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# SPAIN AND THE PRESIDENCY OF THE LEADING GROUP FOR INNOVATIVE FINANCING FOR DEVELOPMENT\*

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As of July 1<sup>st</sup>, Spain will hold the Presidency of the Innovative Financing for Development Leading Group. Created in 2006, the Group is the main forum where one can study, spread knowledge, exchange practices and promote Innovative Financing (beyond AOD) for development.

At present, there are 61 countries who are members of this group, many of which are developing countries or low-income and emerging countries in the industrialized world. The United States or Russia are not yet members, but major economies such as Japan, Brazil, Mexico, India, South Korea, South Africa and most EU countries are included. Agencies who are members include the World Bank and other regional development banks, FAO, IMF, Global Fund to Fight AIDS, malaria and tuberculosis, OECD, WHO, UN, UNAIDS, WFP, FAO, IFAD, UNDP, UNFPA and so on. Finally, foundations and NGOs such as the Bill and Melinda Gates Foundation, Forum Ubuntu, Action Against Hunger and the Concord network are also part of it.

The Spanish presidency of the Group, taking over the work of Mali, finds itself in a very special situation, where the severe economic crisis bring concerns over financing for development and rises questions about the effectiveness of aid.

The aim of this article is to bring forward the concept of innovative financing for development, to describe its mechanisms and to outline the priorities of the Spanish Presidency of the Leading Group.

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## **Innovative financing for development**

Different studies and other evidence show that there is a very important financing deficit in order to achieve the Millennium Development Goals and to meet the needs arising from the processes of mitigation and adaptation to climate change. Official Aid for Development (AOD) to developing countries today is simply not enough. It would not even be enough if, in the best possible scenario, industrialized countries provided, in accordance with international commitments, 0.7% of their income to finance the development of southern countries.

The funding deficit stands at around 324,000 / 336,000 million dollars annually between 2012 and 2017. It is divided almost equally between the two components mentioned above: we approximately need an additional 170,000 million of AOD annually, and around 160,000 million for action against climate change. It is therefore necessary to concentrate in other sources of financing for development, different to those that have been used traditionally, and with the capability to immediately generate an acceptable volume of resources in order to serve the needs of development.

Three principles govern innovative sources of financing:

- **Stability:** we should use valid schemes seeking medium / long term results, rather than immediate and short-term responses that are exhausted in a short period of time. Faced with the traditional AOD, which is under pressure from the economic and / or political cycle, innovative financing should ensure a steady flow of resources. This idea ties in with the second principle.
- **Predictability:** developing countries must be assured predictable funding flows in order to build their development plans. It is an obvious condition of effectiveness.
- **Additionality:** innovative financing does not replace traditional AOD, but complements it. It increases the amount of resources to cover the shortfall mentioned, but should not be invoked to circumvent the commitments of ODA.

That is, when we talk about *innovative financing*, we understand it as a group of non traditional mechanisms and instruments which are capable of providing stable and predictable additional resources for financing development and global public goods.

## Innovative financing mechanisms

There are several innovative financing mechanisms that have proven their ability to contribute to the objectives proposed. In order to be described as innovative mechanism, a resource must have been previously studied as meeting four criteria: sufficiency (must be able to raise significant resources in quantity), feasibility (technical, legal, economic, etc), neutral (not to provoke or cause Minimally, distortions in the markets), sustainability.

The following deserve specific mention:

*UNITAID*: created in 2007 to help increase access to treatment for the three great pandemics (AIDS, malaria, tuberculosis) it operates buying medicines and diagnostic kits and is 70% financed from a surcharge on airline tickets collected by its members (including France, Chile, Korea, Madagascar, Mauritius, Niger, Mali ...) or by direct contributions from donors (Spain contributed 60 million Euros since its creation). The proceeds are intended to create escalated economies that allow purchasing large volume of medicines and diagnostic kits at a competitive price.

*IFFIM (International Financial Facility for Immunisation)*: raises funds through the issuance of obligations secured by binding commitments of donors (States or private foundations). The obligations are sold in financial markets and regularly issued under a scheme designed to sign commitments. Spain finances IFFIM with 9475.000 Euros per year until 2025. The strong commitment of all donors support the triple-A rating of the bonds, thus helping their profitability. Between 2006 and 2011 bonds worth 3,400 million dollars have been issued. The fund is administered by the Global Alliance for Vaccines and Immunization to fund treatments and vaccines.

*In-advance Market Commitments*: this mechanism tries to encourage the pharmaceutical industry, which has traditionally lacked involvement in research and production of medicines for developing countries due to the weak purchasing power of these economies. These commitments represent a contract for the future by which some donors will thoroughly commit to purchase –at previously agreed discounted prices- the final product of a particular research. For example, in 2007, by initiative of Italy, five countries (Italy, Britain, Canada, Russia and Norway) agreed, along with the Bill and Melinda Gates Foundation, to commit to disburse \$ 1,500 million for the advance purchase of a new vaccine against pneumococcal disease (pneumonia and meningitis, in particular). The vaccine will be available within a few years, and manufacturers will then sell it to developing countries at affordable prices.

*Other forms of financing for development* that arise in the context of this pilot group are working with remittances, by making the effort of reducing transaction costs to increase the amount of funding; the fight against flows of illicit money originating from developing countries; taking part of the proceeds from, for example, lotteries, or the imposition on CO2 emissions. Taxes for arms trading are also proposed, as are other known formulas such as the one in which debt is reduced in exchange of multilateral funding on health and education.

*Tax on Foreign Currency Transactions:* the idea of a taxing on speculative cash movements in capital markets was launched by the economist Tobin and was later picked up by social movements who took it as an opportunity for redistribution of the profit of globalization. Taxing speculative capital would contribute to the stability of the financial system, in addition to guaranteeing fundraising which could be used for the inclusion in the global economy of developing countries.

In May 2009, the Leading Group established a task force (Task Force) consisting of international experts on international financial transactions to carry out a study on finance transactions for development. The Final Report “Globalizing Solidarity: for the financial Sector’s Contribution” was made public in July 2010. The report recommends (among other four options) a tax on currency transactions, with revenues reverting on International Development.

The aim would be to implement a tax on currency transactions where 0.005% would go to finance development. It’s actually a minuscule tax that does not materially affect market operations but has the potential to generate billions of dollars that could be used for development. With this tax rate, it is believed that between 30,000 and 50,000 millions of Euros could be raised annually.

The tax on foreign exchange transactions has been gaining popularity thanks to the boost that France gave to it, personalized by the French President Nicolas Sarkozy. Also in September last year the President of the Spanish Government supported the initiative before the United Nations. The governments of Germany, Austria, Japan and Norway have also shown their support. In March 8, 2011, by consensus among the major groups, the European Parliament adopted the Resolution on innovative financing at a global and European level. The resolution calls on the leaders of the G 20 to accelerate negotiations to reach a minimal agreement on a worldwide ITF. Meanwhile, in June 14, 2011, the French National Assembly adopted almost unanimously (477 votes to 2), the text of a European resolution that

recommends that the Government present, together with European partners and later at the following European Council the following Autumn, a legislative proposal to introduce a tax on financial transactions in Europe. Moreover, a thousand economists from 53 countries have sent a letter to the G20 Finance Ministers to support the tax.

Today, there is enough evidence to allow us to point out that the imposition of such tax is technically, economically and legally viable. There is an additional element of political support related to redistributive justice, which suggests that those who have benefited most from globalization (financial sector) should contribute to the financing of global public goods.

## **Priorities of the Spanish Presidency of the Leading Group on Innovative Financing**

Over the next six months we have the opportunity to promote the work of the Leading Group while we make progress on the issues that are of interest to Spain.

### **Own resources mobilization for development**

Innovative financing and increased AOD must have the necessary correlative greater mobilization of domestic resources for development. No income tax is less likely to invest in education, health, infrastructure ... in LDCs. We are working in the improvement of the collection through the strengthening of local administrations, and the increase in transparency of the International financial system. For every dollar that comes into the development system driven by the channelling of ODA, 8 dollars are lost into corruption, illegal transactions, illicit trafficking, and so on.

Spain has helped to raise taxation and development work in the Council of the European Union during its presidency every six months, and now the G20 Development Group, which means that we will now take advantage of the synergies that exist in our Administration and relate the work in these three forums: the Leading Group, EU and G20.

### **Convergence with the Efficiency Agenda at the IV High Level Forum in Busan (South Korea, November-December 2011)**

There cannot be innovative financing without efficiency in its execution. From the point of view of the Spanish Government, we believe that it is time that the two agendas converge. Moreover, the proliferation of innovative mechanisms in

some areas requires better coordination between donors, under the leadership of partner countries, as well as greater control of its management. It is proposed that both in Busan and Madrid, both agendas-for Aid Effectiveness and Innovative Financing- are able to converge, in addition to also incorporating new actors such as the private sector and the foundations for agenda of efficiency.

## **Gender**

Given the importance that the tools of innovative financing for development will have in the context of global economic crisis, it is an inescapable challenge to everyone involved to face gender mainstreaming in compliance with international agreements and accelerate the search for compliance with equality objectives, as well as to obtain better results in any funded sector.

The Spanish position when it comes to gender will be to promote contributions to the integration of gender as a priority element of innovative financing, offering a proposal for implementation and promoting the establishment of a working group for its implementation.

## **Climate change and biodiversity**

Developing countries have found that financing for adaptation and mitigation of climate change was a key element for advancing global negotiations, in which other issues are at stake, such as emission reduction commitments from developed countries or the transfer of technologies.

A similar process is happening within the negotiation of another one of “Rio Conventions”: The United Nations Convention on Biological Diversity. Last October in Nagoya, it was agreed that countries would bring in an “increased funding” to help solve problems related to loss of biodiversity in these countries.

It is Spain’s objective that these areas are treated within the Leading Group in a practical sense. The sources identified so far in this process are: compensation for the loss of biodiversity, environmental services, fiscal transfers, public-private partnerships and market “green products” (similar to the carbon market).

## **Conclusions**

In recent years, Spanish cooperation for development has been focused by a triple point in which we highlight:

- A very substantial increase of AOD resources. We have gone from 0.23% on income in 2004 to 0.46% on consolidated figures for 2009.
- A quest on efficiency that has led to directly transpose the agenda of the Paris Declaration in Accra and the European Consensus on Development.
- A commitment to innovative financing for development as an additional and complementary mechanism since 2004, through participation in platforms such as the Initiative against Hunger and Poverty, the Leading Group and Task Forces derivatives.

Innovative financing therefore constitutes one of the great pillars of our development policy and, on the other hand, we have already devoted substantial resources to it. The Presidency of the Leading Group on Innovative Financing from the first of July is not only a recognition of our commitment from the beginning, but also an opportunity to influence an agenda with important practical implications. The Spanish presidency semester will culminate in a plenary meeting of the Leading Group in Spain, in mid-December, where we will have the opportunity to review the progress and where we would like to expose: the increasing prioritization of innovative financing in the works of UN, G8/20, OCDE, the establishment of practical mechanisms in a greater number of countries, a greater mobilization and social and political awareness about the possibility of implementing a tax on foreign exchange transactions.