NGO COMMITTEE ON FINANCING FOR DEVELOPMENT
WORKING GROUP ON INNOVATIVE SOURCES OF FINANCING FOR DEVELOPMENT

INNOVATIVE SOURCES OF FINANCING FOR DEVELOPMENT

Introduction

Innovative financing mechanisms emerged at the beginning of the twenty-first century.

- These new sources of development financing are closely linked to global public goods, and complement conventional Official Development Assistance (ODA). But most importantly, they are stable and predictable.
- They stem from the criticism leveled at a world where trade is growing as rapidly as inequality is. These financing mechanisms were also conceived from the outset as a way to correct the negative effects of globalization.
- They use various mechanisms, ranging from government taxes to public-private partnerships, and focus on several areas of public action, such as health, education and the environment. They have gradually carved out a role for themselves on the international stage.
- Innovative financing mechanisms can be assessed regarding the following mechanisms:
    - SCALING-UP: Innovative financing mechanisms should significantly increase funding in order to bridge the financing gap necessary to meet development goals.
    - ADDITIONALITY: Since these mechanisms were created to fill this gap, innovative mechanisms cannot replace Official Development Assistance nor will they be sufficient if certain countries decide to renounce the commitments that they have made.
    - COMPLEMENTARITY: The role of innovative financing mechanisms is to raise new funds for existing organizations and not to add new actors and complexities to the development landscape.
    - SUSTAINABILITY: In order to have a significant and sustainable impact on development goals, innovative financing mechanisms should have the objective and ability to finance long-term programs in coordination with other countries. Finally, innovative financing mechanisms should be designed to comply with the other principles of the 2005 Paris Declaration on Aid Effectiveness[1] and the 2008 Accra Agenda for Action[2].

Currency Transaction Tax and Financial Transaction Tax

At issue is how to find significant and stable new sources of funding for development. Both of these taxes envision levying small taxes on the financial sector. However, given the size of transactions being taxed the resulting revenue would be both significant and stable.

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[1] http://www.adb.org/media/articles/2005/7033_international_community_aid/paris_declaration.pdf
[2] http://www.oecd.org/dataoecd/58/16/41202012.pdf

The currency transaction tax (CTT) would levy a very small proposed rate with the intention of not disturbing the global market for major currencies. Depending on the actual rate used, revenue estimates for this tax range between US $24 billion and US $300 billion.

The Financial Transaction Tax (FTT) envisions a broader scope for the tax than the CTT. One version calls for a levy of 0.05% to be applied to various categories of financial transactions including stocks, bonds and currency. This would be imposed on both domestic and international transactions. With global agreement, this tax could raise between US $600-700 billion.

- We urge governments to implement an international FTT with an explicit development component.
- We urge governments to support domestic efforts to implement versions of the FTT again with a development component and building on experiences in various countries.

International Solidarity Levy on Airline Tickets

- The purpose of the International Solidarity Levy on Airline Tickets is to tax individuals who take a flight out of specific countries that have implemented the policy, and then transfer the money to development projects.
- Most of the money from this tax goes to UNITAID, which is the United Nations international drug purchasing facility for medicines related to HIV/AIDS, Malaria, and Tuberculosis.
- This innovative tax is easy to implement, has seen a great deal of success, supports development and cooperation between nations, and it provides a long-term and stable source of funds while supplementing ODA requirements

Tax Havens and Capital Flight

Capital flight and tax evasion continue to drain much-needed resources for development. Tax Justice Network estimates the amount of funds held offshore by individuals is about $11.5 trillion with a resulting annual loss of tax revenue on the income from these assets of about 250 billion dollars. This is five times what the World Bank **estimated** was needed to address the UN Millennium Development Goal of halving world poverty by 2015.

- Capital flight and other illicit transfers of funds must be combated: There needs to be an automatic exchange of tax information between governments. Transparency, supervision and regulation are essential in institutions such as hedge funds, private equity and sovereign wealth funds. Cross-border tax evasion should be treated as criminal activity and tax havens must be closed. The "United Nations Committee of Experts on International Cooperation in Tax Matters" should be strengthened and upgraded into an intergovernmental body. Its agenda should include measures to combat capital flight and tax evasion and also measures to assist developing countries to improve their tax administration. In the long run a World Tax Organization should be established.

Debt Swaps

Debt Swaps represent an innovative approach to cancelling debt in the developing world while, at the same time, providing additional resources for socio-economic development projects. It cancels external debt in exchange for the debtor government's commitment to mobilize domestic resources for specific development rather than debt repayment. The debt swap process is applied through three-way agreements, overseen by a multilateral organization which results in multiple benefits for all parties.

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We urge governments and institutions to study the multiple benefits of such Debt Swaps as Debt2Health (a Global Fund to Fight AIDS initiative) and to participate in this initiative or similar ones.

Reduce Military Expenditures

According to the Global Issues' website, over the past decade, there has been a 45% increase in global military expenditures. Hunger, violence and climate change, etc. have also increased at an alarming rate . We strongly recommend reducing military spending and redirecting a significant portion of military expenditures to social development especially to poverty reduction.

The estimated cost of achieving the MDGs is $135 Billion but the total UN budget for various peacekeeping purposes is less than $30 Billion a year which is much lower than the global military expenditure. Therefore, we strongly recommend that all nations reconsider their military spending and reallocate more money to poverty eradication.