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Friedrich-Ebert-Stiftung
Hiroshimastrasse 17
10785 Berlin
Germany
Tel.: ++49-30-26-935-914
Fax: ++49-30-26-935-959
Roswitha.Kiewitt@fes.de
www.fes.de/globalization

Friedrich-Ebert-Stiftung
New York Office
Suite 711
823 United Nations Plaza
New York, NY 10017, USA
Tel.: ++1-212-687-0208
Fax: ++1-212-687-0261
fesny@fesny.org
www.fesny.org

Therefore, civil society advocates and development practitioners should make a strong case in their lobbying efforts for a focus on human and capital investment needs in developing countries whenever the improvement of public health is subject to political debate. The strengthening of public services to achieve this goal could be essential in particular in the poorest countries, such as Sub-Saharan Africa, where strategies for an increased role of the private sector did not materialize.[14]

Table 2: Potential revenue generated by innovative sources of finance

	Implementation	Potential Revenue
Short-term mechanisms		
Air- ticket tax	2006	€ 400 Million (p.a.)[8]
Int. Finance Facility (IFF)	2006 (issuance of bonds)	$ 4 Billion
Remittances	N/A	N/A
Potential mechanisms in the longer run		
Special Drawing Rights(SDRs)		$ 18 Billion[9]
Tackling Tax Evasion		$ 50 Billion (p.a.)[10]
Currency Transaction Tax		$ 16-60 Billion (p.a.)[11]
Carbon Tax		$ 60- 130 Billion (p.a.)[12]
Tax on Arms Exports		$ 5 Billion (p.a.)[13]

2. The political feasibility of additional finance mechanisms in the short- term

There are several studies that were undertaken to prove the technical feasibility of new innovative financing mechanisms. The two most comprehensive and prominent publications in this area were written by the World Institute for Development Economics Research (WIDER) of the United Nations University[15] and the Working Group on New International Contributions to Finance Development[16] commissioned by the French President Jacques Chirac. The subsequent political debate and deliberations in the international community after the release of these studies have shown that while some of the proposals might have the political feasibility to be implemented in the short- term, others are still facing strong resentments in the international community and may have only a chance to materialize in the long run.

However, the proposals that have been subject to discussion differ quite substantially in terms of the magnitude of potential revenue (see table 2) and their potential impact on the Millennium Development Goals.

2.1 Air- ticket tax

As outlined in the previous chapter the decision by 13 countries to introduce a tax on commercial air- tickets has been hailed as a first step towards future global taxation schemes. Taxing air transport is a sensible measure because gases emitted by aircraft play a major role in global warming.[17] The group of countries that have agreed to implement a tax on air travel by the end of this year are: France, Chile, Brazil, the United Kingdom, Congo, Cote d'Ivoire, Cyprus, Jordan, Luxembourg, Madagascar, Mauritius, Nicaragua, and Norway. While the mix of developed and developing countries symbolizes a genuine North-South partnership, the lack of commitment on the side of other industrial countries that operate major travel

[8] Own estimate

[9] Based on the proposal by George Soros, which will be explained in Section 3.1

[10] Based on estimates of Report of the Working Group on New International Contributions to Finance Development (2004)

[11] See World and Economic Survey (2004), p. 137

[12] Estimated at 5 US cents per gallon of gasoline (lower figure without developing nations)

[13] Based on a very high tax rate of 25%

[14] Overseas Development Institute Briefing Paper (05/2005), p.4

[15] Atkins A.B.(2005)

[16] Working Group on New International Contributions to Finance Development (2004)

[17] See World Economic and Social Survey (2005), p. 135

hubs in the world economy will have a strong impact on the potential revenue the pilot project will be able to raise. According to first estimates France will generate up to 200 million Euros. All other countries of the initiative as a group will approximately raise the same amount. The difference in revenue can be explained by the fact that the developing nations will only impose taxes on international travel and contribute some of the revenue for domestic purposes such as the promotion of tourism. The United Kingdom which already raises 1.8 billion dollars a year for the taxation of commercial flights has committed to allocate a percentage of this revenue to the initiative.

France's leadership in providing the lion's share of resources to this initiative and in mobilizing the support of other countries by hosting the Paris conference in February 2006 was an important step to get the ball for additional resources for the achievement of the MDGs rolling. However, in order to achieve significant progress in the area of Global Health, support by other major industrial countries would be necessary, which could, according to estimates of the European Commission, lead to the magnitude of 10 billion dollars a year.

2.2 The International Finance Facility (IFF)

The initial proposal for an International Finance Facility brought forward by the United Kingdom envisioned that donor countries would "front-load" the additional-aid pledges they have made since the 2002 Monterrey conference for roughly 30 years into the future. The instrument of an IFF would be executed through a bond mechanism on financial markets, to finance outlays of roughly $50 billion a year directed at the MDGs until the year 2015. The British proposal assumed that an initial amount of $16 billion a year would start the mechanism. They proposed that donors should increase the annual amounts that they have initially pledged by 4% a year in real terms, with an initial promise to continue this for 15 years, and the prospect of rolling 15-year commitments roughly every three years thereafter to eventually cover the 30-year period (see Figure 1)

While the advantage of the IFF would be that aid budgets will be ramped up immediately after its implementation by avoiding short-term political constraints that may prevent larger aid allocations, the IFF does not necessarily create any new resources. In fact, given that interest needs to be paid for the bonds issued, the net effect on aid flows is actually negative. It may even be questionable if the up-front spending mechanism of the IFF would be suitable to tackle the needs for the improved provision of health or social services in the poorest countries, since this would require longer- term financing requirements and investments. Since the disbursements of the IFF would dry up after 2015 and even erode future aid at a later stage, the mechanism should be scrutinized with caution.

While the British government only obtained support by some donor countries for its proposed mechanism, a pilot IFF for Immunization (IFFIm) on a smaller scale of $ 4 billion over ten years was launched in September 2005 with contributions from France, Italy, Spain, Sweden, Norway and the UK. Brazil announced after the recent Paris conference that it will also contribute $ 20 Million over a period of 20 years to the IFFIm. The new funds of the pilot IFF will support the work of the GAVI Alliance, a leading global health partnership that includes UNICEF, the World Health Organization, the World Bank, the Bill & Melinda Gates Foundation, and representatives of the vaccine industry in both industrialized and developing countries.

At the current stage, the IFFIm has a greater magnitude in mobilizing funds for development as the tax on air travel, even though it will be only replenished from annual budgets of Official Development Assistance. Therefore, it would be crucial that long-term support for the initiative will be achieved in order to insure additionality. The participation of Brazil might be a first step into this direction. Nevertheless, it would be crucial to scrutinize the approach of the IFFIm with respect to the aspect of long-term sustainability. If the program will not be

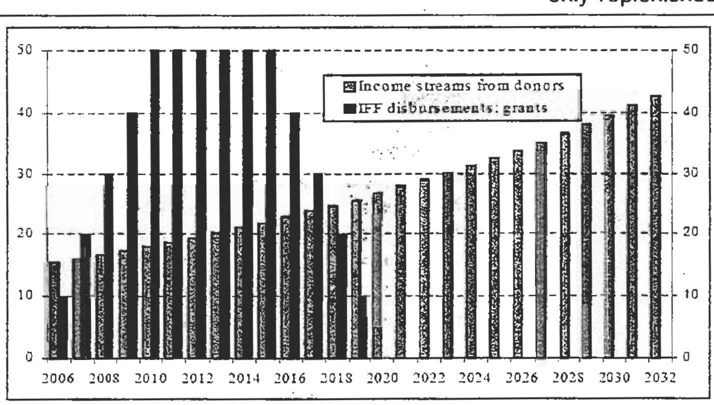

Figure 1: The IFF Mechanism (Source HM Treasury, UK)

able to create new infrastructure in the area of health in the poorest countries over a long-term period its impact will be minimal.

2.3 Remittances

Remittances are emerging as an important source of external development finance. Conservative estimates indicate that remittance flows have surpassed the astounding figure of $ 100 billion a year and have become for many developing countries a much more important source of finance than official aid. However, it should be noted that the bulk of international remittances do not accrue to the poorest nations as they are benefiting mainly middle-income countries. While it is important to emphasize that remittances hardly qualify as innovative sources of finance for development, initiatives to facilitate the transfer of remittances (reduction of transaction costs) and the diffusion of these flows towards a more productive and growth enhancing use have been a major undertaking by the international community in recent years. In response to the increasing debate about remittances, some development experts have argued that as with the euphoria with private capital flows in the mid-1990s, the attractiveness of remittances is in part a reaction to previous failed development mantras.[18]

The recent increase in research on the development impact of remittances and the promotion by donor countries to facilitate such financial flows may also be explained by the fact that unlike foreign aid, remittance flows do not put any burden on taxpayers in rich countries. While it would be inappropriate to dismiss the development impact of remittances, the benefits of these financial flows do not offset the adverse effects of the brain drain in developing countries. [19] Furthermore, it should be pointed out that the industrial countries have different political options to contribute to an increase in the volume of remittances worldwide by improving working conditions and the legal status of immigrants.

On the recipient side the evidence regarding the direct impact of remittances on economic development and growth is limited. While the bulk of remittances is spent on consumption, wider multiplier effects could only be achieved if local financial institutions such as savings banks would become accessible to the poor. A broader economic transformation of remittances may also require governments to provide additional financial instruments, such as loans backed on remittances, in order to overcome capital and liquidity constraints that are critical for small enterprise development.

3. Major sources of development finance in the longer run

3.1 The allocation of Special Drawing Rights (SDRs)

The Special Drawing Right (SDR), created by the International Monetary Fund in 1969, was designed as an international reserve asset to supplement Fund members' reserve holdings. While the major industrialized countries haven't borrowed from the IMF for over 25 years and take the position that the development of international capital markets have eclipsed the role of SDRs, many developing and transition countries, that make up the majority of the Fund's membership, either face high costs in acquiring and holding reserves from borrowed sources or are excluded from private capital markets altogether. Against this background the philanthropist George Soros has made in the FFD conference in Monterrey the proposal for recycling the SDRs allocated to the industrialized countries in the IMF. Provided the developing countries that take or spend these assets recompense the original recipients for the interest that the latter will still have to pay, the SDRs can be passed on without loss to those original recipients. In other words, the developing countries that subsequently receive these assets will in effect be receiving termless loans at low market interest rates to finance development purposes. Soros' approach relates to a special issue of SDRs that has already been authorized by the IMF in 1997 and was approved by 72% of its membership; and would only require the approval of the US Congress to attain the 85% supermajority that is necessary to make the issue effective. From the special issue which amounts to about $27 billion, he proposed that about $18 billion of additional finance would be donated to a dedicated trust fund for development purposes. While a consensus for such a mechanism has yet to be achieved, the proposal would have the advantage that the benefits to many developing countries would be tangible and cumulative, and could be implemented almost immediately.

3.2 International tax cooperation to fight tax evasion

Tax evasion and loopholes in the international tax system have become defining features of

[18] Kapur, D. (2003), p. 10

[19] Lowell, Findlay and Stewart (2004), p. 24

global financial markets in recent years [20]. While most of these undeclared funds originate from developed countries, a significant portion also comes from developing countries, and deprives them of funds needed for development. According to the Landau report the loss in tax revenues generated by evasion in developing countries may be equivalent to the sums needed to achieve the Millennium Development Goals. [21] It seems therefore pointless to think about poverty reduction, if at the same time little is being done to help to rebuild developing countries' taxation capabilities, both of their own residents and on foreign-owned capital. The share of activities pertaining to tax evasion in financial markets by trans-national corporations (TNCs), which are prepared to make use of loopholes in the international economy, moreover, imparts an unfair competitive advantage over domestic competitors and small and medium size enterprises that do not have the global reach of the TNCs. Contrary to tax competition, governments agree, in principle, on the need to fight tax evasion. What would be needed in this context is a universal withholding tax on non-residents' portfolio income. At a high enough rate the withholding tax would remove the evasion motive for "capital flight" from developing countries. In the area of tax competition it would be necessary to end all tax preferences to producers on account of foreign ownership of headquarters or production. But plugging these loopholes that are being exploited by TNCs would be a difficult task to achieve. Due to the resistance by developed countries, a tax oriented body such as the new UN committee of tax experts might be able to achieve consensus between the different parties.

3.3 Other Global Taxation Mechanisms

The breakthrough for the implementation of a tax on air travel was already perceived as a first step towards additional future global taxation schemes. However, other taxation mechanisms that have been subject to international debate are more complex in their composition and may only be feasible if introduced in an internationally coordinated manner with clear agreement over the use of the tax revenue.

Currency Transaction Tax (CTT)

After many years of heated debate in the international community about the merits and shortcomings of a currency-transaction tax (CTT) and to what extent it might be able to tame volatility in international financial markets, consensus has emerged on one point, namely that such an instrument would have the potential to raise a substantive amount of global revenues for development. Estimated revenues could range between $16- 60 billion[22], depending on the actual basis points that would be imposed on currency transactions and how much developed countries with major financial centers would utilize for domestic purposes. Nevertheless, the CTT would have to be imposed at a very low rate (1-2 basis points) and to be applied consistently and universally. This would require that the authorities that are responsible for the four to six main vehicle-currencies in the world economy had the will to cooperate actively with each other and a few others would stand by ready to take part, if necessary. In such a scenario, free-riding would be virtually excluded, but conversely any one of the parties could bring the scheme to an end. Against the background that there is such severe opposition against the CTT in financial circles and that the instrument has received strong resentment in the US Congress and Senate it is at this point hardly feasible politically.

Tax on Arms Exports/ Carbon Tax

A tax on arms exports would rely, to a considerable extent, on governments' taxing themselves. If the burden fell on the buyers, its proportional impact might well be highest on the poorest countries. Revenue at any rate of tax would fluctuate greatly. Under the assumption that the tax was imposed for example at the quite high rate of 25% and there had been no impact of the tax on sales of weapons, estimated revenue would only be as low as $5 billion.

A carbon tax would have to be imposed on top of several pre-existing taxes and subsidies on various fuels. If the agreement was simply that the equivalent of a carbon tax at a uniform rate should be delivered for international use by each country, it is not clear that this would be any more acceptable than a schedule of budgetary contributions. Across countries it would be far less fair: indeed across some pairs of countries it would be highly regressive since a number of poorer countries have a far higher carbon use per unit income than most of the rich. However, the distribution would be made fairer if the global 'tax' would only be imposed

[20] See Schapiro/ Schroeder (2003)

[21] Report of the Working Group on New International Contributions to Finance Development (2004)

[22] World and Economic Survey (2004), p. 137

on the richer nations. A small tax of the equivalent of 5 US cents per US gallon of gasoline worldwide could raise about $60 billion for global purposes and would be barely noticeable for consumers. However, public opposition in times of high oil prices would make a campaign for such a tax very difficult politically.

4. Concluding remarks and the way forward

The unique alliance between governments from the North and the South in launching the initiative "Action against Hunger and Poverty" has heightened political awareness around the idea of innovative financing mechanisms for development. The concept has not only become an issue on the agenda of all major international forums, moreover, with the implementation of a pilot IFF on immunization and the breakthrough of a ticket-tax in the recent Paris conference, the proposals have moved from theory into practice. While the new political momentum on innovative sources of finance will give hope that other countries might join the initiative, the revenues raised at this point are modest in comparison to the sums said to be necessary to meet the Millennium Development Goals.

The new window of opportunity for innovative ways to fund development could lead to the following scenarios:

- Synergy of IFF and air-ticket tax

There is no reason why the IFF and the air-ticket tax need to compete with each other. One possibility being canvassed by Gordon Brown and President Chirac is that smaller revenues from the air-ticket tax could be used to leverage larger amounts through bond flotation under the IFF. The agreement between the two political leaders prior to the Paris conference and the commitment of Brazil to contribute to the IFF points already in this direction.

- More pressure on major donor countries

The media attention and public awareness on innovative financing mechanisms after the Paris conference has increased the pressure on major donor countries such as Germany, Japan but also the U.S., since they have so far not made use of any of the new instruments.

- Scrutiny of the expenditure side

While the current euphoria to raise more funds for the achievement of the MDGs leads to a strong emphasis on the revenue side, questions of governance of the new funds and ownership, as well as aid effectiveness might become more important in the future. This could lead to a move to more aid-financed investments in long-term development efforts.

- Future of other global taxation schemes

Reasons for the political support for an air-ticket tax is its virtue of simplicity, its very small rate and its ability to be implemented by national and not global authorities. The fact that other global taxes are much more complex in their composition and require strong international coordination makes them politically less feasible. Moreover, since governments agree at least in principle, on the need to fight tax evasion, future North-South cooperation may lead to progress in this area.

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