

Leading group on solidarity levies to fund development. Oslo; February 6, 2007

remarks by Jean-Pierre Landau

It is a great honor to be here today. I want to thank the government of Norway for this opportunity as well as for their hospitality and the brilliant organization of our meeting.

It's been only three years and a half since President Chirac created the working group on innovative finance. It's been almost exactly three years since, together with Presidents Lula and Lagos, they launched the process which led to where we are today. A lot of progress has been made since. Issues, which were considered as marginal, or even a matter of ridicule, are now part of the mainstream debate on development finance. A pilot project has been launched and is now up and running: with the air ticket solidarity levy, we have been able to prove that our actions can match our words.

Of course, a lot remains to be done. I would like to take a step back and offer some personal thoughts on how to broaden and strengthen the consensus in the future. In my view, the biggest challenge is to keep an appropriate balance between advocacy – making the case for innovative finance – and action - showing that it works. Action is essential: UNITAID is already a success on which we can build: it is not – nor should it become – one additional and banalized financing instrument for development. It is - and must remain- a demonstration of what can be achieved with a stable and predictable source of finance, coming from an international solidarity levy, with an extremely light administrative structure and impeccable governance.

But advocacy is going to be crucial in the period to come. I think we have the right arguments to present to the international community and that, as time goes on, these arguments will become more and more compelling and relevant to the situation and challenges the world is facing.

Let me go back to the four main reasons why I think innovative sources of finance will be indispensable in the future, and, doing so, let me try to enrich, if I may, our previous analysis.

First, of course, is the need for a continuous, stable and predictable source of finance for development. This argument was the pillar of the "action against poverty" report we

presented with Brazil and Chile during the summer 2004. This need is as pressing now as it was three years ago. We devoted a lot of thinking and resources to improving access to health. Today, I'm very happy to see that – due in a large part to Chancellor Brown's personal commitment - access to education – and especially to primary education –has been put at the forefront of the Millennium Development Goals agenda. It should be clear, however, that no success on education is to be expected unless we have the kind of stable and predictable source of finance that international taxes can provide. Education is a long term endeavor. Building schools is the easy part. You need to recruit teachers, train them, and, of course, pay them over a long period of time. You may need to provide poor families with economic support to compensate for the costs of sending their children to school. The absence of long term stable finance is precisely the reason why enrollment rate have been so low in poor countries and why there are so many inequalities in access to education between poor and rich and between boys and girls. The World Bank Fast Track initiative is a wonderful project that deserves the strong support of the whole development community. But it has been plagued from the start by the uncertain and contingent nature of the financing commitment it gets, preventing it from bringing the necessary increase in scale in its interventions.

Let me give you another example: a roundtable will be held today on Advance Market Commitments (AMC). I believe this is a great idea. It is the best way out of the dilemma we all have been struggling to resolve in the last decade: how to provide the world – and, especially, poor countries with affordable access to drugs while, at the same time, preserving the private sector's ability to conduct efficient and productive research. Significant efforts have been devoted to establishing a legal and operational framework for such AMCs. One important issue remains to be solved, about what economists call the "time inconsistency" problem: how to make sure that governments will not ultimately renege on their commitments to buy drugs or patents for the specified quantities at the agreed price. This problem is especially acute because we are talking, here, of very long term commitments, over a decade, well beyond the normal length of the political cycle. One possible solution would be to earmark the proceeds of an international levy, which would accumulate into an escrow account managed by an impartial "third party" and ultimately disbursed according to the rules and principles specified in the original commitment. That way, the financing would be shielded from any political uncertainty ; this could be decisive in giving the whole scheme the necessary credibility.

Second, innovative sources of finance are an economically efficient way of raising revenues. This is a point well developed in our report and I will not insist much. For instance, those taxes levied to correct externalities generated by human activities, do not create, but, on the contrary, eliminate economic distortions. We also made the case in our report that international cooperation would enable countries to set up international taxes with broad bases and low rates, which are less distortionary than national taxes with higher rates and narrower bases. This argument, of course, is especially relevant when discussing financial transaction taxes.

There is a third and may be the most important reason, today, for devising innovative sources of finance, and especially global levies: they may become indispensable to manage global risks. Global risks are bound to become a pervasive feature of this century: increasing interdependence, together with economic and demographic growth will combine to introduce more instability and fragility in our world, together with more prosperity. For instance, the globalization of production processes will make them more vulnerable to disruptions caused by epidemics; natural disasters, whatever their cause, will extract a bigger price in terms of human and economic losses.

These new risks share several common characteristics: they materialize often on a global scale; so they can only be minimized, or mitigated, through collective action. The potential damage to human life and welfare is very high; so there is a big premium attached to preventing them. They relate mostly to low probability -but high impact -events; and, as a consequence, there are not many incentives for individual nations to devote resources to prevention, since they expect other countries to help and rescue them should they be stricken.

All together, those characteristics point to the need, for people exposed to those risks, to insure themselves. For individuals, insurance allows the spreading of risks among a broader group of people. But, for the planet as a whole, the logic of "insurance" is different. It means devoting resources to lowering both the probability of occurrence of risks and the damage done should they occur nevertheless. This kind of "insurance" is not likely to occur on its own because there is no incentive for individual nations to act, a typical case of what economists call "coordination failure".

In most countries, such situations are dealt with by imposing compulsory insurance on individuals whose activity might generate risks for the whole community. Global levies could act as a compulsory insurance that the community of nations would impose on itself to

reduce and mitigate global risks. Had such a levy existed between nations bordering the Indian Ocean, it could have financed an early warning system against tsunamis and saved thousands of lives. In the future, I could imagine such levies helping to cover the costs of disaster prevention, epidemics detection, or, in a more ambitious framework, the fight against infectious diseases in countries where they are most likely to erupt, and from where they are most likely to spread.

Finally, more stable and permanent resources will be needed for the public sector to engage productively private foundations, which are becoming major actors in international development. I, personally, consider this an extremely positive evolution. Foundations bring a wealth of resources and expertise, as well as a new approach - and independence - to the international fight against poverty, in all its dimensions. But they also present a challenge to public development agencies: they can credibly commit resources over a long period of time and provide stability and predictability to development finance. Unless the public sector can match them with equivalent types of finance, it is bound to lose influence over the implementation as well as the overall direction and orientation of development aid.

Overall, I can see a strong and credible agenda for those of us promoting innovative sources of finance; this agenda has three parts:

First, broaden the debate.

Fighting poverty and meeting the MDGs should naturally remain the first priority. It may even increase in importance if and when tensions occur in donor's countries budgets and evidence builds up that financing commitment will not be met through traditional sources of finance. As for the immediate future, now that education has - rightly - been put at the top of the development agenda, we should make it clear that nothing serious can be envisaged without a fundamental reform in the way international action in this area is financed.

Beyond development, there is also a compelling case for looking at new mechanisms to finance global - or regional - collective actions that would either produce benefits accruing far away in the future (for instance preserving environment , pharmaceutical research) or prevent the occurrence of serious risks such as natural disasters or infectious diseases. This should be a major area of research in the period to come.

Second, engage new actors.

It is now time for discussions to take place beyond the official development community. I already have mentioned private foundations as essential partners. But the business and financial communities also have a major stake in keeping global risks under control and avoid significant disruptions in the economic system. This should normally open a space for dispassionate discussion and dialogue. An impressive - and extremely credible - technical work has been completed on many issues, first of all financial transactions taxes. Further progress will be easier if the financial community is made to perceive, one way or another, that it may have an interest in it. What is needed now is to organize an honest confrontation of views. Governments may be best placed, at this stage, to foster such a dialogue. I am well aware of the difficulties of the task. A first step would be for development Ministers to vigorously engage their financial colleagues.

Third, keep arguing the issues on both equity and efficiency grounds

We are all motivated by justice. However, it is an inescapable truth that not all of our countrymen have the same perception of the necessary trade off between equity and efficiency. While we should not give up any ground on our basic objectives, it is important to be able to frame the issues -and the solutions- in a consistent economic framework. As I said, I strongly believe that the case for innovative sources of finance can be made on pure efficiency grounds. So there is no intrinsic contradiction between more justice and more efficiency in financing international development and collective action. Of course, all benefits that we get - whether social or economic – will ultimately derive from strengthened international cooperation. This may be seen by many as an unacceptable infringement on national sovereignty, especially when international taxes are involved. But I am reminded of those very powerful words attributed, I think to a "moderate" republican member of the US Congress: "taxes are the price we pay for living in a civilized society". It may well be that international taxes are the price we will we have to pay for living peacefully in a civilized world.

Thank you very much.