

# L20 Communiqué on Financing Global Public Goods

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1. We, the members of L20 and leaders of key industrial and developing nations, have agreed to take a strategic approach to mobilizing financing for global public goods. Important opportunities are being missed because of the current *ad hoc* approach to financing.
2. We have agreed to take a three-pronged approach to creating a more conducive environment for financing global public goods. First, use current resources better with a closer focus on accountability, cost effectiveness and results by the many actors involved. Second, introduce burden- and benefit-sharing within and between policy areas. Third, undertake further studies on how to generate additional resources for global public goods through new and innovative financing mechanisms.
3. Among the most pressing global issues are:
  - **Dismantling Nuclear Stockpiles.** Nuclear stockpiles are not being reduced as foreseen by the G8 Global Partnership Against the Spread of Weapons and Materials of Mass Destruction in 2002. The Partnership was established to prevent terrorists from acquiring weapons of mass destruction by funding projects that would secure or dispose of WMD, dismantle decommissioned nuclear submarines, dispose of fissile materials, and employ former weapons scientists. By reducing the probability of a nuclear attack – which is estimated at costing at least between \$300 billion and \$1.4 trillion<sup>1</sup> – investment in the Partnership is a very good deal. The implementation of projects is lagging because of insufficient funding.
  - **Strengthen Global Disease Surveillance.** Pandemics such as SARS and the Avian Influenza are not discovered early enough largely because of inadequate surveillance and reporting. The cost of pandemics in terms of lives and financial expenditure is huge: the Spanish flu in 1918-19 caused 20 million deaths<sup>2</sup>, the SARS outbreak in 2003 cost the world up to \$140 billion<sup>3</sup>,

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<sup>1</sup> Abt Associates, Inc. (2003) “The Economic Impact of Nuclear Terrorist Attacks on Freight Transport Systems in an Age of Seaport Vulnerability”. Cambridge, Ma: Abt Associate, Inc;  
[http://www.abtassociates.com/reports/ES-economic\\_Impact\\_of\\_Nuclear\\_Terrorist\\_Attacks.pdf](http://www.abtassociates.com/reports/ES-economic_Impact_of_Nuclear_Terrorist_Attacks.pdf)

<sup>2</sup> Barry, John M. (2005). “1918 Revisited: Lessons and Suggestions for Further Inquiry.” In Stacey L. Knobler, Alison Mack, Adel Mahmoud, and Stanley M. Lemon (eds.). *The Threat of Pandemic Influenza: Are We Ready?* Washington, DC: National Academies Press, pp. 58-68.

<sup>3</sup> Kaul and Conceicao’s background document for the L20 Conference. Other sources, such as Lee and McKibbin 2004, estimate costs up \$54 billion. Lee, Jong-Wha and Warwick J. McKibbin (2004). “Estimating the Global Economic Costs of SARS.” In Stanely Knobler, Adel Mahmoud, Stanley Lemon, Alison Mack, Laura Sivitz, and Katherine Oberholtzer (eds.), *Learning from SARS: Preparing for the Next Disease Outbreak*. Washington, DC: National Academies Press, pp. 92-109.

and a new flu pandemic might cost high income countries \$550 billion<sup>4</sup>. Despite these costs no global surveillance network exists to detect outbreaks of new diseases.<sup>5</sup> One of the main reasons for this serious shortcoming in the international system is insufficient funding to build surveillance capacity in the developing world.

- **Mitigate Climate Change.** Research and development in new technologies for mitigating global warming are insufficient for the size of the challenge, as acknowledged by the G8 in Gleanegles, 2005. Some experts suggest that a multi-track mitigation policy – which would combine emission targets and new technology – would yield a net benefit of \$192 billion, or a benefit-cost ratio of 3:1<sup>6</sup>. For any solution to mitigate climate change, public funding of R & D expenditures on “climate friendly” technologies needs to increase substantially.
  - **Malaria Vaccine.** There is a funding gap for basic medical research. Just for malaria - which killed a million people in Africa in 2000<sup>7</sup> – pursuing the remaining phases of clinical trials, regulatory approval and production of a single candidate vaccine would exceed the total public and philanthropic funds presently available for the purpose of developing a malaria vaccine. More finance is needed to liberate tropical countries from endemic diseases. And it would be a good investment; by one estimate, GDP per capita could increase by up to 1.3 percent a year if (only) malaria could be eliminated<sup>8</sup>.
4. We are concerned that global opportunities such as these are being missed because of a shortage of financing. The High-Level Panel on Financing for Development estimated in 2001 that \$20 billion a year was required to begin to address the need for global public goods. That is four times the current spending level.

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<sup>4</sup> World Bank (2005). “Spread of Avian Flu Could Affect Next Year’s Economic Outlook.” World Bank East Asia and Pacific Region; <http://www.worldbank.org/eapupdate>.

<sup>5</sup> Working Group 2, Commission on Macroeconomics and Health (2002), *Global Public Goods for Health: The Report of Working Group 2 of the Commission on Macroeconomics and Health*, Geneva: World Health Organization.

<sup>6</sup> Barrett, Scott (2006). “The Problem of Averting Global Catastrophe.” *Chicago Journal of International Law*, forthcoming, quoting William D. Nordhaus, and Joseph Boyer (2000). *Warming the World: Economic Models of Global Warming*. Cambridge, MA: MIT Press

<sup>7</sup> Arrow, Kenneth J., Claire B. Panosian, and Hellen Gelband (eds.) (2004). *Saving Lives, Buying Time: Economics of Malaria Drugs in an Age of Resistance*. Washington, DC: Institute of Medicine of the National Academies.

<sup>8</sup> Gallup, John Luke and Jeffrey D. Sachs (2001). “The Economic Burden of Malaria,” *American Journal of Tropical Medicine and Hygiene*, **64**: 85-96.

## I. Making better use of existing resources

5. We recognize that many actors in the international community – both private and public – are making important and significant contributions towards the financing of global public goods. We also note that all such goods do not require financing.
6. It is estimated that the international community raises some \$5 billion annually for the purpose of global public goods<sup>9</sup>; these resources can be used better.
7. We have agreed that there has to be greater focus on accountability, cost-effectiveness, and measurable results in many of the international institutions that today help provide global public goods. There also need to be independent evaluations of these organizations' operations, which today is rare. Such reforms are essential for establishing the political support necessary for additional contributions and for any new financing mechanisms.
8. Specifically, as governing body members we will press for the following actions:
  - International institutions that provide global public goods should embark on timebound reform programs, designed to enhance their performance and accountability.
  - International institutions should upgrade their monitoring and evaluation capacities, including for carrying out independent evaluations of their own performance on a continuous basis. So far only the World Bank and the IMF have evaluation systems that are independent of management and report directly to the respective Boards.
  - International institutions should initiate concerted investment programs to develop and analyze data sources on country performance to better monitor progress on programs supported by the international community. Such investments will also contribute to a strengthening of the institutions' critical surveillance functions.
  - The OECD is invited to launch a review to examine the division of labour among international institutions supporting the provision of global public goods. The purpose will be to identify overlaps, gaps and suggest where consolidation is possible.
9. We ask the responsible G20 ministerial groups to report on progress on these actions ahead of our next meeting.

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<sup>9</sup> World Bank (2001). Global Development Finance: Building Coalitions for Effective Development Finance. Chapter 5. Effective Use of Development Finance for International Public Goods.

## II. Mobilize additional resources by more clearly sharing the burden -- and the benefits

10. Today global public goods are provided in an *ad hoc* manner. A more systematic approach is essential. We outline below a series of specific principles and practices that should be considered when addressing global public good financing issues. Ultimately the principles and practices that ensure the highest degree of cooperation between countries should be applied:

- Quantify the total net benefits of provision and the gross benefits accruing to individual countries in order to guide a funding process, whenever possible. The estimate of net benefits is needed to justify a collective effort. Benefit estimates are also needed to demonstrate to domestic audiences that the contributions made are in the national interest.
- Use benefit estimates to guide negotiations on burden-sharing between countries and across policy areas. Such estimates will allow us as leaders to look at the total package of contributions for global public goods made by countries. We have asked the OECD to collect the estimates necessary to make this possible.
- In international institutions where they do not exist, introduce regular replenishment cycles to determine contributions and allow for progress reviews. The cycles should allow for sufficient time to pass so that results can be demonstrated. The Global Environment Facility has successfully applied this practice.
- Benchmark contributions on benefits received and ability / capacity to pay (burden shares). The International Maritime Organization represent this principle the best; costs for membership are shared primarily in proportion to the relative size of a country's merchant fleet. The formula for UN peacekeeping contributions represent the opposite; the burden-sharing is the same for all missions, even though the interests of individual states can differ considerably as regards individual missions.
- Use specific thresholds / targets so that achievements can be monitored and results measured. The polio eradication program, as supported by Rotary and the Gates Foundation, is a prominent example of how such practices can be applied.
- Use matching of contributions : for each country's contribution to depend on the total of all other countries' contributions. This way countries would make small contributions, to make sure that their generosity is really reciprocated; and then, having seen that it was, contribute some more.
- Link financing and decision-making in individual organizations. Countries contributing more should have a greater say in decisions. This is an important feature of the successful replenishment mechanisms for the multilateral development banks.
- Ensure transparency by "Naming, Thanking and Blaming" contributors. We encourage the creation of monitoring reports or scorecards, such as the

11. We urge the actors responsible for funding decisions – ministers, heads of international organizations, and other stakeholders – to consider these principles and practices and make use of them as appropriate. We will discuss progress at our next meeting.

### **III. New and innovative sources**

12. The legitimacy, accountability and effectiveness of the international system are critical preconditions for any funding decisions in the short and medium terms. It is also a prerequisite for more long-term funding options for global public goods, such as international taxes. France, supported by others, is currently introducing an air transport tax. Other ideas are also being studied, including taxes on carbon dioxide emissions and foreign currency transactions. We welcome these initiatives and their further implementation and will review a progress report prepared by the International Monetary Fund and the World Bank at our next meeting.

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13. To promote greater inclusiveness in deciding and implementing these proposals, we encourage countries that are currently not members of L20 to build strong and (politically) integrated regional organizations that can become members of our group. The European Union is already a member, representing 25 countries.
14. We, the leaders of key industrial and developing nations, by the commitments noted above, reaffirm our intention to work together to restore credibility and confidence in global cooperation and the international institutions that manage it. With a solid base and a strong track record we can together move towards the grander vision of continuous funding mechanisms for global public goods.