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iTunes4Dev Concept Paper

1. Rationale

As stated by the United Nations Secretary-General ¹, "*Eradicating extreme poverty continues to be one of the main challenges of our time, and is a major concern of the international community. Ending this scourge will require the combined efforts of all, governments, civil society organizations and the private sector, in the context of a stronger and more effective global partnership for development.*" As stated further by the United Nations, more than one billion people still live in extreme poverty, surviving on less than one dollar a day. The world's poor suffer from a lack of adequate shelter, health care, education, protection from violence, and a voice in what happens in their communities. Every year, almost 11 million children die from preventable diseases and more than half a million women die during pregnancy or childbirth.

To overcome this extreme poverty a significant amount of financial resources are required to create sustainable wealth cycles; but traditional aid by the richer countries is simply not enough. Innovative financing for development, a relatively new concept for international aid financing and which harnesses the power of both the private and the public sectors, has therefore become a necessity for the world community and has, since 2006, raised a significant amount of sustainable and additional development finance.

In this context this concept paper explores how Apple Inc., one of the wealthiest global corporate players, could contribute to international development financing.

2. Purpose

This concept paper presents a new idea for innovative financing for development: the **Apple™ micro-solidarity contribution, or "iTunes4Dev"**

The concept is structured around 4 components:

Component 1 - To apply, by fiscal year 2012/13 ², a new **Apple™ micro-solidarity contribution** (brand to be determined, hereafter referenced as **"iTunes4Dev"**) as a compulsory or semi-compulsory micro-contribution of US\$ 1, 2 or 3 cents (depending on geographic locations of iTunes Stores™, App Stores™ and iBookstores™) within every 0,99 US\$ / € / £ etc. iTunes™ purchase and to allocate additional iTunes4Dev proceeds to a cause or a fund (to be determined).

Component 2 - To combine iTunes4Dev with a **voluntary giving scheme** should users wish to add a couple of cents more.

Component 3 - To further accelerate impact and revenue generation by **matching new user-generated iTunes4Dev proceeds with Apple CSR investments.**

Component 4 - If deemed appropriate, to create a **new iPhone™/ iPad™ international development application** for users and potential recipients to badge iTunes4Dev and demonstrate support and results in social media.

¹ <http://www.un.org/millenniumgoals/bkgd.shtml>

² Apple Inc. Fiscal Years end 24 September

3. Key assumptions

- Feasibility - iTunes4Dev could be implemented quickly as it would depend upon an Apple corporate and shareholder decision with low legislative and regulatory barriers.
- Significant additional funding - iTunes4Dev could generate in excess of US\$ 1 billion of additional, sustainable and predictable international development finance by end 2013.
- No or little bottom-line impact / low transaction costs - iTunes4Dev would allocate a small corporate-tax deductible proportion of US 10K consolidated iTunes revenues to international development financing purposes to a US 501c3 or World Bank Trust Account.
- High value for Apple - Impact and brand improvement for Apple would be high – especially if iTunes4Dev were to be backed by key luminaries, VIP's and CSO's for a pressing development cause such as the HIV/AIDS pandemic.
- Technical - iTunes4Dev could be implemented quickly as Apple would write the necessary code.

4. Definitions

Compulsory means that Apple applies a new and GDP-modulated micro-solidarity contribution of 1, 2 or 3 US\$ cents to every iTunes purchase as of fiscal year 2012/2013 and without changing the current iTunes tariff structure.

➔ ***iTunes-user contributions would therefore be automatic, invisible to the user and compulsory for every purchase.***

Semi-compulsory means that Apple applies a new micro-solidarity contribution of 1, 2 or 3 US\$ cents to every iTunes purchase as of fiscal year 2012/2013 but that users will be given the choice to uncheck a contribution box should they wish for proceeds to remain in Apple.

➔ ***This gives iTunes-users the possibility to opt out of the scheme but would reduce visibility and sustainability of future proceeds***³

Voluntary means that an additional box may be checked by users should they wish to give an additional US\$ 1 – 5 cents by iTunes purchase. Users would therefore be free to determine to add a couple of cents to every US\$ 0,99 purchase.

➔ ***This allows for additional gearing and could be combined with a new social media application***

US Corporate-Tax deductible. Proceeds generated by Apple for international development financing purposes should be construed as US corporate tax-deductible and should not unduly affect Apple's profit margins and EPS's.

➔ ***Assumes that all iTunes revenue is consolidated in the USA***

Matching means that iTunes user-generated iTunes4Dev proceeds could be matched by Apple CSR investments and in-line with Apple leadership's 2011 commitment to a matching gift program for employees.

➔ ***Assumes that matching occurs once a year on the basis of iTunes4Dev proceeds received and to keep transaction costs to a minimum***

³ See the voluntary MASSIVEGOOD concept

A new iPhone™/ iPad™ international development application for users and potential recipients is a tool users could activate to demonstrate support via social media.

➔ **This concept is not further developed in this paper, which focuses on the main idea of iTunes4Dev and its initial revenue generation potential.**

5. Geographic locations and outlook

Apple Inc. 2011 total net sales of US\$ 108 billion (ex global retail sales of 13%) originated for 35% in the Americas, 26% in Europe, 5% in Japan and 21% in the Asian Pacific. Within 2011 sales of US\$ 108 billion, “*Other music related products and services*”⁴ accounted for US\$ 6,3 billion (5,8% of total net sales).

According to report by Global Equities Research⁵, the Apple’s iTunes platform, including music, films, iBooks and the App Store, will grow at a rate of 39% over the next three years to contribute \$13 billion in revenue by 2013.

6. Global solidarity based on wealth

Following the model developed in 2011 by the World Health Organization for a “Solidarity Tobacco Contribution”⁶, additional micro-proceeds for international development could be modulated in function of National GDP and wealth.

In other terms, high-income G20 countries such as the USA would see a higher iTunes4Dev rate applied than middle or lower-income countries.

As an initial model, it is here suggested to apply an iTunes4Dev rate of US\$ 3 cents to high, 2 cents to middle and 1 cent to lower-income countries.

7. Revenue generation

iTunes4Dev is at the idea-stage and will require analysis on potential levels of future iTunes4Dev proceeds based on profit-line feasibility and product net-sales breakdowns per geographic regions.

However, and assuming:

- A US\$ 13 billion iTunes turnover for 2013/2014,
- An unchanged geographic origin of all net sales of 35% for the Americas, 26% for Europe, 5% in Japan and 21% in the Asian Pacific⁷,
- Apple net sales are reflected proportionally in iTunes sales,
- An iTunes4Dev rate of US\$ 3 cents for the Americas, Europe and Japan sales,

⁴ Includes sales from the iTunes Store, App Store, and iBookstore in addition to sales of iPod services and Apple-branded and third party iPod accessories. Apple Inc. 10K. SEC filing 26 October 2011.

⁵ http://articles.businessinsider.com/2011-07-05/tech/30072341_1_app-store-itunes-apple

⁶ October 2011 - http://www.who.int/nmh/events/un_ncd_summit2011/ncds_stc.pdf

⁷ Figure could be much higher. Outlook for Asian Pacific is assumed to be very strong and could account for a large proportion of a potential 39% increase in sales. No public data available

- An iTunes4Dev rate of US\$ 1 cent to Asian pacific sales,
 - No matching or additional voluntary support by users,
- ➔ **iTunes4Dev revenue generation could be in the US\$-billion scale per year.**

8. Matching / re-distribution of wealth

Harnessing the private sector, as well as employees and clients, to support development financing and philanthropy is a critical pillar for innovative development finance.

Innovative Financing for Development consists in the identification of new revenue streams beyond traditional Sovereign Official Development Assistance (ODA).

These new revenue streams may originate from many different sources but all have in common that they tap into private sector wealth generation.

As such, these new revenue streams do not “fall out the sky” but are the result of global wealth re-distribution, i.e. applying additional levies on air tickets, implanting global solidarity levies such as the Financial Transaction Tax (FTT), levying global internet purchases, harnessing the power of the capital markets and global private sector actors etc.

This redistribution of wealth works particularly well if it is based on micro-contributions, which generate no or little impact for the end user, but which generate significant amount of funding as they are based on large-scale and global economic activity operations such as the iTunes platform.

In some case, new funds are “matched” by Sovereigns, by high-net-worth individuals or by philanthropic foundations and as recently demonstrated by the UK and Bill and Melinda Gates Matching Fund.

In this context, and for additional corporate CSR purposes, it could therefore be interesting for Apple to assess if the corporation could build a matching scheme to hence further accelerate iTunes4Dev, to make an even greater contribution to global wealth sharing and to improve shareholder interest and value.

9. Using iTunes4Dev proceeds

To make a significant impact and to create shareholder value, it is here argued that global corporate philanthropy needs to be focused and results driven.

Shareholders, markets, rating / CSR-rating agencies and end-users will only embrace and understand philanthropic investments if these produce a tangible result and are related to the nature of the business.

Moreover, past experiences in the development of successful innovative financing schemes have shown that a concept and idea will only work if, from the very beginning, the design and implementing parties agree to a specific cause to finance.

For iTunes4Dev, and given Apple’s involvement in Product (RED), one option could consist in allocating iTunes4Dev proceeds to the GFATM⁸ trust account held by the World Bank in Washington DC.

⁸ The Global Fund to fight Aids, Tuberculosis and Malaria

This option would allow for US corporate tax deductibility while ensuring that funds are invested where they can make a difference in geographic areas of importance to Apple (i.e. China, emerging economies etc.).

10. Making iTunes4Dev work

Since the emergence of innovative finance at the G8 / G20 / UN etc. levels, many innovative financing mechanisms have been discussed - some have worked and some have not.

It is here argued that the very successful mechanisms, such as the International Finance Facility for Immunization (IFFIm), the Advance Market Commitment (AMC), the Air Solidarity Levy (ASL, financing UNITAID), Product (RED), Debt2Health and, more recently, the UK / BMGF matching fund, only worked because they had the highest level of support from Sovereigns, Corporate CEO's, VIP's and luminaries.

For iTunes4Dev to work, a similar high-level support will be necessary. Consequently, it is here further argued that iTunes4Dev would only work if it is supported not only by Apple leadership but also by a wide range of VIP's, CSO's, luminaries and Heads of State.

As a second step it is here argued that this high-level support would be particularly forthcoming if iTunes4Dev were to support international development investments where they are needed most and if, in return, this high-level support acknowledges Apple's CSR approach on a global scale.

Finally it is argued that iTunes4Dev would only work if a rigorous launch schedule is applied. One idea could be to aim for an official launch at the World Economic Forum in 2013 and to build-up to the launch via pre-announcements and discussions in US and international fora (i.e. at the High-Level Aids 2012 Conference in Washington DC in July 2012, at the annual Apple product launch meeting, etc.).

11. Caveats

iTunes4Dev is an idea and as such many caveats apply: is iTunes4Dev at all feasible, will Apple accept, will the US Government accept, will users accept, how to apply a modulated iTunes4Dev and to what, initial calculations in this paper are very basic, how to communicate, how to promote the idea etc.

But innovative financing for development is very much about risk-taking and thinking big, or "different", to use an Apple terminology.

Two things seem sure though: iTunes4Dev would generate additional finance and the concept seems well suited to the Apple corporate culture to think out of the box.

12. Conclusion

The beauty of the iTunes4Dev concept is that Apple Shareholders and management would collectively take the decision to allocate a quote-part of future profit margins from one of the biggest wealth generators in the world who, instead of paying corporate-tax, would use a small proportion to fund development and to therefore enhance Apple's CSR.

As iTunes4Dev would be implemented by Apple and its shareholders, and in comparison to other innovative financing for international development schemes currently under discussion such as the Financial Transaction Tax (FTT), the Solidarity Tobacco Contribution (STC) as well as the range of other potential innovative financing mechanisms presented by Bill Gates to the G20 in November 2011⁹ etc., iTunes4Dev would probably not require burdensome legislative measure and would not be exposed to private-interest counter lobbying (see criticisms by the Financial Sector and Sovereigns on the FTT).

Moreover, and equally importantly and in view of the global iTunes presence, iTunes4Dev could be assimilated to a global solidarity contribution based on the dual principle of North-South (rich countries giving to poor) and South-South financing (poor countries self-financing themselves).

iTunes4Dev could therefore become of the world's first and truly global solidarity mechanisms to support international development and social justice

13. Acknowledgements

This concept paper does not represent an official position of Apple Inc. It is a tool to explore the views of interested parties on the subject matter. References to international partners are suggestions only and do not constitute or imply any endorsement whatsoever of this concept paper.

14. About

Simon Wreford-Howard is an international strategy consultant and an Apple fan. He is an innovative financing for development specialist. See: www.drivedev.org

⁹ Innovation with Impact: Financing 21st Century Development, November 2011, <http://www.thegatesnotes.com/Topics/Development/G20-Report-Innovation-with-Impact>