

International financing facility

December 2002



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International financing facility

1 If we are to fulfil our commitments to tackle global poverty and achieve the internationally agreed Millennium Development Goals (MDGs) by 2015. We face a huge financing challenge.

2 The 2015 targets are long-term goals to which we are, all of us, jointly and publicly committed. Unless we act in the very short term to raise the funds needed, we will not meet these goals by 2015.

3 Proposals for new and innovative ways to meet this funding gap include global taxes, special drawing rights and the Tobin Tax. The UK approaches further evaluation of all these options with an open mind.

4 However, to date, little consensus has been reached on taking forward any of these proposals. In the end, it all comes back to the duties national governments recognise and are prepared to discharge. The substantive and pressing challenge for richer countries is to commit the resources to meet the MDGs.

5 Moreover, international trade, properly managed, is essential to reduce global poverty. Full global trade liberalization could lift at least 300 million people out of poverty by 2015. The Government continues to work for implementation of the commitments agreed at the World Trade organisation's Doha Ministerial meeting in 2001, and significant reform of the European Union's Common Agricultural Policy.

6 There are also significant potential gains to be had from better use of the existing \$50 billion of annual aid flows. In particular, reform and better allocation of aid, some of which is poor quality, could make it 50 per cent more effective in reducing poverty.

7 However, in addition to the potential gains from improved aid effectiveness and open trade a substantial increase in resources will still be required. The Zedillo report for the United Nations concludes that to achieve the MDGs requires, in addition to aid reforms, until 2015 a further \$50 billion each year in aid. Clearly some uncertainty surrounds such estimates but the scale of the challenge is clear.

8 It requires unprecedented action by donors, and we have, all of us together, made great progress this year. In particular, pledges made at the United Nations conference on financing for development at Monterrey could provide an additional \$12 billion in aid each year from 2006.

9 However, these pledges and the further progress we can make on debt relief will still not be enough for us to finance the MDGs. The cost of achieving them far outweighs the resources that are currently committed in the short term. So this year we stand at a critical juncture - one in which the international community has reached a consensus around the MDGs and committed substantial resources to meet them. But these are insufficient. If we do not act with purpose and resolve now, we simply cannot hope to meet the MDGs by 2015.

10 Increasing our support from \$50 billion currently to the \$100 billion a year needed to meet the MDGs would transform the ability of countries to increase their investment in critical poverty reducing programmes. It is vital that we act now. We know that it is only if we invest in education today that we will be able to reduce poverty tomorrow. If we do not invest in tackling HIV/aids now then our efforts to train teachers will come to nothing.

11 Furthermore, we know that it is only if we simultaneously invest across several areas that we will be able to make the progress we need to achieve the MDGs. For example, without complementary investment in water supply many children will be required to spend hours away from school collecting water for their families. Similarly, investment in rural roads is critical to allow the poorest communities to access health facilities more easily.

12 Aid that is committed in a predictable way and over the longer term provides better value for money. It can be used much more effectively by developing countries, for example, in reducing poverty through long-term investment in health and education to meet the MDGs. It avoids the short-term volatility that is so damaging in planning investment, development spending and managing the economy.

13 To raise investment in developing countries from \$50 billion to \$100 billion a year to 2015 would therefore represent an unprecedented step change in aid flows from the developed world. But we believe it is not beyond us. To proceed with the urgency that the scale of the challenge demands, and recognising our duties to the world's poor, the UK has been working on the details of an International Financing Facility to meet the challenge of raising the funds that are so desperately needed now.

14 An International Financing Facility would lock-in a clear and binding — but conditional — commitment over the longer term from donors to provide substantial additional resources to 2015 and beyond in order to meet the MDGs. The facility would be able to borrow funds in international capital markets, secured against these commitments. It would borrow funds by issuing bonds, and so raise additional financing.

15 The finance raised would be distributed in the form of grants and concessional loans depending on country circumstance, and it would not contribute to a burden of unsustainable debt for the poorest countries. Its provision would be conditional on developing countries following good governance and implementing sound policies.

16 To minimise bureaucracy and avoid the costly duplication of existing structures additional resources should be distributed in a balanced way through existing effective bilateral and multilateral mechanisms, supporting poverty reduction strategies in developing countries.

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17 Discussions with financial experts suggest this financing framework is certainly feasible, and sound precedents exist. Moreover the market for bonds similar to those that the Financing Facility might issue is sufficiently large to avoid any material impact on the costs of borrowing.

18 The proposal for an International Financing Facility should be part of an initiative comprising four key elements: the pursuit of sound, transparent and corruption free policies for stability; the opening up of investment opportunities; the opening up of trade; and improved aid effectiveness together with higher levels of development assistance. This would mean that in exchange for actions taken by the developing countries to promote economic development, developed countries would provide new funds.

19 For its part, the UK stands ready to provide the long-term commitment that is necessary, but we cannot make progress alone. And we need further engagement, not just from our governments, but also from the international financial institutions, the private sector, non-Governmental organisations and other civil society groups.

20 The UK government will shortly be publishing a detailed proposal on the International Financing Facility.