

DESA Working Paper No. 125
ST/ESA/2013/DWP/125

July 2013

Half a Century of Proposals for ‘Innovative’ Development Financing

Barry Herman

Abstract

This paper recalls the history of proposed “innovative” mechanisms by which governments could strengthen financial cooperation for development. Such proposals sought more predictable and assured financial flows to facilitate recipient country programming, while also substantially adding to the volume of highly concessional international support for development. International discussions of these proposals mostly began in the 1960s and in many cases continue today, although implementation thus far has been modest. These discussions are contrasted with generally more recent proposals that proponents call “innovative” but that do not share the characteristics of the more radical thinking underlining the older proposals.

JEL Classification: F35, F59, H87, N40, O19

Keywords: development cooperation, innovative international financing, global public goods, political economy of aid

Visiting Senior Fellow, Milano School of International Affairs, Management and Urban Policy, The New School for Public Engagement, New York and former staff member of the Financing for Development Office/DESA.

Comments should be addressed by e-mail to the author: hermanb@newschool.edu

Contents

Preliminaries: what's not innovative.....	1
International taxation: an idea with a long history.....	2
International taxation for development.....	3
International taxation to promote global public goods.....	5
Creating and capturing other official flows.....	7
Special drawing rights for development.....	7
The global commons and public goods.....	9
“Innovative financing” proposals fill the kitchen sink.....	10
References.....	15

UN/DESA Working Papers are preliminary documents circulated in a limited number of copies and posted on the DESA website at <http://www.un.org/en/development/desa/papers/> to stimulate discussion and critical comment. The views and opinions expressed herein are those of the author and do not necessarily reflect those of the United Nations Secretariat. The designations and terminology employed may not conform to United Nations practice and do not imply the expression of any opinion whatsoever on the part of the Organization.

Typesetter: *Nancy Settecasì*

United Nations
Department of Economic and Social Affairs
UN Secretariat, 405 East 42nd Street
New York, N.Y. 10017, USA
e-mail: esa@un.org
<http://www.un.org/en/development/desa/papers/>

Half a Century of Proposals for ‘Innovative’ Development Financing

*Barry Herman*¹

Governments, international institutions, civil society organizations and academic writers have been showing a growing interest in “innovative” financing for development in their discussions of international cooperation on economic, social and environmental policy matters. Although the term “innovative” connotes something recently invented, many of the proposals that carry that name today have a long history, most of it in the political wilderness. Today some of the old as well as new “innovations” are somehow being implemented on a limited basis or discussed in national legislative bodies, as the term “innovative financing” gains a positive political connotation and broader endorsement. Nevertheless, different parties have different concepts in mind about what makes an initiative “innovative.” Definitions are “by definition” arbitrary, but, it seems the term has become so elastic that it has lost any hope of a precise meaning.

This paper argues that in the debates about “financing for development” over several decades, especially in intergovernmental forums, “innovative” financing proposals have long shared certain characteristics, namely, that they could be a significant source of additional public funds for development and that the flow of funds would be assured and automatic, and thus predictable. With the growing acceptance of the desirability of adding to the mechanisms of international cooperation for development, there is a danger that the radical nature of this earlier concept may be lost. This paper seeks to remind us of the original intention of “innovative” financing for development, an intention still worth pursuing.

Preliminaries: what’s not innovative

International financial cooperation for development is conventionally conceived as comprising foreign official outlays to developing country governments for the economic and social benefit of their peoples. Some of the outlays are actual financial transfers and some take the form of technical assistance in which expertise but no funds move across a border. Typically, these outlays are financed by annually budgeted expenditures by governments or their jointly owned international institutions, which in turn draw their financial resources from member government grants, capital subscriptions and bonds sold on financial markets (e.g., World Bank bonds which carry the implicit guarantee of the Bank’s member governments). A further distinction is conventionally made to isolate official development assistance (ODA) from other official flows. ODA is either a gift or a loan on significantly concessional terms, as opposed to loans on commercial or near-commercial terms. ODA must have at least a specified minimum degree of concessionality and aim to promote development (as opposed, say, to security), according to the universally accepted definition of the major donor agencies meeting as the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD, 2010, box 2). Development cooperation is a somewhat broader concept (although

sometimes used to mean ODA). It includes other types of loans that may be extended on easier terms than are available from private lenders while not meeting the ODA concessionality criterion, such as loans from the World Bank or loans given or guaranteed by official export credit agencies. Loans from the International Monetary Fund (IMF), even if highly concessional, are not formally considered to be for development purposes. All of these flows involve an official agency of some sort as the source and provider of the flow and together they may be called “conventional official financial and technical cooperation for development.”

Many developing countries also enjoy a range of purely private long and short-term financial inflows. They may take the form of direct or portfolio equity investment, foreign purchases of securities issued by developing country governments or locally based enterprises and banks. They include as well foreign-source loans to local enterprises and banks, including foreign deposits in local banks in foreign or local currency. It would be a stretch of language to call these flows “cooperation,” as they are profit-seeking investments in their essence and do not claim to be driven by any element of international “solidarity.”

However, other non-state entities, such as charitable foundations and private voluntary organizations, also make financial transfers and provide technical assistance, sometimes in cooperation with developing country governments and sometimes operating independently and directly with local populations. They have the explicit aim of assisting development, often particularly focused on addressing poverty. In addition, workers’ remittances and migrants’ transfers are an important international financial flow for many developing countries, embodying solidarity at the family level and resulting from household units being spread across national boundaries. All these flows may be denoted “conventional non-official financial and technical cooperation for development.”

Both official and non-official international cooperation have histories spanning multiple decades (if not centuries, as in the social work of foreign missionaries). Together, they have transferred substantial sums and expertise to developing countries. *Innovative* sources of financing for development are understood here to be something else. They include actual resource flows that are of relatively recent vintage and generally provide modest volumes of assistance, or proposals of new or older vintage that have not yet been adopted for implementation, some of which could potentially mobilize large volumes of funds for international cooperation. “Innovative” financial resources are not necessarily new ideas, but they are different ones. The question is what makes them different.

International taxation: an idea with a long history

The traditional method that governments use to raise large and continuing amounts of public revenue is taxation. During the 19th century, when some thinkers and emerging civil society movements began to envision a world in which nations would resolve their disputes in international institutions instead of war, nothing remotely like a general purpose intergovernmental institution existed. However, people observed how governments began to cooperate and create specialized international institutions, such as the International Telegraph Union in 1865 (now the International Telecommunications Union), the Universal Postal Union in 1874 and the Pan American Sanitary Organization in 1902 (now the Pan American Health Organization). And they saw how methods of financing had to be devised to pay for these new international services.

Some thinkers in the 19th century went so far as to envision a world that embraced a global analogue to national governments. This global authority would have to be financed. The basic options would be either that member states would pay an annual fee to the global institution or the global institution would directly tax individuals in different member countries. Apparently, the first discussion of how direct international taxation might finance an extensive international cooperation system was published in 1884 in James Lorimer’s *Ultimate Problem of International Jurisprudence* (cited by Frankman, 1996, p. 808). As we know, the idea was never implemented, although the idea of direct taxation to raise substantial sums continued to be discussed, especially in light of the “relative penury” of the League of Nations (*ibid.*, p. 809).

International taxation for development

After the Second World War and with decolonization gaining momentum, development cooperation began to be seen as a rising international imperative that had to be financed. Prominent economists devised proposals that drew on earlier thinking about international taxation. For example, in 1964 Dudley Seers proposed certain specific international taxes and earmarking them to achieve specific world social targets (*ibid.*, p. 812). Among his proposals was “a tax on airways tickets (a source of revenue hardly touched yet by national governments),” which he saw as having the desirable properties of being progressive, elastic in terms of revenue that could be raised and easy to collect (Seers, 1964, pp. 478-479).

Another proposal was made in 1970 by the United Nations Committee on Development Planning (now the Committee on Development Policy), chaired at the time by Jan Tinbergen. It proposed a 0.5 per cent *ad valorem* tax on selected consumer durables to increase funds for development cooperation (Frankman, 1996, p. 813). In a study for the Club of Rome in 1976, Tinbergen, Mahbub ul Haq and James Grant listed a number of international taxes that could increase the amount and automaticity of development assistance, while also progressively redistributing income internationally (*ibid.*, p. 813).

The 1970s was also the time when James Tobin conceived his proposed tax on international currency transactions. His focus was on how the tax would put “sand in the wheels” of international finance and diminish speculative exchange rate movements, although he did mention that national governments would collect the tax and could pass the funds to the IMF or the World Bank (Tobin, 1978, p. 159). Mahbub ul Haq along with Inge Kaul and others rediscovered the Tobin Tax in the 1990s, which they saw as a potentially large source of funds for development cooperation (ul Haq, Kaul and Grunberg, 1996).

The 1990s was a period of weakening donor government efforts in development cooperation at the same time as a sequence of United Nations conferences were concluding with calls for more international financial assistance to meet social and environmental, as well as economic development goals. Several “new and innovative” financing proposals were thus discussed in the UN Commission on Sustainable Development and the Economic and Social Council, ranging from seeking multiple-year pledges to UN operational activities to pooling various extra-budgetary trust funds into a single “super” trust fund to the more radical proposals such as the Tobin tax and variations on that idea.²

In the end, no major reforms or financing actions were undertaken in the 1990s. Nevertheless, civil society proponents of the “CTT” (currency transaction tax) and more recently the “FTT” (financial transaction tax) carried the campaign forward and up to the present, when a number of governments in the “Leading

Group” of countries, including some members of the Group of 20 (G20), expressed interest in introducing such a tax as a vehicle for mobilizing international funds for development.³

One reason for the change came in the wake of the 2008 global financial crisis. Reflecting on the massive mobilization of funds needed to address it and worried about possible future crises, British Prime Minister Gordon Brown, speaking at the St. Andrews, Scotland meeting of G20 finance ministers in November 2009, reversed long-time British opposition and proposed introduction of an FTT for financial rescue purposes.⁴ As may be appreciated, the financial sector in the City of London was not supportive and the successor British Government has not supported the tax; nor has the United States, apparently out of concerns for Wall Street interests.

In fact, many governments have adopted FTTs on their domestic financial sector at one time or another, including the United Kingdom on sales or transfers of British securities or on the purchase or lease of land or property. Indeed, the main argument in opposing FTT seems not to be focused on the concept of the tax *per se*, but to its application to foreign transactions, owing to a fear that it would disadvantage the global competitiveness of the financial sector of a participating country. This concern would be addressed if the tax were to be universally adopted, but there would also be less reason for concern if it were implemented at a low rate and/or by most major financial centers.⁵ The deeper problem with the tax, however, seems to be its international nature as an initiative of multiple governments that would implement it jointly to mobilize substantial funds on an ongoing and assured basis (if a varying one owing to overall cycles in economic and financial activity). Perhaps an additional concern is that an automatic allocation to development would dilute donor control over aid flows.

Nevertheless, and at the urging of France and certain other countries, the G20 leaders formally acknowledged that the proposal had support of some of its members, including as a source of funds for development as originally proposed. The Leaders said in the communiqué of their November 2011 summit in Cannes,

“We agree that, over time, new sources of funding need to be found to address development needs... We acknowledge the initiatives in some of our countries to tax the financial sector for various purposes, including a financial transaction tax, *inter alia* to support development” (Group of 20, 2011, para. 82).

It appears that the major development in this statement is that the governments opposed to the FTT did not insist on removing any mention of it at all.

It seems that the major reason for opposition to the tax is precisely what makes it attractive as a mechanism for mobilizing resources for development. The “Brandt Commission” (the Independent Commission on International Development Issues), chaired by Willy Brandt, had already identified the problem and the solution in 1980 when it noted the need for a “massive transfer of resources” to developing countries and the disappointing provision of ODA. The Commission then stressed the need to adopt “automatic mechanisms, which can work without repeated interventions by governments” (Independent Commission..., 1980, p. 244). It continued,

“At present, the amount of aid depends on the uncertain political will of the countries giving it... With more assured forms and methods developing countries could plan on a more

predictable basis, making aid more effective; the donor governments should welcome the possibility of avoiding annual appropriations for a continuing cause” (ibid.).

International taxation to promote global public goods

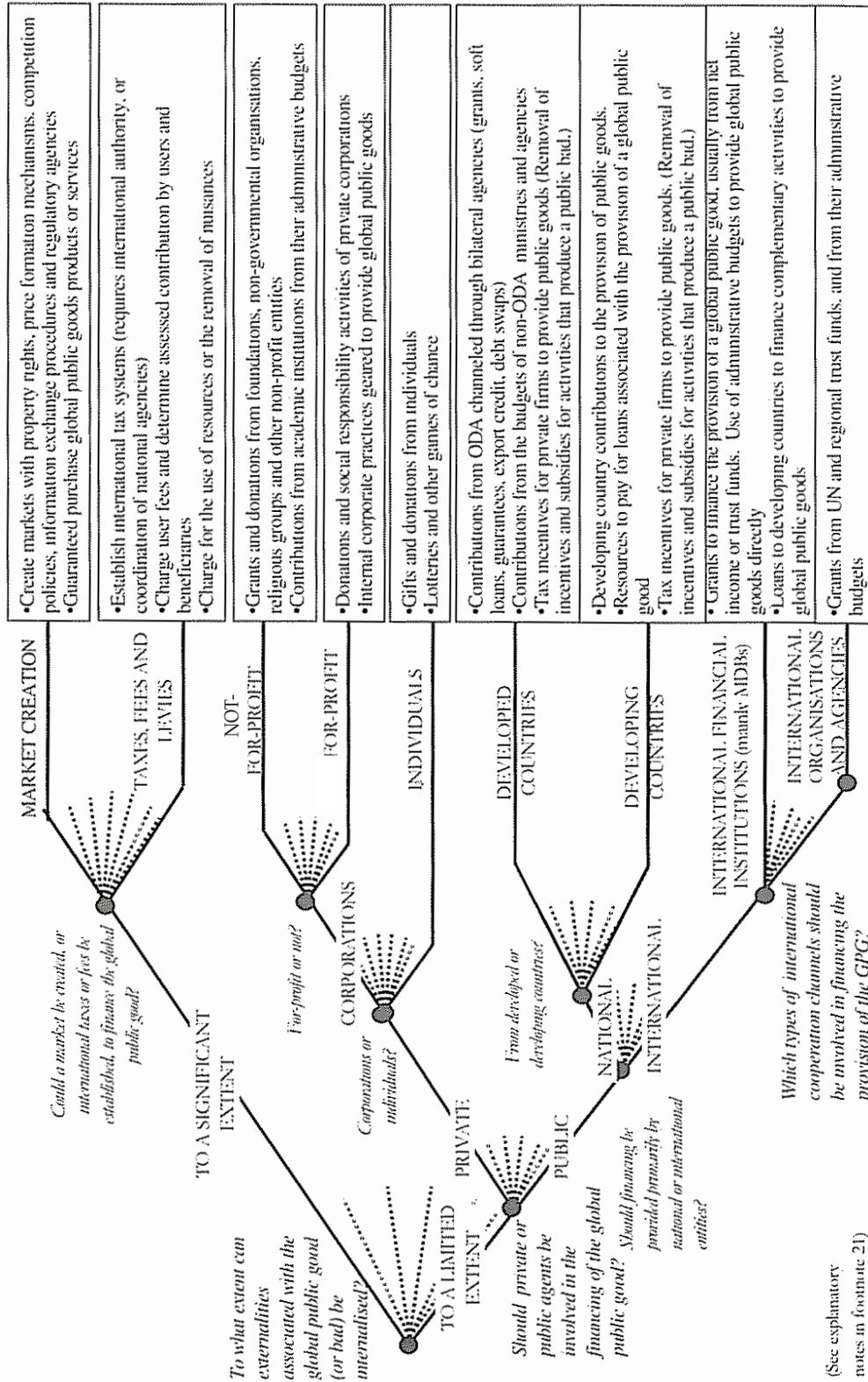
Automaticity and assured allocation have not only been hallmarks of the class of international tax proposals for development. They have similarly been a feature of a class of proposals that aim to address global environmental needs, some of which would also contribute innovative financing for development. In particular, when the UN Commission on Sustainable Development in 1996 considered the feasibility of a variety of innovative mechanisms, as noted above, it included taxes that would apply the “polluter pays” principle to global warming, such as government sale of internationally tradable permits to emit carbon dioxide, an internationally agreed tax on air transport (a significant source of carbon emissions) and a tax directly on multiple types of carbon emissions (United Nations, 1996 and 1996a).

Much of the environmentally related policy analyses undertaken in this spirit focused on a particular industry or activity. Although the energy sector probably first comes to mind as a case in point, there have been others. For example, the European Union requested the Overseas Development Institute (ODI) to examine “innovative financial incentive mechanisms” that would support sustainable tropical forestry (Richards, 1999). The global public good targeted in this case was not only the direct environmental benefit of forests as a “carbon sink,” but also the preservation of the genetic and bio-diversity that are lost when forests disappear. An additional domestic or regional benefit would accrue from watershed protection that forests provide, not to mention the long-term employment and other economic benefits from downstream processing of sustainably managed forests. In this context, forestry policy is part and parcel of development policy, as well as a “global public goods” policy.

The reason that the word “incentive” was included in the objective of the ODI study was that if appropriate incentives lead to better private-sector forestry management, the need for official financing would be lessened. In addition, national fees and taxes on the sector were seen as a potential source of revenues to pay for the official role in protecting and sustainably developing the sector, reducing the need for international funds. Nevertheless, specific proposals were included to mobilize funds internationally, as through international taxes on the timber trade, bioprospecting deals (licensing the search for medicinally beneficial flora), carbon offset trading (tied to trading carbon emission permits) and creating internationally tradable forestry development rights (see Richards 1999 for details).⁶ From the perspective of “innovative financing,” such internationally agreed taxes or licenses would entail global mobilization of resources to address a global “bad” (global warming) that could then be spent on sustainable development of forestry resources. However collected, at least a portion of the funds could be passed to an international authority, in contrast to conventional taxation which is allocated through national budgets.

The questions raised regarding resources for and from the forestry sector are not unique. As policy analysts examined how to finance public goods in the international arena, the general characteristics of the policy problem came to be increasingly appreciated. Thus, in a study for the Swedish Ministry for Foreign Affairs, two scholars at the Institute of Development Studies in Sussex developed a decision tree for informing discussions of policy to influence behavior and mobilize funds in public goods sectors (Sagasti and Bezanson, 2001). As may be seen in figure 1, one of the branches of the decision tree entailed creating international taxes

Figure 1: A framework for exploring financing options for the provision of global public goods



Source: Sagasti and Bezanson, 2001, p. 39.

or user fees. Whether that approach was warranted in any particular case would depend on how the questions posed on each of the branches were answered.

In the health sector, specifically, communicable diseases, which are another case of a global public good, an international initiative was adopted that also shares the basic characteristics of international taxation. That is, a number of governments agreed in 2006 to impose a small tax on air passenger tickets and donate the funds collected to UNITAID, a special international facility created in 2006 to purchase drugs in bulk at low negotiated prices to treat HIV/AIDS, malaria and tuberculosis in developing countries. The tax—called a “solidarity contribution” to ease taxpayer discomfort—was imposed by nine countries as of September 2011 and supplied about 70% of the funds for UNITAID that year.⁷ Although revenues from the tax will fluctuate with air travel volumes, they will provide a continuing, automatic and assured source of funds for a number of essential medicines. Other recent initiatives in the health field, however attractive, do not share that nature.

Creating and capturing other official flows

Although proponents of international taxation have argued since the 19th century that internationally cooperating states should cede specific if limited taxing authority to international organizations, it appears at most to have happened on a very small scale thus far.⁸ Even when a number of governments come together and agree to impose a particular tax for a particular purpose, as on air passenger tickets, the individual cooperating governments themselves impose the tax, collect the funds and allocate them to the agreed purpose. This approach can meet the criteria of automaticity and assured allocation even with the funds passed through the government, at least until the tax-collecting government decides to modify or end the policy. This leads to a question whether other sources of funds that were not fundamentally the resources of taxpayers of national states could be tapped for international cooperation. The following discusses two such potential resource sources.

Special Drawing Rights for Development

Perhaps the earliest such proposal was the “SDR link,” referring to the “Special Drawing Right,” a virtually still-born reserve asset of the IMF, created in 1969 to help assure an adequate global supply of international liquidity.⁹ SDRs returned to the public stage, however, as part of the emergency financing after the 2008 global financial crisis.

We first need a little history: after the Second World War, the effective potential international reserves were gold, which was inconvenient to use to settle currency imbalances between central banks, and the United States dollar, which was universally accepted as a means of payment. The Bretton Woods system created in 1944 solved this problem temporarily when it fixed a price of the dollar in terms of gold (\$35 per ounce) and linked other currencies to the dollar with fixed but adjustable exchange rates. The US promised to convert dollars held by central banks into gold, making the dollar “as good as gold.” It was thus most convenient for central banks to build up official reserves in dollars. Central banks would then regularly intervene in the currency market, buying and selling dollars to keep the exchange rates close to their official value, as well as try to resist intermittent speculative pressures.¹⁰ However, as Europe recovered from the war, its dependence on the dollar began to be questioned. Besides giving the United States the seigniorage benefit of providing the world’s international currency,¹¹ the supply of dollars put into international circulation depended on developments in the US balance of payments. At first, Europeans and others were happy to accumulate dollars as their reserve

levels had been decimated by the war. By the 1960s, however, the period of “dollar shortage” became a period of “dollar glut.” Instead of just building up dollar holdings, countries increasingly asked to convert them into gold. In creating the SDR, IMF was creating another option. Indeed, it was intended that governments would increasingly substitute them for dollars and gradually make the SDR the principal reserve asset of the international monetary system. That, of course, did not happen. Instead, by 1971 foreign held dollar reserves well exceeded the US gold stock, meaning the US could no longer honor its commitment to provide gold to central banks at the fixed price. The US dropped its gold-exchange standard commitment and following some years of uncertainty the world entered into the period in which we are still of floating and nationally managed exchange rates. Even without the gold link, however, the dollar remains the dominant reserve asset, although governments have somewhat diversified the currencies they hold as reserves.

Governments did agree in IMF to issue small amounts of SDRs, although until the current financial crisis the last had been in 1981.¹² The SDR has perforce played a minor role as a reserve asset, although it has been used to settle obligations between central banks or with IMF and a limited number of other official institutions. In 2009, the Group of 20 pledged to use its voting power to have IMF issue 161 billion SDRs (worth \$250 billion) and the US Congress finally approved a special issue of 21.5 billion SDRs (\$33 billion) that had been pending since 1997 and needed only that one endorsement to be implemented. However, as countries had been accumulating reserves for 30 years, the 2009 increment raised SDR holdings to only about 4 per cent of non-gold reserves (United Nations, 2012, p. 32). It is totally unclear if new SDR allocations will be repeated or if so how regularly. If yes, might the SDRs contribute to development financing?

As constructed, the SDR has no direct link to development finance; indeed, when SDRs are created (“allocated” in IMF parlance), it is mostly to developed countries and the criteria for allocation is that there be a shared concern about an existing or threatened *global* shortage of liquidity.¹³ However, the fact that an SDR allocation embodies creation of real purchasing power for the holder receiving the allocation has led numerous authors to ask whether that purchasing power could be captured for development. In fact, a decade before there was an SDR, there was a proposed SDR link to development.

That is, in 1958, Maxwell Stamp proposed that IMF create special certificates and allocate them to developing countries. They would not be cash, but essentially loans of indefinite maturity. The developing countries would be free to use the certificates to pay for imports of goods and services. The commercial banks in the developed countries receiving the payments would pass them to their central bank in exchange for local currency. The developed country monetary authorities would thus end up holding the certificates, and as they would be claims against the IMF would consider them part of their official reserves. In response to criticism of the proposal, Stamp revised it in 1962, reducing the annual amount of certificates that he proposed be emitted, giving them to the International Development Association (IDA) of the World Bank instead of directly to developing country governments, and limiting the volume that individual advanced countries would have to absorb into their reserves (based on Machlup, 1964, pp. 326-329). However, there was no enthusiasm for the proposal.

Comparable proposals have been reiterated in academic and intergovernmental circles ever since but have never gained traction. Indeed, an SDR-aid link was officially considered but did not win backing during the major reform of the IMF in the 1970s following the collapse of the Bretton Woods system of centrally managed exchange rates. Perhaps one reason is that the link proposed “killing two birds with one stone” and that rarely works out in practice. As under the Stamp plan, if developing countries receiving new SDRs for

development spent them, they would end up in the reserve holdings of their trading partners, not in developing country central banks. Moreover, once expended, countries had to pay interest on the shortage in their holdings below their allocation (albeit at a low interest rate).

In other words, allocating SDRs to developing countries to spend on development would not solve their reserves problem. However, according to some experts, there was sufficient benefit to developing countries in holding SDRs in their official reserves to warrant skewing allocations of SDRs to them, with no presumption of use as development financing. SDR allocations would be a lower cost way for these countries to build reserves than borrowing the funds on international markets (at least for those countries enjoying such access) or running a balance-of-payments surplus and using the proceeds to buy US treasury bonds (e.g., see Sengupta, 1987).

One more recent proposal would create SDRs both for global liquidity and for development. That is, George Soros proposed in 2002 that IMF allocate SDRs as per the usual mechanism and that the SDRs received by developing countries be held as reserves. Developed countries would take the SDRs that they received and donate them to non-governmental organization (NGO) programs that support development or enhance a global public good, with a committee of eminent persons compiling a list of acceptable recipients. The development SDRs would be grants that the awarded NGOs would convert into hard currency at their national central bank, whose SDR holdings would thus increase at the expense of the hard currency paid to the NGOs (Soros, 2002, pp. 181-186).¹⁴

In fact, the SDR has not been a heavily used reserve asset and without some changes in the asset itself to make it more usable as a currency may never replace hard currencies as the major reserve asset. But even if the SDR never becomes a private asset, its value as a usable reserve asset for settling inter-central bank claims is guaranteed by IMF rules. IMF can thus still create them for the opportunity they represent to capture a portion of international seigniorage for developing countries. Moreover, if the SDRs continue to be allocated, as now, directly to developing countries rather than, say, to a trust fund or IDA (as in the Stamp proposal), receiving governments may use them without any international organization conditions attached (Aryeetey, 2005, pp. 107-108).

The global commons and public goods

Capturing the seigniorage from issuance of a global currency is not the only potential source of global funds. If corporations were to begin to mine the minerals on the seabed under international waters, they would be appropriating resources they do not own. Under national jurisdictions, developers of limited physical resources—from minerals to bandwidth—license their exploitation rights from the private property owner or the State and pay royalties for their use. The oceans beyond territorial limits, outer space and Antarctica are considered the “global commons.” As they lie outside national jurisdictions, any licensing and payment of royalties would have to involve an international authority recognized as the responsible agent for managing the specific commons.

From the establishment of the Sea Bed Committee by the General Assembly in 1967 to the completion of the Law of the Sea Treaty in 1982, the principle of managing the seabed for the benefit of humankind entered into international law (Treves, 2008). In the 1970s and 1980s when concerns about “limits to growth” and finite supplies of natural resources were ascendant, seabed mining seemed a near-term possibility. This

meant that financial resources that could be used for the global good might be extracted from their exploitation, although not all States had acceded to that treaty, notably the United States, in particular owing to disagreements over how to manage the mining of the common seabed. As to the other global commons, although not containing provisions to capture economic rents from their use by individual investors, the Outer Space Treaty of 1967 was a beginning of collective responsibility for “orbital space,” as was the Antarctic Treaty of 1959 for the Antarctic territory, which prohibited mining (see United Nations, 1987, chapter 10).

As it turned out, improved resource extraction methods on land and within the enlarged exclusive economic zones of the seas have postponed the need to develop a full regime to oversee resource extraction investment in the global commons. Also, had it become profitable to mine the seabed, it was not clear that companies based in a non-contracting party would submit to the regime or simply ignore it, challenging the seabed authority to enforce its jurisdiction. For the time being, at least, the issue is moot.

“Innovative financing” proposals fill the kitchen sink

Fifteen years ago, the United Nations Secretary-General in a report on innovative financing mechanisms came to a somewhat skeptical conclusion:

“Advocates of such taxes and charges tend to assume that they would easily become widely accepted by national Governments and have thus chosen to focus on technical details. Unfortunately, this may not be a realistic approach because global taxes and charges, even if technically feasible, may not be readily accepted” (United Nations, 1996, para. 20).

The most powerful governments and their legislatures have apparently not wanted to cede control over their decisions on national outlays for development cooperation, not to mention to subject their nation to an international authority for establishing and collecting tax revenues. The power to tax is fundamental to government and thus will only be shared with an external authority under very special circumstances.

Nevertheless, four years later, during the 2000 special session of the United Nations General Assembly in Geneva, which was called to review the outcome of the 1995 Social Summit, the Canadian Government proposed that consideration be given to a currency transaction tax (a Tobin tax). This was still a step too far for Japan, the European Union and especially the United States, which adamantly fought the proposal. After reportedly tough negotiations, a compromise was forged by Norway and Canada to conduct a “rigorous study,” not of the CTT alone but of a range of possible new and innovative sources of development financing (as per the detailed reporting on the negotiations by *Earth Negotiations Bulletin*, vol. 10, Nos. 53-63, April 12-June 30, 2000).

In fact, the UN Secretariat did not immediately act on that mandate. The interest of some governments in pursuing consideration of the issue did not evaporate and by 2002 the more supportive intergovernmental and interagency “spirit of Monterrey” softened the opposition to examining innovative financing mechanisms (albeit not creating fondness for the CTT among its opponents). The text that emerged from the Monterrey conference said,

“We recognize the value of exploring innovative sources of finance provided that those sources do not unduly burden developing countries. In that regard, we agree to study, in the

appropriate forums, the results of the analysis requested from the Secretary-General on possible innovative sources of finance, noting the proposal to use special drawing rights allocations for development purposes” (United Nations, 2002, para.44).¹⁵

Thus, in 2003, the UN Department of Economic and Social Affairs requested the World Institute for Development Economics Research (WIDER) of the United Nations University to prepare the study, which was published in 2005 (Atkinson, 2005). While the bulk of the study addressed “innovative mechanisms” of the sort discussed thus far in this paper, the focus of the study had shifted from establishing assured and automatic mechanisms that could mobilize significant volumes of international funds for development to raising enough funds to meet the immediate needs of development cooperation, guesstimated at about \$50 billion dollars per year of additional assistance if the Millennium Development Goals (MDGs) were to be realized (*ibid.*, p. 3).

The new focus on finding cash for development cooperation wherever it might lay brought a broad range of options into the discussion of “innovative financing.” Thus, in addition to the carbon-use tax, the Tobin tax and SDR allocations, the WIDER study reported on the British initiative for an International Finance Facility (IFF).¹⁶ It also noted calls for increased private donations, facilitating and encouraging workers’ remittances and a global lottery. Only the lottery proposal would have met the aforementioned assuredness and automaticity characteristics of innovative financing.¹⁷

It had been clear, even in Monterrey, that there was no global consensus on actually introducing any of the innovative mechanisms that were being formally or informally discussed. Action would only go forward if a group of interested countries began to work on selected proposals, introduce some of them, attract new partners to the actions, and in that way build an international constituency for the action. With such a strategy apparently in mind, the Presidents of Brazil, France and Chile met in Geneva in January 2004 (joined later by Spain). With the support of the UN Secretary-General, they launched an initiative to fight hunger and poverty and called on the international community to create new sources of financing for development. Just prior to that meeting, in November 2003, President Jacques Chirac of France commissioned an expert group to investigate innovative financing options. Its report, informally called the report of the Landau Commission, after its chair, Jean-Pierre Landau, considered options and orientations for an international tax system and related matters (Landau, 2004). It was complemented by a report of the four governments, circulated to the United Nations Member States in September 2004, which considered several of the proposals that were also being studied by the WIDER team, as well as additional modalities of cooperation.¹⁸

The four heads of state also convoked the first global intergovernmental dialogue on innovative means for financing development, which was held at the United Nations on September 20, 2004.¹⁹ About 50 presidents and prime ministers attended, along with many other ministers and national representatives. The Secretary-General and the heads of IMF and the World Bank also participated. Some governments were supportive, including the Netherlands, speaking on behalf of the European Union, which promised to review the proposals in the expert group report and in the WIDER study that had been completed but was not yet published. The United States, represented by its Agriculture Secretary, was quoted as saying there was too much emphasis on global taxes, which were “inherently undemocratic” and impossible to implement. In the end, a declaration drafted by the four organizing countries was widely endorsed. It included the following paragraph:

“...we acknowledged that it is also appropriate and timely to give further attention to innovative mechanisms of financing—public or private, compulsory and voluntary, of universal or limited membership—in order to raise funds urgently needed to help meet the MDGs and to complement and ensure long-term stability and predictability to foreign aid...” (New York Declaration on the Action against Hunger and Poverty, September 20, 2004).²⁰

One may see in this declaration both the earlier theme of innovative financing proposals and the new concern to mobilize cash from whatever source conceivable to fund programs to address the MDGs. As the declaration concluded, “Hunger cannot wait.” A year later at the World Summit at the United Nations to take stock of the implementation of the Millennium Declaration, 79 countries endorsed the New York Declaration, by then co-sponsored by Algeria, Brazil, Chile, France, Germany and Spain. The global consensus reflected in the Summit Outcome took “note with interest of the international efforts, contributions and discussions, such as the Action against Hunger and Poverty, aimed at identifying innovative and additional sources of financing for development on a public, private, domestic or external basis to increase and supplement traditional sources of financing...” (General Assembly resolution 60/1, September 16, 2005, para. 23d). Momentum was thus building. France pushed it further by convening a conference in Paris in February 2006 to launch the Leading Group on Solidarity Levies to Fund Development, out of which has come the air passenger ticket levy, the IFFIm and other initiatives.

By 2008, it was clear the Leading Group was having an impact on development financing. If it was not yet significantly raising the total amount of international financial cooperation for development, it was at least developing possibilities for targeting assistance on specific, socially important areas, such as vaccines against a variety of diseases and medications for treatment of HIV/AIDS and other diseases. The United Nations took a supportive step in appointing a senior French official, Philippe Douste-Blazy, as the Secretary-General’s Special Advisor on Innovative Financing for Development in February 2008. Moreover, when the international community reconvened at the end of 2008 at the Follow-up International FfD Conference to Review the Implementation of the Monterrey Consensus, a long paragraph was needed to discuss innovative financing initiatives. Now, however, the list referenced in the 2005 World Summit was supplemented with reference to “other noteworthy initiatives,” including the Millennium Challenge Corporation, which is a mechanism the United States Government uses to concentrate ODA on countries deemed to have particular promise for making productive use of the support. The resolution also mentioned certain South-South cooperation initiatives, including “the India-Brazil-South Africa Fund, the Egyptian Fund for Technical Cooperation with Africa, the Libya-Africa Investment Portfolio and the PetroCaribe Initiative” (United Nations, 2008, para. 51).

The scope of “innovative” financing for development further broadened under the initiative of Mr. Douste-Blazy, who coordinated an effort in 2009 to bring together eight innovative financing mechanisms and the associated international organizations and civil society actors involved in them as the “I-8/L.I.F.E.” (Leading Innovative Financing for Equity) group. The “I-8” included three mechanisms to engage the private sector to take up a social challenge. The first was the Advanced Market Commitments in which the governments of Italy, UK, Canada, Norway, and Russia and the Bill and Melinda Gates Foundation pledged in 2007 to purchase a pneumococcal vaccine that had not yet been developed by the pharmaceutical industry for use in developing countries. The second initiative was “(PRODUCT) RED,” a trademark to be applied by participating consumer brands in which up to half the gross profits from the sale of the specially trademarked goods would be provided to the Global Fund to Fight AIDS, Tuberculosis and Malaria. The third initiative was

a proposal by the French Development Agency and a French bank to set up a socially responsible mutual fund to invest in socially screened investments and in equities of investment funds selected by the Agency, while paying a yield only slightly higher than a money market fund.

The 2008 Doha review conference on FfD had requested the Secretary-General to report to the General Assembly in 2009 on developments during the year in innovative financing. The degree of the broadening of the concept of innovative financing for development could not have been stated more clearly by the Secretary-General:

“The concept of innovations now extends to such diverse forms as thematic global trust funds, public guarantees and insurance mechanisms, cooperative international fiscal mechanisms, equity investments, growth-indexed bonds, counter-cyclical loans, distribution systems for global environmental services, microfinance and mesofinance, and so on. Tailoring these instruments to the specific needs and vulnerabilities of developing countries and well-identified market inefficiencies remains one of the ongoing challenges of development finance...” (United Nations, 2009, para. 13).

The World Bank published a booklet not long after explaining its own involvement in “innovative finance,” which it defined to include,

“Any financing approach that helps to:

- Generate **additional** development funds by tapping new funding sources...or by engaging new partners (such as emerging donors and actors in the private sector).
- Enhance the **efficiency** of financial flows, by reducing delivery time and/or costs, especially for emergency needs and in crisis situations.
- Make financial flows more **results-oriented**, by explicitly linking funding flows to measurable performance on the ground.” (World Bank, n.d., emphasis in original)

The World Bank concept of innovative financing may have seemed to lose any mooring to the initial conceptualization; however, to be fair, it was meant as a description of the Bank’s own activities that go beyond its standard lending and other operations. The OECD office that supports the Development Assistance Committee issued its own conceptualization of innovative financing in an Issues Brief that seemed to reflect better the initiatives that arose after the Millennium Summit. OECD was also more cautious in noting that there was “no internationally agreed definition” and that its contribution was only “for the purposes of this Issues Brief.” It continued,

“...we consider innovative financing to comprise mechanisms of raising funds or stimulating actions in support of international development that go beyond traditional spending approaches by either the official or private sectors, such as:

new approaches for pooling private and public revenue streams to scale up or develop activities for the benefit of partner countries;²¹

new revenue streams (e.g., a new tax, charge, fee, bond raising, sale proceed or voluntary contribution scheme) earmarked to developmental activities on a multi-year basis;

new incentives (financial, corporate social responsibility or other rewards or recognition) to address market failures or scale up ongoing development activities” (Sandor, Scott and Benn, 2009, p. 3, emphasis in original).

In sum, clearly there has been a surge in international interest in the past decade in diversifying and increasing the funds that might be mobilized for social, economic and environmental development of developing countries. One impetus has been the commitment to try to realize the MDGs by 2015 or specific goals from among the MDGs or other global imperatives, as in the environmental field. While as a general principle all these efforts are worthy of support, they should not be allowed to mask the growing realization that despite large increases in conventional ODA provision, ODA will not be sufficient to realize the international goals. There is also reason to fear that ODA resources could become scarcer in time. In thus searching ever more intensively for complementary sources of international financial cooperation, it seems the term “innovative financing” has been so stretched as to say it has been abused. It has become progressively more muddled and now refers to a very heterogeneous collection of proposals and policy actions. It is worth remembering, however, how daring the original concept of “innovative financing” was. The reasons that agenda was attractive are still valid.

Notes

- 1 I would like to thank José Antonio Ocampo, Shari Spiegel and Rob Vos for discussions on materials in an earlier draft of the paper. Remaining errors are my own fault.
- 2 See United Nations (1996b) and references cited therein. Additional proposals directly aimed at limiting speculative volatility also had financial resource implications, like the Tobin Tax. For example, Eichengreen, Tobin and Wyplosz (1995, pp. 166-170) recommended that European Union members implementing the Maastricht Treaty should require their banks to increase their non-interest bearing deposits with their central bank when they extend loans across borders in domestic currency. Although meant as a transitional measure, the national central banks would have had additional resources at their disposal for direct use or to transfer to their governments. In fact, this and Tobin’s proposal are both applications to the foreign exchange market of Keynes’ suggestion to tax stock trades to discourage speculation because “when the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done” (Keynes, 1936, p. 159). In a similar spirit but with a broader scope, G. C. Harcourt (1994) recommended imposing a substantial national tax on short-term profits from any speculation, including on currencies, but with no deductibility of losses. Like the Tobin tax, Harcourt’s tax would have to be imposed in all major economies if it were to seriously curtail global speculation. It would be superior to a Tobin tax in that it would tax trades on derivative instruments in which currencies or commodities did not actually change hands. Individual governments would set the rates of taxation but would also likely keep the funds collected; however, as a condition for joining an international agreement to impose the tax, without which it might not notably impact global markets, whether in currencies, commodities or shares of stock, governments could be asked to earmark a portion for international use.
- 3 See the report of Leading Group’s Committee of Experts (2010), which makes the case for the FTT.
- 4 See excerpts from the speech at www.cttcampaigns.info/gordonbrown1.
- 5 The income and employment of financial centers depend on the agglomeration benefits of expertise being located in a single place, not on where a transaction is “booked.” Moreover, wherever booked, a useful proposal is to collect the tax through the international payments system, which requires only the cooperation of the governing authority in a few countries; in addition, indications are that a small tax (for example half a basis point or .005%) would only modestly reduce the daily volume of transactions, and thus minimally disturb the industry (Schmidt, 2007).
- 6 Another innovation, albeit not fitting the “innovative financing” concept discussed here was the “debt-for-nature swap,” in which typically a foundation would purchase deeply discounted sovereign debt claims on the open market and donate them to the developing country government in exchange for conservation commitments (Resor, 1997); however, development economists also warned that swap-receiving countries should carefully assess the net benefits of the deals, including the ongoing budgetary obligations that would follow (Devlin, 1991).
- 7 The countries were Cameroon, Chile, Congo, France, Madagascar, Mali, Mauritius, Niger, and Republic of Korea. In addition, Norway contributed part of the funds collected on a carbon-emissions tax on aviation fuel (information from UNITAID at <http://www.unitaid.eu/en/about/innovative-financing-mainmenu-105/163>).
- 8 International organizations are nevertheless typically empowered to engage in selective revenue raising activities, such as marketing publications, licensing intellectual property and the use of data collected, and so on.
- 9 Literally, “special drawing right” means the holder has a special right to draw funds from IMF, but in fact the SDR itself is the asset in the same way that the old US dollar silver certificates gave the holder the right to exchange the bill for one dollar’s worth of silver bullion at the US Treasury, although no one did (currently issued dollar bills offer no exchange privilege; they simply assert the piece of paper is legal tender and worth one dollar).
- 10 To be sure, the main weapon against speculation was meant to be “strong” macroeconomic policies, although there were also increasingly strong international shocks that negatively impacted the balance of payments. National reserve holdings and loans by IMF were aimed to defend a central exchange rate that was still deemed in “fundamental equilibrium” or smooth its adjustment when this was no longer the case.

- 11 That is, because the global demand to hold dollar balances grows over time with the growth of the world economy and world trade, the US is able to have a perpetual balance-of-payments deficit, in essence, forever importing more goods and services than it exports. Non-reserve currency countries ultimately have to repay their borrowings (a few other countries have reserve currencies, but none near the scale of the United States).
- 12 More precisely, IMF issued 9 billion SDRs in 1970-1972 and 12 billion SDRs in 1979-1981. The allocations accounted for 8 per cent of non-gold reserves in 1972 and 6 per cent in 1981 (Boughton, 2001, p. 929)
- 13 One may see that the criteria for SDR allocations ensured it would be the *residual* official reserve asset, preventing it from ever becoming the “principal” reserve asset.
- 14 As currently structured, interest is earned on holdings of SDRs beyond the national allocation and is paid on SDRs used. The central bank accumulating the exchanged SDRs would thus normally need to receive interest, which the donor government could pay. The interest payment could come out of the donor’s ODA budget or from the central bank’s overall earnings on its reserve account. There would be no “free lunch” here for the SDR donors, as the present value of the donations needed to cover future interest would equal the value of the SDRs that were gifted. Thus, an alternative might be to create a separate non-interest bearing class of SDRs, although that might negatively impact central-bank demand to hold the original SDR on fear that its status could change to the interest-free SDR.
- 15 The SDR proposal was that of George Soros noted above.
- 16 The IFF did not promise a net increase in ODA over time but to “front-load” aid. The idea is that donors would deliver significantly more ODA than their legislature would currently budget by borrowing the funds and promising to pay the interest and principal out of future aid budget allocations. The mechanism would work by issuing government bonds backed by legislative guarantees to earmark a portion of future budget allocations for interest and principal payments. In 2006 the first international IFF was created for immunization (IFFIm). The bonds were issued directly by a UK-registered IFFIm Company and the proceeds were contributed to the Global Alliance for Vaccines and Immunization (GAVI), an international facility for bulk purchase of vaccines for developing countries established in 2000. Initiated by the United Kingdom and France, other countries that also committed to servicing IFFIm bonds included Italy, Australia, Norway, Spain, Netherlands, Sweden, South Africa and Brazil (based on information provided by the secretariat of The Leading Group on Innovative Financing for Development, as presented at the United Nations, 7-8 December 2011).
- 17 The global lottery proposal had several drawbacks that limited its political attractiveness, not least that it would compete with national lotteries. It thus seems little discussed any more. A related proposal was to issue a “global premium bond,” which would be similar to a British government savings bond whose identification number is entered in a lottery for an additional payoff to the winners (Addison and Chowdhury, 2005).
- 18 The list included “mandatory mechanisms” (FTT, tax on arms trade, IFF and SDRs for development), “political coordination” (addressing tax evasion and tax havens, increasing the benefits of remittances), and “voluntary mechanisms” (an MDG-affinity credit card and “ethical funds” for socially responsible investing). See Technical [Quadripartite] Group... (2004).
- 19 The ensuing discussion is based on the private notes of a senior participant in the discussions, dated September 22, 2004.
- 20 http://www.diplomatie.gouv.fr/en/IMG/pdf/Declaration_de_New_York_sur_l_action_contre_la_faim_et_la_pauvrete_20_septembre_2004.pdf.
- 21 A “partner” country is usually meant by OECD to denote an ODA-receiving developing country.

References

- Addison, Tony and Abdur R. Chowdhury (2005). “A global lottery and a global premium bond.” In Atkinson (2005), pp. 156-176.
- Aryeetey, Ernest (2005). “A development-oriented allocation of the Special Drawing Rights.” In Atkinson (2005), pp. 90-109.
- Atkinson, A.B., ed. (2005). *New Sources of Development Finance*, A study prepared by the World Institute for Development Economics Research of the United Nations University (New York: Oxford University Press).
- Boughton, James (2001). *Silent Revolution: The International Monetary Fund, 1979-1989* (Washington, D.C.: IMF).
- Committee of Experts (2010). *Globalizing Solidarity: The Case for Financial Levies*. Report of the Committee of Experts to the Taskforce on International Financial Transactions and Development, Leading Group on Innovative Financing for Development (Paris: French Ministry of Foreign and European Affairs, Permanent Secretariat of the Leading Group).
- Devlin, Robert (1991). “Canje de deuda por naturaleza: la necesidad de una nueva agenda.” Working Paper No. 3. United Nations Economic Commission for Latin America and the Caribbean.
- Eichengreen, Barry, James Tobin and Charles Wyplosz (1995), “Two cases for sand in the wheels of international finance.” *Economic Journal*, vol. 105, No. 428 (January), pp. 162-172.
- Frankman, Myron J. (1996). “International taxation: the trajectory of an idea from Lorimer to Brandt.” In *World Development*, vol. 24, No. 5, pp. 807-820.
- Group of 20 (2011). “Cannes Summit Final Declaration—Building our common future: renewed collective action for the benefit of all,” Cannes, November 4 (<http://www.g8.utoronto.ca/g20/2011/2011-cannes-declaration-111104-en.html>).
- ul Haq, Mahbub, Inge Kaul and Isabelle Grunberg, eds. (1996). *The Tobin Tax: Coping with Financial Volatility* (New York: Oxford University Press).
- Harcourt, G.C. (1994). “Taming speculators and putting the world on a course to prosperity: a ‘modest’ proposal.” *Economic and Political Weekly* (17 September), pp. 2490-2492.
- Independent Commission on International Development Issues (1980). *North-South: a Program for Survival* (London: Pan Books and MIT Press).
- Keynes, John Maynard (1936). *The General Theory of Employment, Interest and Money* (London: MacMillan; reprinted in the United States by Harcourt, Brace & World, 1964).
- [Landau] (2004). “Rapport à Monsier Jacques Chirac, Président de la République.” Groupe de travail sur les nouvelles contributions financières international (Paris: Government of France).
- Machlup, Fritz (1964). *International Payments, Debts, and Gold* (New York: Charles Scribner’s Sons).
- OECD (2010). *The DAC: Fifty Years, Fifty Highlights* (Paris: OECD).
- Resor, James P (1997). “Debt-for-nature swaps: a decade of experience and new directions for the future.” In *Unasylva* No. 188 (vol. 48, No. 1). Food and Agricultural Organization of the United Nations.
- Richards, Michael (1999). “*Internalizing the Externalities of Tropical Forestry: A Review of Innovative Financing and Incentive Mechanisms*.” European Union Tropical Forestry Paper 1 (London: Overseas Development Institute).
- Sagasti, Francisco and Keith Bezanson (2001). *Financing and Providing Global Public Goods: Expectations and Prospects* (Stockholm: Fritzes Kundservice).
- Sandor, Elisabeth, Simon Scott and Julia Benn (2009). “Innovative financing to fund development: progress and prospects.” Issues Brief, Development Cooperation Directorate, OECD, Paris (November).
- Schmidt, Rodney (2007). “The Currency Transaction Tax: rate and revenue estimates.” North-South Institute, Ottawa (October).
- Seers, Dudley (1964). “International aid: the next steps.” In *The Journal of Modern African Studies*, vol. 2, No. 4 (December), pp. 471-489.
- Sengupta, Arjun (1987), “The allocation of Special Drawing Rights linked to the reserve needs of countries.” In United Nations Conference on Trade and Development, *International Monetary and Financial Issues for the Developing Countries* (New York: United Nations), pp. 311-328.
- Soros, George (2002). *George Soros on Globalization* (New York: Public Affairs).
- Technical [Quadripartite] Group on Innovative Financing Mechanisms (2004). *Action Against Hunger and Poverty*, Report of the Technical Group (Paris: Government of France).
- Tobin, James (1978). “A proposal for international monetary reform.” *The Eastern Economic Journal*, vol. 4, Nos. 3-4 (July/October), pp. 153-159.

- Treves, Tullio (2008). "United Nations Convention on the Law of the Sea." United Nations Audiovisual Library of International Law (http://untreaty.un.org/cod/avl/pdf/ha/uncls/uncls_e.pdf).
- United Nations (1987). Report of the World Commission on Environment and Development (Brundtland Commission): *Our Common Future* (A/42/427, Annex).
- _____ (1996). "Financial resources and mechanisms for sustainable development: overview of current issues and developments." Report of the Secretary-General (A/CN.17/1996/4).
- _____ (1996a). "Financial resources and mechanisms: Addendum." Report of the Secretary-General (A/CN.17/1996/4/Add.1).
- _____ (1996b). "New and innovative ideas for generating funds" (E/1996/CRP.1).
- _____ (2002). Report of the International Conference on Financing for Development, Monterrey, Mexico, 18-22 March 2002 (A/CONF.198/11, chapter 1, resolution 1, annex).
- _____ (2008). "Doha Declaration on Financing for Development: outcome document of the Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus" (A/63/239, Annex).
- _____ (2009). "Progress report on innovative sources of development finance." Report of the Secretary-General (A/64/189 and Corr.1).
- _____ (2012). *World Economic and Social Survey, 2012: In Search of New Development Finance* (New York: United Nations).
- World Bank (n.d.). *Innovative Finance for Development Solutions: Initiatives of the World Bank Group* (Washington, D.C.: World Bank).