capacity. There is a strong endogeneity there: if aid flows were more stable, they could be absorbed and administered more effectively, and in larger amounts.
- we also believe that greater stability can only come as a result of significant evolutions in the way development financing is mobilized. Only through a modification in the overall aid architecture can we obtain a different mix of resources for those programs absolutely essential to the financing of human development.

This is the rationale behind the search for innovative sources of financing for which we propose that the international community agrees on the following framework.

### ***a menu of options***

Our objective for the September UN General Assembly should be to come to an agreement to increase the quantity and improve the quality of aid. The amount of 50 billion dollars of additional resources could be set as a target by the international community, and a full menu of options to reach it could be put forward.

- *voluntary contributions.* Private philanthropy, both by individual households and foundations mobilize considerable amounts of money, with only a small fraction of it going to development financing and the international fight against poverty. Better information could help and bring inflexion in those flows. New instruments should also be put into place, such as global affinity cards, socially responsible investment funds, as well as experiences to use stock exchange infrastructures to mobilize additional private contribution to the fight against poverty that have already been undertaken by the São Paulo Stock Exchange (BOVESPA).
- *enhanced voluntary contributions.* The experience of the Tsunami has shown that there are huge reserves of generosity and altruism available when people are directly made aware of the needs and use of their contributions. The challenge is to transform this very positive movement into a more permanent dynamic. Governments could help in this regard, by creating the appropriate incentives, either through tax measures or matching funds. If those incentives were to be coordinated amongst nations in a coherent and visible framework, they would send a very powerful signal to donors about their international priorities. It would also provide significant help to fund raising efforts by development oriented NGOs.
- *Remittances.* Multiple initiatives have been undertaken both on a national and multilateral basis during the recent years to facilitate remittances flows. A step further, however, might be necessary. One could consider the possibility of unifying all initiatives in the context of a multilateral understanding that could galvanize political support and provide the necessary sense of urgency to the issue. In this regard, two possibilities could be considered: 1) the preparation of a resolution under the UNGA through which countries would commit themselves to a set of general principles and manifest their intention to pursue the negotiation of international agreements to facilitate remittances flows; 2) a framework agreement on remittances facilitation , also encompassing general principles, to be signed by all interested countries – in particular, with the participation of major source and recipient countries.
- *automatic budgetary contributions.* Governments currently finance international organizations through mandatory contributions based on explicit burden sharing rules and arrangements. Those mechanisms could also be used to finance those programs and global funds most directly involved in the fight against hunger and poverty and the implementation of the MDGs.
- *the International Finance Facility (IFF),* as proposed by the British Government, has the potential to quickly mobilize additional resources to finance the MDGs by frontloading future flows in official development aid. It would bring a scaling up in financial transfers to poor countries, thus ensuring that human development programs are not constrained by the lack of financing . We strongly support pursuing the establishment of such a facility, including refinancing mechanisms.
- *The creation of international taxes as an element in the development financing system. **These taxes should be nationally applied and internationally coordinated mechanisms.*** These instruments are especially appropriate where the need for stability and predictability is greatest over a long period of time. They would bring continuity

in development finance in the long run, which is necessary to ensure the viability of frontloading financing mechanisms. We strongly support pursuing these taxation mechanisms and we are determined to continue to build consensus on this issue.

Among the formulas which should be considered are :

- A domestically applied and internationally coordinated levy on international financial transactions This levy should be constructed in a way that does not impede on the efficiency and liquidity of financial markets. It would be levied at a very small rate and all necessary exemptions – such as market making activities – should be granted.
  - A domestically applied and internationally coordinated tax on arms purchases , levied on all heavy conventional weapons purchases
  - A domestically applied and internationally coordinated levy on air transport travels.
- **SDRs.** We reiterate our interest in further pursuing the proposals for new issuances of Special Drawing Rights (SDRs), as a mechanism for financing development. New issues of SDRs would increment the amount of resources currently available to the fight against hunger and poverty as well as address financial volatility and imbalances.
    - however necessary, the transformations in the aid architecture that we propose do not imply any changes in existing organizations or institutions. Proposals can and must be achieved within the existing framework of institutions and international legal arrangements, through a strengthening of intergovernmental cooperation.
    - while it is crucial that overall resources are mobilized in sufficient amounts, new financing mechanisms will only bring a partial contribution. It must be stressed again that they are no substitutes for increases in ODA. They should be concentrated on core actions and programs, where the need for stable and predictable resources is strongest and where priorities strongly converge between contributing countries.
    - even so, however, they can bring enormous and dramatic changes because stability in itself will improve the overall environment for growth and increase the efficiency of other sources of financing
    - various schemes should not be seen as alternatives, but can be used and managed in a complementary and mutually reinforcing process. IFF would work best, for instance, if complemented by a system of international taxation which would ensure that future reimbursements will not impede on the capacity of participating countries to sustain their ODA effort.

### *elements for an action plan*

Based on the principles and options described above, we believe the following approach should guide the international community:

- **universal participation** by all donor countries to the mechanisms described above, especially international taxation and the IFF, would be in the best interest of

development, both in terms of volume and stability of the financing flows. It should be our ultimate goal in the search for appropriate financing of the MDGs.

- in the short run, however, progress can also be made through a **more differentiated approach**, using the full opportunities offered by the menu of options in a coordinated manner. It could work as follows :
  - a sufficient number of countries would agree on common objectives and programs to be pursued and jointly undertaken, thus avoiding distortion of competition.
  - they would agree on pooling their resources, set financing targets over a multi-year period and decide on a stable burden sharing (including, when available, contributions by the private sector)
  - they would agree to implement an international tax or fee to provide for the core financial resource for these purposes. However, those countries wishing not to implement such a mechanism immediately could choose to make their contributions either through other instruments amongst the options available or through fiscal transfers.
  - they would designate the (existing) institutions responsible for receiving the contributions and managing the programs.
  - countries would be ultimately responsible for making sure that funding effectively materializes : for instance, voluntary contributions or tax revenues, if insufficient to meet a country's share, could be supplemented by fiscal transfers up to amounts initially agreed upon.

### *pilot projects*

While working on establishing the bases for an integrated approach along the lines described above, and, ultimately, creating financing schemes with universal participation, we believe that the launching of pilot projects in the next few months would both meet urgent needs and help to trigger a more broad based and general process.

We take note that pilot projects are currently under consideration, which, among others, the following have been identified as a field of work:

- one such a project aims at ensuring universal vaccination of children and is based on the Vaccine Fund. It would mobilize flows coming from the Bill and Melinda Gates Foundation as well as a pilot IFF mechanism.
- another would provide long term financing for the fight against AIDS through a small levy on air travel. Such a source of finance is absolutely necessary to provide both an incentive to private research on a future vaccine and create the conditions for poor countries to engage in long term programs of treatment.