

Paris International Conference “Solidarity and Globalization: innovative financing for development and against pandemics” UK/France communiqué on innovative financing mechanisms

28 February

France and the UK have now been working hand in hand for over two years in order to put forward the issue of innovative financing mechanisms on the international agenda and convince as many countries as possible to support these mechanisms.

- In the context of the international conference on innovative financing mechanisms held in Paris with almost 100 participating countries, we are committed to move forward together:
- France will contribute to the IFFIm for an average of \$100 million a year during 20 years.
- The UK will sign up to the Leading Group on solidarity levies. The UK is committed to the achievement of the objectives set at Gleneagles regarding the fight against the three pandemics, in particular universal access to drugs against HIV/AIDS by 2010 and is committed to spend £1.5 billion on HIV/AIDS over the next three years, including for the purchase of drugs. It expects at least this level of spending to continue over the long-term. The UK recognises the importance of long-term predictable finance on a significant scale to meet the challenge of the purchase of drugs, supports the International Drug Purchase Facility (IDPF), agrees to work with France on the details as a co-sponsor of the initiative and is prepared to make a long-term financial contribution.
- The UK will also hypothecate part of the revenue from its existing Air Passenger Duty to provide a long-term stream of finance to the IFFIm and the IFF.
- France and the UK will jointly establish a working group to consider the implementation of an IFF going to health and education and funded by an air ticket levy as well as by other revenues from the Landau report. This working group should report back in advance of the September IMF/WB meetings. France and the UK will use their best efforts to persuade others to join this group.

(*) John W. Foster, Principal Researcher with The North-South Institute, represented the Canadian Council for International Cooperation at the Ministerial Conference and preparatory NGO event.

¹ Joint French-Brazilian-Chilean Concept paper on an International Drug Purchase Facility – IDPF. Conference paper, February 28, 2006

Minister of International Development Mr. Erik Solheim
Norway Supports the French Initiative

Paris, 28 February 2006

Mr President,
Mr Amorim,
Colleagues,
Distinguished delegates,

I would like to thank President Chirac and the Government of France for hosting this conference and for taking the lead on this important issue.

In order to reach the MDGs, developing countries need not only increased, but also long-term, predictable and stable external resources. They also need to mobilise domestic resources. Official Development Assistance (ODA) will remain the backbone of such external financing. No initiative must be allowed to detract attention from the importance of increasing ODA. This is a question of political will.

Meeting the financing needs of developing countries requires more than ODA. Innovative financing mechanisms are needed. Norway is strongly committed to this and recently joined the IFFm. But we need to do more.

We all come from countries that are welfare states based on national taxation. We need to move towards a global welfare state and make globalisation more equitable through a redistribution of wealth. If globalisation is to work for the poor, global taxation must be part of the solution.

In Norway's view, the funds raised through new and innovative mechanisms must be truly additional to existing ODA. If innovative financing fails to pass the test of additionality, there is not much point in pursuing it. If it is carefully implemented, taxation on air travel would pass this test.

It therefore gives me great pleasure to announce that Norway fully supports the French initiative. The Norwegian Government intends to implement a solidarity contribution on air traffic from 2007. The preparatory work will be an integral part of preparations for next year's budget.

I would like to urge other countries to support the air traffic tax. There are various options:

- Introducing a brand new scheme
- Introducing a development window in existing aviation taxes
- Including an environmental window in a solidarity scheme

Norway views these proposals not only as a mechanism for mobilising increased resources for development, but also as the beginning of a system of global taxation. In order to achieve a better organised and safer world, we need sustained and predictable international resources. Therefore, Norway would prefer that money raised through new finance facilities is utilised through already existing UN structures. For example, the funds collected could be used for the proposed International Drug Purchase Facility.

We support the French initiative to establish a pilot group that will maintain pressure on countries to introduce innovative finance schemes and develop these ideas further. Norway will participate in this group and is willing to chair it.

Thank you

Excerpts from:

**Statement by Mr. José Antonio Ocampo, Under-Secretary-General for Economic and Social Affairs to the Ministerial Conference on Innovative Sources of Financing for Development
Paris, 28 February 2006**

Let me start with this panel's sub-title: "building an inclusive globalization process". We know that competitive markets alone will not produce outcomes that meet the needs of all people, particularly the poor. The tension between markets and social inclusion tends to increase with globalization, as evident in the experience of both industrialized and developing countries in recent decades. Hence the call for better global governance and for a stronger international social agenda that takes into account the "Social Dimensions of Globalization". Last September in New York, this call received the full backing of world leaders.

Innovative financing processes can, and should, help the market support social inclusion. In the case of health, to be examined by the next panel, the needs and characteristics of developing countries' economies tend to differ significantly from those of industrial countries. Indeed, most of the world's impoverished peoples lack access to modern medical services and drugs. Projects, such as the "International Drug Purchase Facility" presented today, can be designed to reconcile the objective of competition in drug markets with the imperative to secure delivery of needed volumes of medicines according to strong quality standards and on an affordable basis.

This brings me to my second point, on the importance of the stability and predictability of flows. Exactly one year ago, the Paris Declaration on Aid Effectiveness stressed the need for stability and predictability of aid commitments, in order to allow recipients to engage in long-term measures. In June 2005, the UN High Level Dialogue on Financing for Development reaffirmed this point. The characteristics of the funding provided must match the long-term character of economic and social development goals.

Unfortunately, however, aid flows have been as volatile and procyclical for individual countries as private capital flows. The evidence presented in my Department's *World Economic and Social Survey 2005* is compelling in this regard. Innovative sources of financing present a potentially powerful exception, for they could provide stable and predictable long-term resource flows to developing country budgets.

Now to my third point, on implementation: aid funds should be channelled primarily through the budgets of recipient countries. This is also a major implication of the principles of aid effectiveness, for only funds so channelled meet the standards on ownership of policies by recipient countries, on alignment of donors with the planning and budgetary processes of recipient countries, and on contributions to state-building and fiscal planning in these countries. This recommendation stems from the Paris Declaration. But I could also mention the European Consensus of July 2005, which is very ambitious on this point, with 2010 as the deadline for channelling one half of all aid in this manner. Let us factor these commitments into our work on innovative financing mechanisms.

Finally, on the specific innovative mechanisms now at hand, I can only praise the extensive efforts made by all of you for moving to action—and encourage others to join in, with speed. We have two concrete initiatives currently being implemented: the IFF for immunization, and the contribution on airline tickets to facilitate access to drugs for fighting HIV/AIDS, tuberculosis and malaria.

Among other proposals mentioned in previous reports—such as those by WIDER, the Group of Six and the Landau report—some seem to show promise for producing large, stable and long-term resource flows to developing country budgets. Our evaluation, in the *World Economic and Social Survey 2005* and elsewhere, shows that a tax on carbon emissions and a tax on financial transactions would generate the most revenues. Their overall desirability would need to be weighed against that of other options, such as establishing an arms tax; using Special Drawing Rights (SDRs) for development; creating

premium bonds; or establishing a lottery to finance UN funds and programs, on which the WFP has a proposal today. Tax cooperation is also an important matter that should be high on the agenda.

PRESS >

Topic of the Month > Paris Conference

HEIDEMARIE WIECZOREK-ZEUL FEDERAL MINISTER FOR ECONOMIC COOPERATION AND DEVELOPMENT PARIS CONFERENCE ON INNOVATIVE FINANCING INSTRUMENTS 28 FEBRUARY 2006, FIRST PLENARY SESSION



Check against delivery!

I Global tasks demand global funding

I would like to thank our French hosts for initiating and organising this conference and for their wonderful hospitality.

Every day 30,000 children die from avoidable diseases.

What person with a heart, a soul and a mind does not want to react to that by standing up and saying "I want to put a stop to this scandal"?

And it is in order to put a stop to it that the countries of the world have committed themselves to achieving the Millennium Development Goals. That will demand of us hard work, courage - and money. Amongst others, the issue is to fight child mortality and AIDS in a massive way. There are four dimensions to the global tasks facing our generation: poverty reduction, justice in globalisation, peacebuilding and environmental protection.

In the agreement between the parties of Germany's governing coalition, our new government states "We have committed ourselves to automatic increments in the resources allocated to official development cooperation and have included these increases in the timetable agreed at EU level. Accordingly, we will devote 0.33% of our gross national income to public development cooperation by 2006, at least 0.51% by 2010 and the UN target figure of 0.7% by 2015 at the latest. " These increases are to be achieved in three ways: additional budgetary resources, further debt relief for the developing countries and innovative funding instruments.

With its adoption of the 2006 budget, the German government has once more reasserted its commitment to fighting global poverty. Development funding has been increased by nearly 8% - that is over 300 million euros.

Our commitment to innovative instruments should be seen within this broad context. We will continue to work in an active and results-oriented way towards the introduction of innovative financing instruments for globally sustainable development, particularly within the EU, the G8 and the group of countries known as the "Lula Group" ("Action against Hunger and Poverty"). We are doing this because we cannot take the responsibility before our conscience to watch 11 million children die every year before they are five years old. We are doing this because - as John F. Kennedy once put it: if we cannot help the millions who are poor, we cannot save the few who are rich.

In her policy statement, Chancellor Merkel made our position clear "We know that if we do not solve problems elsewhere, they will come home to us. For that, of course, we need money. That is why we have committed ourselves to raise ODA to 0.33% of GDP by 2006, to at least 0.51% by 2010 and to achieve the target of 0.7% by 2015."

She continued, "I know what I am saying. These are very ambitious targets. But we have to learn that if we do not succeed in solving the problems in other parts of the world, the problems will come to our door."

Global tasks demand global financing.

II Innovative instruments: a question of credibility

If we are to achieve the Millennium Development Goals, we have no option but to introduce innovative financing instruments. There are many proposals on the table which should also be pursued further. But to be implemented, they take time and have to be internationally agreed. One possible initial concrete step could be the introduction of a development levy on air tickets. Such a levy could be introduced in a short period of time.

I am grateful that Brazil, Chile, [Sweden] and France have taken the lead, have accepted responsibility and have already decided to introduce a solidarity levy on air tickets. They have finally opened the door to global levies for funding global tasks. For that, they deserve our thanks.

That is the first piece of good news to come out of Paris.

The successful collaboration between these countries is another piece of good news - our efforts to forge a global development partnership have moved a decisive step forwards. The countries of the North and the South are joining forces. Together, the North and the South are mobilising the funds required to achieve the Millennium Development Goals.

The global partnership is working - that is the second piece of good news from Paris. Germany will be playing an active part in the Leading Group on Development Solidarity Levies. We continue to be actively committed to innovative financing instruments, even if we have not yet decided on a specific instrument.

Kofi Annan, speaking about AIDS, once asked the question, how come that when we are dealing with the fight against terrorism, unlimited means are available. However, when we are dealing with the terror virus of AIDS which does not even have a political programme, means are limited and are always delayed.

The French proposal of using the revenue from the development levy on air tickets to buy medication to fight AIDS and malaria, currently the world's worst pandemics, is an attempt to respond to this - one attempt.

And what person with a heart and a mind does not want to contribute to put an end to the scandal that worldwide 30 000 children die of avoidable diseases every day? With the development levy everyone can save a child from death. Everybody can do something.

Germany considers the development levy on air tickets one possible additional instrument for financing development. We will participate in the Leading Group and contribute to develop this and other instruments further, to make them more concrete and to involve as many European countries as possible.

We, in this generation, have it in our hands to end extreme poverty. One trillion are spent on armament worldwide. Only about 78 billion on development cooperation. Let us contribute to set the priorities right. For a global world of justice!

Joint Motion for a Resolution

European Parliament
February 14, 2006

The European Parliament,
- having regard to the forthcoming International Conference on Innovative Sources of Financing for Development to be held on February 28-March 1 in Paris; (PES)

- having regard to the Millennium Development Goals (MDGs) and the UN High Level Event reviewing progress towards the MDGs held in September 2005; (PES)
- having regard to the Landau Report on "New International Financial Contributions for Development", commissioned in November 2003 by President Chirac; (ALDE)
- having regard to the "New York Declaration on Action Against Hunger and Poverty" signed by over 120 countries during the General Assembly of the United Nations of 2004 (GUE)
- having regard to the proposal for an International Finance Facility (IFF), which could double the amount of development aid, put forward by UK Chancellor Gordon Brown; (ALDE)
- having regard to the solidarity contribution on French plane tickets, which will enter into force on 1 July 2006 ; (ALDE)
- having regard to the Commission's paper on an analysis of a possible contribution based on airline tickets as a new source of financing of development; (ALDE)
- having regard to the "Declaration on Innovative Sources of Financing Development" signed by 79 Governments prior to the UN High Level Event on the Review of the Millennium Development Goals, September 2005 (Greens)

A. whereas sound development policies, sustained by substantial and effective development aid, are crucial to break the spiral of poverty and give developing countries the means to release their economic potential; (ALDE mod.)

B. whereas no amount of development aid will ever break the cycle of poverty in developing countries until they have sufficient capacity to absorb the aid, implement good governance and fight corruption; (EPP-B)

C. whereas the Millennium Development Goals Progress Report 2005 provides clear evidence that the objective of helping poor countries achieve the MDGs by the target year of 2015 cannot be achieved unless additional political and financial commitments are made in terms of quantity as well as quality of aid; (EPP-C)

D. whereas the "New York Declaration on Action Against Hunger and Poverty" calls upon the Governments of developed countries to make concrete commitments in the financing of the MDGs; (PES, Greens, GUE mod.)

E. whereas any innovative mechanisms must add to current levels of Official Development Aid (ODA), in order that they bring real added value to the financing of development; whereas EU Member States must stay firm on their commitment to devote 0,7% of their GNI to ODA and must adopt a time plan to achieve this target by 2015; (PES, Greens, GUE mod.)

F. Whereas the World Bank estimates that at least \$50 billion extra per year in Official Development Assistance (ODA) will be required to meet the Millennium Development Goals by 2015; (PES mod.)

G. whereas the contributions to the World Fund for the fight against Aids, Tuberculosis and Paludism got less than 15% of the money needed; (GUE mod.)

H. Whereas the lack of stability and predictability in aid and financing for developing countries has been a major impediment in the fight against poverty; whereas secure funding is essential particularly for funding key public services, such as health and education; (PES)

I. Whereas the International Finance Facility for Immunisation proposed by the UK has been internationally endorsed , supporting underused vaccines in over 70 countries as well as strengthening immunisation delivery systems; (PES; correction by Greens)

1. Welcomes the Conference in Paris to be held on 28 February - 1 March, which seeks to make progress on the agreement of international levies, with a particular focus on a possible levy on airline tickets; (PES)

2. Insists that any alternative methods of financing for development must bring new, additional funds for development and must not replace Official Development Assistance (ODA); (PES 2 mod.)
3. Warmly welcomes the Council agreement reached in June 2005 to double EU aid to developing countries and for Member States to increase their Official Development Assistance in order to achieve 0.56 % of GNI by 2010 and 0.7 % of GNI by 2015; (EPP-1)
4. Welcomes the renewed commitments by the international community at the UN World Summit of 14-16 September 2005 to achieving the MDGs and to promoting sustainable development; regrets the lack of a precise timetable committing all developed countries to the pursuit of the intermediate and final MDG targets; (ALDE, EPP 2)
5. Calls on developed countries to fulfil their obligations and meet their commitment to increase national aid budgets to 0.7% of GDP and considers that the search for innovative forms of financing should not replace this real priority; (EPP 3, ALDE)
6. Stresses that an increase in quantity has to go hand in hand with an increase in quality, i.e. the effectiveness of aid has to be improved through the 3 C's – coordination, complementarity, coherence - , as well as by reducing transaction costs of aid, improving the predictability and sustainability of aid mechanisms, increasing speed and delivery of aid, further untying aid, finding solutions to unsustainable debt burdens, promoting good governance and combating corruption and by increasing the absorption capacity of aid recipients; (EPP-4)
7. Welcomes the idea of a pilot-project of a solidarity contribution on air tickets to finance the fight against HIV/AIDS and other pandemics and to help achieve the MDGs; welcomes also the prospect of making development finance more stable and predictable; (PES, Greens, GUE)
8. Calls on the Member States to actively participate in the forthcoming Paris Conference and to seriously consider taking up this initiative; recognises, however, that matters of taxation not subject to EU harmonisation policy, remain under the exclusive competence of Member States; (new)
9. Welcomes the participation of the UK, France, Italy, Spain and Sweden who have together pledged in excess of \$4bn for the International Finance Facility for Immunisation which will be used to support and increase the work of the Global Alliance for Vaccines and Immunisation (GAVI); urges other EU Member States to contribute to the IFFIm; (PES mod.)
10. Welcomes, in the context of innovative financing, the newly announced launching of a Commission-European Investment Bank Trust Fund to finance African infrastructure; calls for an increase in the lending activities of the EIB in developing countries; (EPP 8, ALDE)
11. Asks the EU institutions and governments to examine thoroughly the feasibility of a world lottery to fund actions to combat hunger, as proposed by the World Food Programme in the form of the Food project; (PES)
12. Underlines that the full support of European citizens, in the context of an extremely tense budgetary situation, is required, and that any new initiative must be managed cautiously so as not to prejudice the acceptance by European public opinion of development policy objectives; (EPP-5 mod.)
13. Asks the President of the Parliament to forward this resolution to the European Commission, the Council of Ministers, all EU Heads of State, the UN Secretary-General and the UN Special Envoy on the MDGs, the World Bank and the OECD secretariat.

Embassy, March 8th, 2006
NEWS STORY
By John W. Foster

Canada is Silent on Aid Innovation

"With these contributions, we are going to extend our solidarity base using a fraction of the new wealth created by the globalization process, a large part of which goes untaxed." Thus French President Jacques Chirac introduced the international solidarity levy on airline tickets to a large assembly commencing the Paris Conference on Innovative Development Financing Mechanisms on Feb. 28.

Among the approximately 600 people gathered in the golden chambers of the Elysée Palace, were over 80 finance, foreign and development ministers, along with three presidents and UN Secretary-General Kofi Annan. Some 93 participating countries, nine observer governments (including an economic officer from the Canadian embassy) and some 70 non-governmental organizations were represented. The "cross-over" dimension of the conference, embodied in the participation of AIDS, education, aid and debt advocates, was celebrated by one minister who noted that "foreign ministers are talking about health."

In the context of the admitted failure, so far, to provide the funding necessary to meet the Millennium Development Goals by 2015, and citing a gap amounting to tens of billions of dollars, the airlines levy is seen as a significant --if insufficient-- contribution to meeting needs in the area of HIV/AIDS. Although the final channels for the funds raised is not completely confirmed, the French and allied governments are proposing the creation of an International Drug Purchase Facility (IDPF) to negotiate lower prices and adequate supplies of anti-retroviral and other pharmaceuticals. Non-governmental and some official voices have raised cautions about setting up another international body, when UNAIDS and the Global Fund already exist, but few if any criticize the objective of putting the new funds to work against HIV/AIDS, tuberculosis and malaria.

One question which hardly anyone wishes to address --although some cite-- is why innovative sources are necessary to supplement official development assistance, while governments continue to spend a trillion dollars a year on arms when less than a tenth of that amount is invested in human security via development funding. As we used to say in church circles, if they want more for the military, let them hold a bake sale.

Without challenging current budgetary priorities, France and 12 other signatory countries are proposing additional innovative ways to raise the pounds, euros or pesos needed to begin closing the gap.

The rationales provided for the airlines levy include the realization, brought home by SARS amongst other threats, that airlines and the travel industry in general have a great deal to lose from global epidemics. The French government cites arguments that the levy assists "front-loading" aid, and would provide predictable and sustained revenue. Virtually all participants cited the urgency of developing sources for funding over and above existing official development assistance (ODA) commitments to meet objectives like universal sustained access to prevention, care and treatment for HIV/AIDS,

tuberculosis and malaria.

While the French government did not secure as many pledges of support as it may have hoped, UK Chancellor Gordon Brown confirmed a bilateral agreement which would see France contributing to the International Finance Facility and the UK to the airline levy. The German Development Minister made an emotional pledge to fight for her government's support of the effort. Norway's Development and Foreign Ministers pledged support and leadership in follow-up activities, and a Pilot Group for Solidarity Contributions for Development was created.

The accent was placed on innovative sources. As Mr.Chirac noted in his opening address, innovative financing proposals, like the levy and proposals for taxes on carbon emissions and currency transactions, "were considered unrealistic a short time ago. They were even taboo in certain international organizations. Now they are discussed in all the major international forums."

The various ministers and officials who entered the debate repeated pledges to initiate a variety of innovative and additional sources of revenue for development, not only an airlines levy. This is due, in part, to the work of the group of governments, the Alliance against hunger and poverty, initiated by Brazilian President Luiz Inacio Lula and France's Chirac, and which now includes Algeria, Chile, Germany and Spain. It is supported by solid intellectual work done by technical teams at the UN and by one led by French expert Jean-Pierre Landau.

Canadians will recall that Parliament passed a resolution endorsing Canadian participation in a currency transaction tax in the late 1990s, and Canada and Norway supported study of innovative measures at the UN Geneva 2000 conference. Yet Canada's voice is presently muted in the discussion of new initiatives. Official sources testify to Canada's "interest" in innovative sources, in general, but cite objections to virtually every individual proposal - IFF, Currency Transactions Tax (CTT), airlines levy, etc. Unlike Norway, which played a particularly positive role at the Paris Conference, Canada was silent. Nor does Canada appear to be developing an innovative proposal of its own, although organizations like the non-governmental Halifax Initiative and the Canadian Council for International Cooperation continue to pledge support. Research on implementation continues at The North-South Institute which has also participated in the UN's Financing for Development expert consultations and multi-stakeholder panels.

Clearly, the moment for moving forward on the levy, the CTT and other innovative proposals has arrived. The new Canadian government has the opportunity to take part in joint efforts which have significant backing. Lacking such initiative, it has the challenge of developing its own proposals to meet global needs.

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**Paris Ministerial Conference on Innovative Sources of Financing
Rough Transcript of Speech by Sony Kapoor on the 1st of March
Sony.Kapoor@gmail.com**

On Introducing Financial Transaction Taxes and Tackling Capital Flight

Introduction

Good Morning Respected Heads of State, Ministers, Colleagues and Friends – many of whom I work with. Thank you for turning up in such numbers to discuss what are perhaps the most cutting edge topics in development. My colleagues and I feel privileged to speak to such an august audience.

Yesterday we fired the first infantry salvo – launching a small but nevertheless significant and precedent setting airline ticket levy – today, however, belongs to the artillery – the big guns of financial transaction taxes and plugging the leaks – each with the potential to make the scale of contributions so sorely needed for make poverty history.

It has also cleared the path for a discussion and implementation of Carbon taxes and other environmental taxes especially on the extractive sector.

Why is this so?

Philosophically, what we are trying to do here is redistribute, albeit a very small percentage, from those who have benefited most from globalization to those who have been left behind or harmed by it. Few of us – especially those who have been investment bankers – would disagree that the financial services industry has had the best of the world even without the obligatory image of the cocky self assured banker in a Ferrari.

The foreign exchange market, for instance, has expanded from about \$4 trillion in 1973 to \$40 trillion in the mid 80s to almost \$500, trillion now – a 120 fold increase. This is equivalent to a pile of a hundred dollar bills all the way to the moon and beyond. Bonuses and salaries have expanded nearly as rapidly with over \$13 billion paid out this year in London alone – all this while 11 million children die for want of less than a dollar a day.

What we are living in, is a world of financial globalization – all financial markets be it stock markets, bonds, derivatives, or even just plain vanilla bank transactions have seen similar kinds of growth.

Just skimming these markets, taking off a tiny slice of the top, will generate the kind of tens to hundreds of billions of dollars that we so desperately need to save lives and to finally achieve the dream of sustainable development. Small transaction taxes – of the order of basis points – a few hundredths of a percent – will raise this money, without any significant market impact, and because of the recent electronic development of the market – in a way that makes evasion highly unlikely.

Countering the International Monetary Fund

I must say that, I am rather beginning to enjoy the now regular encounters I have had with the Fund, on debt, trade, conditionality and now this. My colleague, the head of fiscal affairs opened the discussion with what she saw as the pitfalls of going down this road. Shall we say that she has looked at the issue through the IMF lens – we all know they have their own special way of looking at things. Let me tell you why she is wrong...

Her first concern was that the taxes may not have a progressive incidence – I don't know since when the Fund has started to care about progressivism in taxes but this is untrue. First on a proportionate basis, the rich use financial transactions much more often than the poor. This is especially true of foreign exchange, stock and bond transactions. Second, we are mostly talking about implementing such taxes within OECD countries – we comprise the richest populations in the world and any tax on us is without question globally progressive.

Her next concern was around revenue adequacy – I show in the next section how such taxes, even selectively employed at levels of basis points – hundredths of a percent, can mobilize more than a hundred billion dollars – that may not be adequate for the Fund, but its adequate for me...

Her third concern was that revenue would deteriorate over time as financial markets worked out new tricks. Well the Fund may live in a world where financial markets are dynamic (with an intentional pun) and governments static – but in the real world tax collection is a cat and mouse game – where tax collectors and not just the tax payers are constantly looking for fulfilling their respective objectives. The funds presumption is that the tax collectors would fail – we would be in a world of zero income taxes now – but we are not. There is a second point – these markets are all expanding markets – some even expanding exponentially – so in fact even in the face of a decrease in collection, it is likely that we could end up with increasing revenues. And my friend, the finance minister from Brazil just showed that in Brazil, the revenue has been on the increase...

She also said something about efficiency, liquidity and the volume of transactions. She has fallen into a trap of thinking that the volume of transactions is the same as liquidity is the same as efficiency. While they are linked – the links have been shown to be tenuous rather than robust. In a survey of FX traders it was revealed that up until a six month horizon only about a third thought that economic fundamentals were the most important factor in determining the price of a currency. Other factors especially, speculation, technical trading and an overreaction to news were shown to be equally or more important – is that efficient???

But I am digressing...I think that is enough focus on the Fund for now...

How will we do it?

When I was trading derivatives in the financial markets, I based my trading decisions on many factors – how the markets looked, how much profit or loss my portfolio was showing, and sometimes even on whether I got up from the wrong side of the bed – but never on the basis of transaction costs. Such small taxes, would at most take the rapidly diminishing transaction costs perhaps back to the level they were at 2-3 years

ago and no more – no one will notice and even if they do – few people will care. Profit margins are at least an order of magnitude higher...

Security Transaction Taxes

A small tax on the sale or purchase of a share or bond – now operate in more than countries including many OECD countries such as the UK, USA, France, Germany, Austria etc.. where they raise substantial sums of money with no apparent negative impact on the markets. In the UK, for example, – a stamp duty on share purchase generates as much as \$7 billion every year and in the US – the money raised funds the SEC – the financial markets regulator.

Extending these, into untaxed markets, which any country can unilaterally do, will generate anywhere between \$20 and \$60 billion of new revenue that could be harnessed for development.

Tax on Debits

A tiny-tiny tax of less than half a basis point on debits in rich countries can raise tens of billions of dollars every year – for a \$100 transaction this amounts to half a cent – I throw the pennies I end up collecting – I am sure many of you do too. Such a tax – albeit a higher one of the range of 20 to 200 basis points is in operation successfully in many countries such as Colombia, Venezuela, Peru, Brazil Ecuador etc where it raises substantial amounts of revenue every year at very low collection costs and has had few problems of evasion.

Foreign Exchange Market

It is unusual that this market, which is the largest financial market in the world, is not taxed. Partly because of its international nature, it was thought that all countries – or at least all major financial centres needed to be on board to implement the tax. However, work done by Rodney Schmidt and others including yours truly (myself) showed how regulatory and other changes in the financial system meant how this could be implemented unilaterally by any country or region with its own currency in a way that was non-distortionary and cheap impose and collect and next to impossible to evade.

Avinash and his colleagues have now taken this a step further – by showing how the plumbing works and Peter Wahl and WEED have now produced a 400 page report – everything you wanted to know about currency taxes but were afraid to ask or just did not want to know.

Norway, which has its own currency, has put out a statement saying they will spearhead the efforts –raise more than \$300 million – increasing its already high aid budget substantially by about 15-20%. The UK can raise \$3 billion and major countries put together as much as \$40 billion – this is the first salvo of the artillery. We call upon Norway to fire the big gun. Don't need the US.

A tax on transactions with Tax Havens and Jurisdictions with banking Secrecy

This neatly Links in with our next and even more important theme of Tax Evasion, Tax Avoidance and Capital Flight.

Plugging the Leaks

Most discussions on development financing focus only on increasing inflows – they do not look at the other side of the equation – the outflows – the leakages. Every year, developing countries lose between \$500 and \$800 billion in so called dirty money outflows – an amount that is almost ten times the aid inflows. We could keep pouring money into a leaky bucket – but we can only make it fill up once we plug the leaks.

These leaks, which exist in the form of tax havens, banking secrecy, transfer mispricing by transnational corporations and a sophisticated network of shell bank accounts and dummy corporations have been punched primarily for commercial purposes. They have been set up by mostly by rich western countries, and western transnationals, banks, accounting and law firms.

According to the UN Office on Drug Control and Crime Prevention “The common denominator in money-laundering and a variety of financial crimes is the enabling machinery that has been created in the financial havens and offshore centres.” Modern economic crime – the kind that ruins lives and destabilizes countries – necessarily involves money laundering, which in turn, requires bank secrecy. You cannot avoid money laundering if you have bank secrecy.

This machinery facilitates huge amounts of illegal mostly commercial capital flight from developing countries, tax avoidance and evasion from rich countries and terrorist financing and money laundering related to criminal networks.

More than 50% of world financial transactions and nearly half of world trade appear to pass through fiscal paradises or tax havens that are eating away the revenue that could be otherwise used for financing core development needs. Vito Tanzi, who preceded my IMF colleague as the head of fiscal affairs at the Fund called them fiscal termites.

Not only do these havens and related machinery facilitate the evasion of taxes, the leakage of wealth but they also encourage corruption and a rot of the capitalist system itself – this is the dark side of capitalism.

With more than half of the wealth of Latin America and Africa is now held offshore, there is an urgent need for a shift in thinking, from just trying to maximize inflows of external resources to simultaneously increasing the mobilization and retention of domestic resources in developing countries. This would then include an explicit focus on ‘plugging the leaks’, that is minimizing the outflow of resources from developing countries.

There will also, of course, be broader rewards to addressing the problems posed by of tax havens and the activities of the banks, accounting firms and lawyers associated with them, given they collectively undermine security, encourage crime, facilitate money laundering, magnify tax avoidance & evasion (for both rich and poor countries) and encourage huge amounts of capital flight from resource poor countries. This action is one of the core ideas contained in the landau report and the report of the action group against hunger and – this, in fact is the biggest idea.

Current discussions on how to plug these leaks are very unsatisfactory and conducted mostly in under the aegis of the OECD with little involvement from developing countries which are the biggest losers of the game.

Its time to use the initiative and momentum brought about by the airline ticket levy to bring out the big guns – implement financial transaction taxes and plug the leaks.

We have already discussed in some detail the idea for Brazil (or Chile) to take the lead on hosting the next conference in June to focus on actions to reduce tax avoidance, tax evasion and capital flight to release hundreds of billions of dollars for development. There are about 200 copies of the draft conference proposal on your way out.

We call on Norway (or Sweden), which has promised to spearhead the implementation of a currency transaction tax to take the lead and host the conference (perhaps in November) that does for financial transaction taxes what this Paris conference has done for the Airline Ticket Levy.

I conclude with a short thought on the level of inequality in the world and the power of redistribution to improve the lot of those who have been forgotten by globalization and left behind.

It is estimated that the top 0.1% - less than 300,000 richest Americans earn over \$800 billion every year - more than 25% or 1,600,000,000 (1.6 billion) the least well off (in the entire world) put together.

Plugging the leaks would help halt some of the increasing inequality in the world.

The rate of poverty reduction achieved between 1981 and 2001 could have been achieved through the redistribution annually of just 0.12 per cent of the income of the richest 10 per cent of the world's population.

Implementing the airline ticket levy, carbon taxes, and financial transaction taxes to fund development will help bring about some of this much needed redistribution.

Thank you so much for your patience!

Sony Kapoor