

Innovative Development Financing Mechanisms: building a consensus

The question of innovative development financing mechanisms attracts growing interest in the international community. It has become a **key** issue for the future of our planet. It is on the agenda of the United Nations, the World Bank, the international Monetary Fund, the European Union and the G8. The achievement of an international consensus on this issue is the outcome of a **gradual** approach. One of the steps in this process is the conference on innovative development financing mechanisms, scheduled to be held on 28 February and 1 March 2006 in Paris.

France and its partners began by showing that innovative development financing mechanisms were politically **realistic** and technically **feasible**:

- ▶ the working group set up in October 2003 at the request of the President of the French Republic, chaired by Jean-Pierre Landau, identified a number of innovative financing mechanisms which had already proven their economic and financial viability.
- ▶ The report of the "Group of Six" formed in January 2004 by France, Brazil and Chile under the auspices of the UN Secretary-General, and subsequently joined by Spain, Germany and Algeria, confirmed the feasibility of innovative sources of financing and presented a **menu of options** (international solidarity levies, International Financing Facility (IFF), income from migrant remittances, voluntary contributions, etc.).

France and its partners next endeavoured to obtain the **broadest possible support** from the international community for the basic principles of innovative development financing mechanisms (complementarity with official development assistance, pooling of revenues, respect for national tax sovereignty, etc.):

- ▶ in September 2004, during the meeting of the Heads of State and Government on the Action against Hunger and Poverty, held at the United Nations in New York at the initiative of President Lula, **107 countries** supported a first Declaration on Innovative Sources of Financing for Development ;
- ▶ one year later, on 14 September 2005, during the Summit on Achievement of the Millennium Development Goals in New York, another, more ambitious declaration on innovative sources of financing, co-sponsored by the members of the "Group of Six", was supported by **79 countries**, including several EU Member States (Germany, Austria, Spain, Estonia, Luxembourg, United Kingdom), major emerging countries (Brazil, India) and a great many developing countries, especially from Africa.

Hailed by the international forums and discussed in reports of the World Bank, the international Monetary Fund and the European Commission, this initiative has now entered a **concrete phase**:

- ▶ after an address by the President of the French Republic to the Davos Forum in January 2005, in which he recommended piloting an international solidarity levy, the French authorities decided to start the ball rolling and to create an air-ticket levy with effect from 1st July 2006.
- ▶ France proposes that part of the revenue from this levy be allocated to the fight against pandemics in the developing world, particularly access to treatment.

The Paris conference

Organised by France at the initiative and under the High Patronage of the President of the French Republic, Jacques Chirac, an international conference at ministerial level will be held on **28th February and 1st March 2006** in Paris. The purpose of this meeting is to strengthen the consensus on the need to implement new development financing mechanisms (particularly international solidarity contributions), to enrich ongoing projects (especially the air-ticket solidarity levy), to start talks about the possibility of earmarking revenue from this levy to the fight against pandemics and to determine the next steps.

This conference will be attended by nearly one hundred countries from the northern and the southern hemisphere, particularly the countries which signed the declaration of 14th September 2005. All share the same ambition. International organisations concerned by development and public health issues, the most active foundations in this area, unions, non-government organisations and local authorities will also be very broadly represented.

This conference, which will be opened by the President of the French Republic, will be another step forward in the effort to rally the international community and to promote a wide exchange of views. It will provide an opportunity to showcase reflection on solidary globalisation and on the fight against poverty, an area in which France wants to see concrete advances.

International solidarity levies to redistribute the benefits of globalisation

Innovative development financing mechanisms in the service of solidary globalisation

Globalisation offers the developing countries a formidable opportunity to join trade flows and capital flows. For lack of adequate regulation, globalisation is also widening the divide between the rich countries and the poorest countries. International solidarity levies would allow us to redistribute part of the new wealth created by globalisation to the poorest countries. Thus international solidarity levies serve two objectives:

- ▶ complementing traditional official development assistance in order to contribute the minimum additional 70 billion dollars a year needed to achieve the Millennium Development Goals;
- ▶ instituting mechanisms to redistribute wealth at a global scale.

The developing countries need more aid

The developing countries need several tens of billions of euros in additional resources to improve the quality of their infrastructures, to upgrade education and health and to achieve by 2015 the Millennium Development Goals agreed by the international community in 2000.

The poor countries not only need more aid, they also need more foreseeable and more effective aid. Traditional official development assistance (ODA) is often volatile and difficult to predict since it depends on the budgetary constraints of the donor countries. International solidarity levies will complement traditional official development assistance and will make it possible to finance certain recurring costs of human development programmes in poor countries, such as teachers' wages and purchases of pharmaceuticals.

A first international solidarity levy: the air-ticket levy

Why airplane tickets?

Air transport is a fast-growing sector with relatively low taxes despite its negative impact on the environment. This assessment base is consistent with the wish to redistribute part of the benefits of globalisation, particularly when higher rates are applied to passengers travelling in business or first class. The airplane-ticket levy is easy to implement without harmful economic consequences for the participating countries.

What will be the impact on passengers and the air transport sector?

This levy will represent only a small part of the ticket price let alone the cost of a holiday. It will therefore have hardly any impact on travel behaviour and thus on air transport, a dynamic sector expected to grow on average 5% p.a. over the next ten years.

Moreover, competition will not be affected as all airlines, regardless of nationality, will have to charge this levy to passengers flying from airports in the territory of participating countries. The levy will be applied regardless of where tickets are bought, even in another country or on the internet. Passengers in transit will be exempt and will therefore not be tempted to change their itinerary while the airports of the participating countries will not lose income.

Which form will the airplane ticket levy take in France?

The airplane-ticket solidarity levy was approved by Parliament in December 2005 but will not come into force before 1st July 2006 to give airline companies the necessary preparation time. It will apply to all passengers taking off from French territory except passengers in transit. Its revenue is estimated at €200 million a year and will be collected through the airlines. The law has already laid down different caps for different flight destinations and passenger classes.

| | Economy class | Business/first class |
|-------------------------|-------------------------|----------------------|
| Domestic flights | €1 } 70% of all flights | €10 |
| Flights within Europe * | | €10 |
| International flights | €4 | €40 |

* European Union + Iceland, Liechtenstein and Norway

France intends to use the revenues from this levy to facilitate the purchase of pharmaceuticals against the most serious pandemics of the developing world.

The fight against the three pandemics (HIV/AIDS, tuberculosis, malaria) is a challenge for the countries of both the northern and the southern hemisphere. Every year, these three pandemics alone kill 6 million people. Innovative financing mechanisms would contribute a steady long-term solution geared to the size of the challenge.

Owing to their stability and predictability, innovative sources of financing could be used particularly to purchase pharmaceuticals under long-term contracts in order to reduce their cost. Currently, 5 million people are unable to access urgently needed anti-retroviral treatments against AIDS. The cost of second-line treatments is still very high. Providing the pharmaceutical industry with guaranteed markets would allow it to raise the production volumes and lower the cost of such treatments. An **international facility for drug purchases** could be created for this purpose. It would be assisted by but not overlap with existing international organisations. The revenue of €200 million generated by the French air-ticket levy could be used to buy anti-retroviral treatments for about 1.3 million people. Thus, traditional ODA could be earmarked for indispensable upgrades in health systems.



Under the high patronage of
Monsieur Jacques Chirac
President of the French Republic

Solidarity and globalisation

Paris Conference on Innovative Development Financing Mechanisms

28th February - 1st March 2006