



LETTER FROM M. JACQUES CHIRAC, PRESIDENT OF THE REPUBLIC, SENT TO AROUND SIXTY LEADERS OF WESTERN AND DEVELOPING COUNTRIES AND INTERNATIONAL INSTITUTIONS PROPOSING NEW WAYS TO FINANCE DEVELOPMENT

(Paris, 3 June 2004)

(...)

Next year we will be a third of the way to the deadline for achieving the Millennium Development Goals we set ourselves in September 2000. The sixtieth UN General Assembly will provide an opportunity for an initial review of progress.

Some patterns are already starting to emerge. We have reversed the downward trend in official development assistance. In Monterrey, we pledged approximately billion in additional funds between now and 2006. France is complying with those pledges, and some of us have introduced new funding mechanisms, e.g. the United States' "Millennium Challenge Account."

But the international institutions have expressed their concern: on present trends, the chances of achieving many goals, in sub-Saharan Africa chiefly, are compromised, even in a highly-favourable growth scenario.

Additional efforts are therefore needed. We need more financial resources, but also resources of a different kind. To fund primary education and healthcare in the poor countries, to pursue medical research into tropical diseases and HIV/AIDS, to succour the victims of humanitarian disasters, we need funding that is simultaneously concessional, stable, and predictable. No such resources currently exist within our bilateral and multilateral development aid systems.

The developed countries' aid budgets are already spoken for by their legitimate bilateral priorities. There are few incentives to spend those budgets on common programmes that produce results if and only if everyone participates. In addition, it is difficult, impossible even, to commit to precise, targeted programmes over many years.

Economic growth obviously plays a key role in poverty reduction, but it is not sufficient. Which is why a new approach is needed in order to overcome these obstacles. In that spirit, I want to propose a three-pronged approach.

The developed countries could begin by looking at more effective ways to stimulate and steer private generosity towards development and poverty reduction. Generally, tax incentives to promote philanthropy fail to distinguish between funding for national and for international programmes. The coordinated introduction of similar measures to encourage private giving in favour of development, by individuals and corporate donors, would make a great



impact. In particular, this would provide powerful support to NGOs active in the poorest countries.

Second, the international community could consider better ways to tackle tax evasion in the service of development. The flight of capital to tax havens, generally under shelter of bank secrecy, robs the developing countries, the poorest ones especially, of very significant revenues every year. This capital is lost to development, and national budgets lose a legitimate tax base. We have achieved great progress on this issue in recent years, on the level of principles and procedures at least. But results are still very tentative. And I believe we need to continue to watch developments closely, especially where bank secrecy is concerned.

Finally, as stated in the UN and Development Committee guidelines, it is up to States to consider jointly the possibility and feasibility of an international tax mechanism to finance human development, poverty reduction and the fulfilment of the Millennium Goals to which we have all subscribed. There is no need to modify the existing tax system or create a new international institution in order to do this. We can greatly improve matters, to begin with, through the coordinated introduction of a tax mechanism based on identical principles and structures, in each of our countries, to finance actions and programmes defined jointly within a multilateral framework, which would thus ensure stable, predictable funding.

Several issues would need to be addressed, including the legal form a common commitment could take, its duration, and of course the nature of the programmes to be financed and of the taxes raised.

As a contribution, I set up a working group six months ago to explore possible courses. This group is made up of eminent persons drawn from different backgrounds, and notably the private sector, governmental and non-governmental organizations, national and international organizations, and the academic world. All of its members attend and speak in a personal capacity. This working group is currently reviewing the wide array of proposals for international taxes that have been put forward and scrutinized in various forums, including taxation of financial transactions, environmental taxes, taxes on weapons purchases, for example, in order to assess their technical feasibility.

In addition to analysing the different formulas, I have also asked this working group to consider the following questions:

- historically, taxation is linked to direct political representation, yet there is no such representation on a world scale. How, consequently, can we give legitimacy to any such international taxation? What does this imply for the governance and administration of the resulting proceeds?
- one can pursue a range of objectives simultaneously, e.g. correcting the negative impact of economic activities on the environment; raising ethical standards in international business and finance; enhancing the spirit of



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solidarity. How can these be coordinated with the key priority, which is to finance development?

- should preference be given to using existing taxes, or should we be looking for new, global bases for taxation?

Further, I have asked this working group to adopt the following basic principles:

- avoid hitting or penalizing the developing countries, even indirectly,
- ensure the taxation is economically efficient,
- make sure that the taxation yields genuinely additional resources, supplementing, not substituting for, existing sources of development assistance.

The working group is scheduled to report to me this summer. I intend to transmit their report to you and release it to the public in the autumn, in time for the next United Nations General Assembly and the annual general meetings of the International Monetary Fund and the World Bank.

I wanted to submit these thoughts to you in the spirit of solidarity that I believe ought to inspire international action more than ever before. Their intention is to strengthen the bonds between those for whom globalization is a source of progress and increased prosperity, and those, still too numerous, who are excluded from this process by an accumulation of historical, natural and geographic handicaps. These thoughts are also inspired by a concern for efficiency, however. The fight against poverty and to promote human development needs continuity and stability. It needs to be able to count on robust financing and coordination mechanisms, unaffected by economic cycles or by political and international swings. Acting separately, we cannot answer this need, but together we can do so, more cheaply.

I do not underestimate the difficulties these developments imply, for what I am proposing amounts to an unprecedented step forward in international economic and financial cooperation. But the essential demands of human development and the fight against poverty justify the effort.

In the face of underdevelopment and poverty, we are at risk there's a risk to security, stability, and health. The international efforts needed to confront these risks seem relatively small and, I believe, represent a source of hope and progress for the world.

I would be grateful if you would give some attention to these thoughts.

(complimentary close). |