Innovative Sources of Financing for Development

A Report to the NGO Committee on Financing for Development

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THE NEW SCHOOL - GRADUATE PROGRAM IN INTERNATIONAL AFFAIRS (GPIA)

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Introduction

The following paper was prepared by the New School Consulting Team, a group of students in the Graduate Program in International Affairs (GPIA) at the New School for the UN NGO Committee on Financing for Development (the Committee). This paper reports on the specific mechanisms of Innovative Sources of Financing for Development (ISF) chosen for study by the Committee members.

The mechanisms researched in this paper include:

1) Tax Related ISF
    a. Currency Transaction Tax (CTT) and the Financial Tax (FTT)
    b. Carbon Tax
    c. International Solidarity Levy on Airline Tickets
    d. Arms Trade Tax
    e. Tax Cooperation, Competition, Tax Havens and an International Tax Organization

2) Debt Related ISF: Debt Relief Mechanisms
    a. Debt2Health Swaps
    b. Special Drawing Rights
    c. IMF Gold Sales

This paper explores each of the mechanisms in detail, explaining their background, concepts, objectives, and limitations, and makes recommendations for advocacy. The paper begins with discussions of methodology, a history and overview of ISF, some different perspectives on ISF, and the overarching objectives of ISF. Following are the discussions of each ISF mechanism in detail, and finally conclusions.

Methodology

This paper researches and investigates the topic of Innovative Sources of Financing for Development. To accomplish the goals of the project, as agreed with the Committee, The New School Consulting Team utilized various methods to obtain the relevant information. Work predominantly consisted of qualitative research, which was conducted via primary research (e.g. interviews with experts, including FfD Committee members and attending meetings and conferences) and secondary research methods (e.g. literature review of articles, briefs, documents, websites, reports, etc.).

History and Overview of the Current State of ISF

Innovative Sources of Financing for Development (ISF) can be defined as any progressive idea or mechanism to accumulate funds for socio-economic development aid, aside from or complimentary to Official Development Assistance (ODA) or other traditional methods. Many of the proposed ISF mechanisms share the goal of meeting the Millennium Development Goals (MDGs). These mechanisms vary greatly in form and function, and some have proven more successful than others. Many of the ideas for innovative sources of financing for development are still in the conceptual or planning stages, while others have been implemented to varying degrees. In the last three years innovative sources of financing have generated more than $2 billion for development aid, and $57.1 billion between 2000 and 2008, much of which has been dedicated to health development.[1] ISF mechanisms generate funds which are separate from ODA that developed countries provide. These funds are especially important now that countries which agreed to allocate a percentage of their gross domestic product (GDP) to development have shown only limited progress towards fulfilling their commitments.

After decades of abstract discussion, starting in 2000, development partners around the globe embarked on a decade-long search for "innovative" forms of financing in addition to ODA to help fund the MDGs. In response, sovereign and private donors championed an array of initiatives such as global solidarity levies proposed by France (both a charge added to the cost of airline tickets and a voluntary contribution air travelers can opt to make when buying their tickets), front-loading future aid commitments by the United Kingdom (a mechanism that uses bonds to provide money for development activities in the present that is backed by future aid commitments), and results-based financing by various actors, including private foundations. Development banks also started issuing new types of bonds that link resource mobilization and development objectives, for example, debt offerings for sustainable investments with climate change-related themes. For their part, developing countries sought not only more financial flows but better financial solutions, for example, partnerships to mobilize private finance for public service delivery, risk mitigation efforts to promote private entry in the productive sectors, and support for carbon trading.

The Monterrey Consensus was the result of the 2002 UN Monterrey Conference on Financing for Development where the concept of 'innovative financing for development' was discussed. More than 50 Heads of State and 200 Ministers of Finance, Development, Foreign Affairs, and Trade took part in the event, along with UN heads, the World Bank, the IMF, the World Trade Organization (WTO), businesses, and civil society. At the conference new aid commitments were established with other agreements on debt, corruption and policy consistency. Under the consensus, six areas of FfD were designated: 1) Utilizing domestic funds for socio-economic development work; 2) Utilizing international resources such as foreign direct investment for development purposes; 3) Promoting international trade to support development work; 4) Augmenting international technical and financial cooperation; 5) Addressing external debt; and 6) Creating more dependable and comprehensive international trade, finance and monetary systems. Finally, all developed countries agreed to make an effort to substantially increase their ODA;

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[1] Sandor, Elizabeth, Simon Scott and Julia Benn. "Innovative Financing to Fund Development: Progress and Prospects." DCD Issue Brief November 2009. *Organization for Economic Co-operation and Development (OECD).* <http://www.oecd.org/dataoecd/56/47/44087344.pdf>. November, 2009. Accessed September 16, 2010.

those countries that had agreed to devote 0.7% of GDP to ODA accepted to make "concrete efforts" to reach the target (only a few have reached it). The United States only allocated 0.18% of GDP to ODA in 2008. However, the United States never accepted devoting 0.7% of GDP to ODA.

Broadly, four types of innovative mechanisms make up the international ISF landscape: Private mechanisms involve private-to-private flows in the market and in civil society; Solidarity mechanisms support sovereign-to-sovereign transfers and form the backbone of multilateral and bilateral ODA and Other Official Flows (OOF); Public-private partnership (PPP) mechanisms leverage or mobilize private finance in support of public service delivery and other public functions, such as sovereign risk management; Catalytic mechanisms involve public support for creating and developing private markets (inter alia by reducing risks of private entry). Three of these mechanisms (solidarity, PPP, and catalytic) depend on official flows, which they either mobilize or deploy in support of country and global efforts through financial engineering efforts that employ an array of instruments (from grants and loans to contingent financing and risk mitigation).

ISF Perspectives

ISF is a multi-faceted but essentially simple concept, as almost all the definitions, ideas and objectives aim at providing supplemental funds to ODA and development work. To gain a broader understanding of ISF and how it is currently understood and functioning, provided below is a short list of perspectives from several important groups involved in the issue.

Leading Group on Innovative Financing for Development- The Leading Group states that "the notion of innovative development financing mechanisms designates resources that are provided in addition to Official Development Assistance (ODA) and are more predictable. These dual characteristics of additionality and predictability have been enshrined in the policy declarations made in 2004, 2005, 2006 and 2008, as well as in the reports on this subject. These new sources of development financing are closely linked to global public goods, and complement conventional ODA. But most importantly, they are stable and predictable. They use various mechanisms, ranging from government taxes to public-private partnerships, and focus on several areas of public action, such as health and the environment. They have gradually carved out a role for themselves on the international stage."[2]

The World Bank- The World Bank defines 'Innovative Financing' as funding which "involves non-traditional applications of solidarity, Public-Private Partnerships (PPP), and catalytic mechanisms that 1) support fund-raising by tapping new sources and engaging investors beyond the financial dimension of transactions, as partners and stakeholders in development; or 2) deliver financial solutions to development problems on the ground."[3]

The Douste-Blazy Initiative- As described in the report on eight innovative financing initiatives by Philippe Douste-Blazy, special advisor to the Secretary General, "Innovative Financing for

[2] Leading Group on Innovative Financing for Development. "What is Innovative Financing?". <http://www.leadinggroup.org/article194.html>. Accessed September 25, 2010.
[3]World Bank (2009). "Innovating Development Finance: From Financing Sources to Financial Solutions." CFP Working Papers Series No. 1.

Development," "the onus is on us today to find other ways and means to act, to look in new directions, to think differently. This is when innovative financing mechanisms come into play to raise new sustainable funds based on a new economic logic that will come on top of ODA but certainly not replace it. ODA indeed remains the building block of necessary international solidarity among States. The idea of innovative financing mechanisms was launched into intergovernmental discussions at the Monterrey Summit—an international conference on financing for development which aimed at reaching a global agreement on how to boost global growth, finding the means to bridge the widening gap between rich and poor and reaching the MDGs.[4]

Overarching Objectives of ISF

We have identified and described several ISF mechanisms for FfD, and in order to better understand these mechanisms it will be helpful to review some essential principles about how they should work. These principles include: 1) Scaling-up; 2) Additionality; 3) Complementarity; and 4) Sustainability.

1. Scaling-up: Tools for innovative financing should greatly augment funding with the outcome of narrowing the finance gap so as to achieve the MDGs and other international goals.

2. Additionality: Mechanisms for innovative financing were developed with the purpose of attaining additional resources, and should never replace ODA funding, nor would these tools ever be considered as sufficient means to cover unmet financial promises.

3. Complementarity: Mechanisms should never complicate development programs or plans already in place, but complement them through funding their stated purposes.

4. Sustainability: To obtain maximum impact on attaining the MDGs, innovative finance tools should exist under the framework of financing long-term efforts with other nations. These mechanisms should comply with the regulations established in the Paris Declaration of Aid Effectiveness of 2005 and the Accra Agenda for Action in 2008.

Innovative Sources of Financing for Development should enhance the predictability of funding and should address market failures. There is a wide range of different mechanisms. They are not limited to taxes, but include voluntary contributions, market-based mechanisms, and loan guarantees as well as levies. They are characterized by being stable, long-term and complementary to official public aid and oriented toward widening the sharing of the benefits of globalization.

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[4] The I-8 Group. "Innovative Financing for Development." *Leading Innovative Financing for Equity [L.I.F.E.].* <http://www.un.org/esa/ffd/documents/InnovativeFinForDev.pdf>. Page 4. New York. December, 2009. Accessed October 3, 2010.

1) Tax Related ISF

a) Currency Transaction Tax (CTT)/Financial Transaction Tax (FTT)

Introduction

Many of the development financing mechanisms currently being considered have been under discussion for many years. James Tobin proposed the Currency Transactions Tax in the 1970s, and in the early 1980s the Brandt Commission recommended a fundamental reordering of the global economy to enable developing countries to grow, and over time reduce their dependence on developed countries. The Commission proposed as a way of transferring resources to poorer nations a universal tax on all nations except the poorest, calculated on a sliding scale dependent on national income with rich countries contributing 0.7% of GNP rising to 1% by 2000. The Commission also proposed automatic levies on military expenditures, arms exports, international trade and revenues from the global commons to meet aid targets. [5] In 2001 the Zedillo Commission (the High-level Panel on Financing for Development) proposed using a Currency Transactions Tax (the Tobin Tax) and a Carbon Tax (a minimum level of taxation on the consumption of fossil fuels) to finance the supply of global public goods (and in the case of the carbon tax to combat global warming). The Zedillo Commission also proposed creating an International Tax Organization to assist governments and their revenue authorities to collect taxes. Many of these proposals continue to surface, whether in the Monterrey Consensus meeting, the ongoing MDG discussions, or the annual G20 meetings. All of the proposals have merit but also contain significant obstacles, as evidenced by the fact that they have not been implemented. We will review the background and current status of each and provide recommendations for policy approaches.

Two of the most popular proposed mechanisms for innovative financing of development are the Currency Transactions Tax (CTT) and Financial Transactions Tax (FTT). Both envision levying small taxes on the financial sector with the intention of raising significant funds for development. There are many proposed versions of these taxes, from the original Tobin tax on international currency transactions to more recent proposals to tax a small portion of virtually every electronic financial transaction domestically and internationally. Some proposals would tax certain instruments like stocks, corporate and government bonds, and derivatives and in some countries such taxes are already in place.

There is a growing disconnect between financial transactions and real economy activities. As an example, today the value of derivatives trading is 66 times world GDP.[6] Some of the taxes targeting the financial system seek not only to raise money for development but also to address this disconnect, and the imbalances in the global financial system that contribute to increasing volatility and that in many cases contributed to the global financial crisis. However, countries are also looking at these taxes as a way of raising general revenue, of supplementing budgets hit hard by the financial crisis, or of preventing future financial crises. Financial sector taxes will

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[5] "The Brandt Report." *Share the World's Resources (STWR).* <http://www.stwr.org/special-features/the-brandt-report.html>. Accessed November 6, 2010.

[6] Sarah Anderson, Chuck Collins, Scott Klinger, Janet Redman, and Kevin Shih. Taxing the Wall Street Casino. Institute for Policy Studies. Washington, DC. 2010.

have to be designed with a development goal in mind, to allocate at least some part to meeting the MDGs, supplementing ODA commitments, or generally funding development initiatives.

Currency Transactions Tax (CTT)

Concept, background and current status

The idea of a Currency Transaction Tax has been under discussion for several decades. The CTT is the conceptual successor to the Tobin Tax (TT) first proposed in the 1970s as a means of reducing the volatility of capital flows across borders to minimize the threat of exchange rate crises. In 2001 the Zedillo commission recommended that the International Conference on Financing for Development consider whether global taxation efforts like the CTT were feasible.

The CTT and Tobin Tax are identical in terms of tax base and tax collection mechanisms, but differ by purpose and proposed rate. The Tobin Tax rate needed to be high enough to influence foreign exchange market behavior, but the CTT rate would be small enough to raise money without disrupting the market. Estimates of revenue from a CTT differ widely because of differences in proposed tax rates and range from $24 billion to $300 billion per year. As the volume of international transactions is estimated at $1 trillion per day, a very small levy could raise billions without affecting markets. For example a 0.005% tax on major currencies could raise at least $33 billion every year. The effect on foreign exchange prices and transaction volumes would be well within the normal range of volatility for this market. It has been estimated that such a tax levied only on US dollar transactions would yield $28.4 billion annually. A tax on just euro and British pound transactions together would yield $16.5 billion, while a tax just on euro transactions would yield €12.3 billion.[7]

Some of the concerns the Zedillo Commission raised about the CTT proposal included that it would be too complex to implement and that its economic effects would be ambiguous. Because financial transactions can easily shift location the tax would need to be implemented globally at a uniform rate, which would be difficult to achieve politically. In addition, because it is possible to bypass spot foreign exchange markets by using derivative instruments, the tax would need to be imposed on all possible derivative instruments that might be used to undertake equivalent transactions, including the futures and options markets. It was not clear that the tax would have a systematic effect on speculation. Finally, what look like very low rates of tax might actually be quite high in relation to buy-sell spreads, which are very narrow for currency trades, and might greatly reduce the volume of foreign exchange transactions, which would make the revenue potential for this tax unpredictable.[8]

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[7] The I-8 Group. "Innovative Financing for Development," Op. cit.

[8] United Nations. *Report of the High-Level Panel on Financing for Development.* June 26, 2001. <http://www.un.org/reports/financing/>. See also <http://www.ycsg.yale.edu/center/forms/Zedillo_Report.pdf>. Accessed October 21, 2010.

Recommendations

- A CTT is most likely to be implemented as part of a broader Financial Transactions Tax, described below

- There is some scope for individual countries to implement a CTT unilaterally

Financial Transactions Tax (FTT)

Concept, background and current status

Financial Transaction Tax (also known as Financial Speculation Tax) proposals generally envision a broader scope for the tax than the CTT. Currently one particular version of the FTT is very popular and has been widely discussed, receiving considerable attention in Europe and at the Millennium Development Goals Summit in New York and currently making its way through the G20. It calls for a levy of 0.05% to be applied to various categories of financial transactions including stocks, bonds and currency. Derivatives and other instrument could be included as well. The tax would be imposed on domestic and international transactions. This proposal might require (or work best with) global agreement and could raise USD $600-700 billion per year. It is intended to both regulate the market and produce revenue. It is possible that some policy action will be taken by some countries regarding some version of the proposal in the near future as countries continue to push the process.

A version of the tax pending in the US Congress would be no more than 0.25% on each trade. It is intended to curb short-term speculation and encourage long-term productive investment. The tax is intended to be virtually unnoticeable to ordinary investors and would have the potential to raise hundreds of billions of dollars from high-risk, high-speed investment activities. It would exempt retirement funds and the first $100,000 of trades made by an individual each year, so the effect on ordinary investors would be quite small, as their portfolios turn over relatively less frequently. The effect on mutual funds would be relatively small, amounting to 0.05% for index funds and 0.14% for actively managed funds, according to the Investment Company Institute, the trade association of the mutual fund industry.

Support for similar measures comes from leaders in Germany, France, the UK, Korea, and the European Parliament, as well as members of the US Congress. Many economists, business leaders, labor unions, environmental groups and global health advocates also support these taxes. A FTT might discourage the type of high-frequency trading that led to the May 2010 “flash crash” on Wall Street.[9] This type of trading now accounts for 50-75% of daily trading volume. A tax would make such trading significantly more expensive and would change the behavior of traders/trading systems.

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[9] A flash crash occurs as a result of trading algorithms that react instantly to market changes, such that an erroneous (mispriced) trade can cause a sudden uncontrolled selloff. A FTT would increase the cost of this type of trading, lowering its volume. Lowering volume, it is said, would reduce volatility and thus reduce the incidence of flash crashes.

The IMF proposed as an alternative a Financial Activities Tax (FAT) on the profits and employee compensation of all financial institutions. It would be designed to cover the broader costs of the financial crisis but would be smaller than the proposed FTT, raising between 0.1-0.2% of GDP, or about $28 billion in the US. The proposed FTT, by contrast, would raise up to $177 billion per year assuming tax rates ranging from 0.01% on currency transactions to 0.25% on stock trades, and assuming a 50% drop in trading volumes (according to projections from the Center for Economic and Policy Research). Proposed uses for the FTT revenues include jobs and infrastructure (domestic), Global Poverty and Health (MDG goals), and Climate Change (mitigation, moving to low-carbon development pathways). A FTT would help restore fairness to the tax system, in which the very wealthy have paid a declining share of taxes over the last half-century.[10]

Ideally, all countries with major financial markets would adopt the FTT concurrently, but even if it was adopted in the US alone it might not have a serious negative impact on the economy. The UK already imposes a tax on stock trades[11] at double the level proposed in legislation currently pending in the US Congress, and its market remains profitable. Convenience, familiarity with established markets and regulatory frameworks and existing relationships with financial firms will tend to keep participants from leaving the market. The Center for Economic and Policy Research predicts that the drop in trading volumes from the proposed FST would return US markets to their levels of the late 1980's and early 1990s.[12]

Collecting the tax would be facilitated through the clearing and settlement services, which handle confirming trades and making them legally binding, which have become highly centralized, organized and standardized. This allows for tax collection on all types of financial transactions, even those conducted over-the-counter (OTC). The IMF confirmed the administrative feasibility of such taxes in a recent report.[13] Various financial instruments would be taxed through their respective market infrastructure: a tax on stocks could be collected through the stock exchanges, which in the US already collect a tax of $0.0042 per transaction; for derivatives the clearing and settlement services could send transaction records to the revenue authority (the IRS, in the US), which could calculate the tax and bill investors; for Foreign Exchange the Continuous Linked Settlement Bank, which settles the majority of foreign exchange (FX) transactions, could provide transaction records to the revenue authority, and for other transactions the Society for Worldwide Interbank Financial Communication (SWIFT) could provide the information needed to identify FX transactions (this institution is a clearing service that links most large FX traders to each other and to settlement institutions); for bonds the tax could be collected through the exchanges for bonds traded there, or the clearing and settlement services could provide information to the revenue authority for OTC-traded bonds. [14]

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[10] Sarah Anderson, Chuck Collins, Scott Klinger, Janet Redman, and Kevin Shih, 2010, op. cit.
[11] Shares in UK companies or of foreign companies if held on a UK register must pay the Stamp Duty Reserve Tax whether the deal is done in the UK or overseas and whether the people involved are UK resident or not, to legally transfer ownership. A similar mechanism might be necessary if the FTT were not implemented universally. (HMRC Stamp Taxes Manual).
[12] Sarah Anderson, Chuck Collins, Scott Klinger, Janet Redman, and Kevin Shih, 2010, op. cit.
[13] International Monetary Fund (IMF), "A Fair and Substantial Contribution by the Financial Sector: Interim Report for the G-20," June 2010. <http://news.bbc.co.uk/2/shared/bsp/hi/pdfs/2010_04_20_imf_g20_interim_report.pdf>. Accessed November 15, 2010.
[14] Sarah Anderson, Chuck Collins, Scott Klinger, Janet Redman, and Kevin Shih, 2010, op. cit.

Most G20 countries already tax some financial transactions. Until the end of 2007 Brazil had a banking transaction tax, the CPMF, worth $17-22 billion per year. The CPMF made tax evasion harder, giving the revenue service information on money moving between accounts, helping to raise overall tax collection. The tax rate was 0.38% before it failed to win Congressional approval for extension.[15] However, the new president-elect is seeking to reintroduce the tax to fund health.[16] Argentina taxes payments into and from current accounts, and Turkey taxes all receipts of banks and insurance companies. Sweden has a tax on various securities and derivatives. France, Germany and other European nations have expressed an interest in their own FTT. Some countries charge particular financial transactions, such as the 0.5% stamp duty on locally-registered shares in the UK. There are examples outside the G20 as well, such as in Peru and Columbia, which have general financial transactions taxes. Taxing a wide range of exchange-traded securities (and possibly derivatives) could be done easily and cheaply if done through central clearing mechanisms, as is done in the UK. The widespread use of only a few clearance and settlement systems is helpful for the implementation of transaction taxes generally. Implementation should not be a major obstacle; the focus should be on whether such a tax would be desirable in principle.[17]

Some of the concerns raised by the IMF about the proposed FTT include that the burden of this tax would largely fall on users of financial services (both businesses and individuals) in the form of reduced returns to saving, higher cost of borrowing, and/or increase in final commodity prices. The more general adoption of the tax will help industry pass along the cost to consumers. The FTT taxes transactions between businesses, and since distorting business decisions reduces total output, more revenue could be raised by taxing that output directly by way of a value-added tax. Because it is levied on every transaction, the cumulative, cascading effects of the tax (because the tax is being charged on values that reflect the payment of the tax at earlier stages[18]) can be significant and non-transparent. "It is far from obvious that the incidence would fall mainly on either the better-off or financial sector rents. In sum, while the incidence of a FTT remains unclear… it should not be thought of as a well-targeted way of taxing any rents that may be earned in the financial sector."[19]

The IMF disputes several of the arguments made in favor of a FTT. Regarding that a FTT would reduce "wasteful" financial transactions, i.e. reflecting the concern that the ratio of financial transactions to global GDP suggests socially unproductive financial activity, there is no clear

[15] "Sex, Sleaze and Taxes." *Economist.* The Economist, 6 December 2007. <http://www.economist.com/node/10253440?story_id=10253440>. Accessed December 12, 2010.

[16] Rabello, Maria Luiza, and Andre Soliani. "Brazillian Opposition Lawmakers Reject New Proposed CPMF for Health Care." *Bloomberg* 5 November 2010. <http://www.bloomberg.com/news/2010-11-05/brazilian-opposition-lawmakers-reject-proposed-new-cpmf-for-health-care.html>. Accessed December 12, 2010.

[17] International Monetary Fund (IMF). *A Fair and Substantial Contribution by the Financial Sector: Interim Report for the G-20.* June 2010. <http://news.bbc.co.uk/2/shared/bsp/hi/pdfs/2010_04_20_imf_g20_interim_report.pdf>. Accessed November 23, 2010.

[18] In currency trading, banks typically lay off risk by making side bets in equivalent values of different currencies to hedge the risk of a change in the currency's value. Each of these bets has a partner on the other end who will also be looking to lay off risk, so several transactions can be behind any net exchange of currencies between ultimate non-bank firms or individuals.

[19] International Monetary Fund (IMF), June 2010, op. cit.

idea of what the ratio of financial transactions to global GDP should be. If the financial sector is too large there are better ways to address this specific issue, such as by taxing wages and profits in the financial sector directly, as the IMF proposed to do through its Financial Activities Tax. Regarding the idea that a FTT would reorient financial transactions towards long-term productive investment and away from speculative bubbles, the FTT would eliminate some short-term trading, but it is difficult to distinguish desirable from undesirable short-term trading or to assess their relative importance. It is not clear that lower transaction costs worsen cyclical market price swings, as asset price bubbles occur in markets with high transaction costs, like real estate.

Regulation or targeted taxes would do a better job of discouraging specific kinds of short-term transactions. Regarding the idea that a FTT would reduce volatility, it is now generally recognized that transaction taxes do not always reduce volatility in theory (thinning markets can increase volatility) or in practice (in general transaction taxes either do not affect volatility or increase it). Regarding the idea that a FTT would not affect real investment and hedging, it would increase the capital costs for all firms issuing taxed securities, since investors require higher returns to compensate them for reduced liquidity (a FTT would reduce liquidity insofar as it reduced transaction volumes). The increase would be greatest for large corporations with the most frequently-traded securities. The IMF believes that these effects could have a significant long-term impact on wider economic performance.

The IMF's proposed alternative to the FTT, the Financial Activities Tax (FAT), is designed to address the costs of the financial crisis, not strictly to raise funds for development. The FAT would be levied on the sum of profits and remuneration (salaries) of financial institutions. This tax would approximate a tax on economic "rents" (profits from scarcity) in the financial sector. It would aim to be non-distorting and equitable. It would be a tax on value added in the financial sector (primarily made up of salaries and profits), and would offset the risk of the financial sector becoming unduly large as a result of existing tax policies that favor financial activities over non-financial ones. The larger a firm got, the more it would pay in taxes. In the UK a FAT might raise 0.1-0.2% of GDP. If the tax is levied on profits above some defined rate of return, then the tax would be on excess returns in the financial sector. Firms undervalue the losses suffered from bad outcomes because they expect the costs to be borne by others; since this measure would reduce the after-tax return from good outcomes it would mitigate excessive risk-taking that arises from the undervaluation of the cost of bad outcomes. A FAT would be straightforward to implement since it would draw on the practices of established taxes and current functions of most tax administration. A FAT would tend to reduce the size of the financial sector but with less uncertainty than a FTT (uncertainty with respect to the impact on the structure of financial markets, effectiveness of implementation, and incidence), and would not directly distort the activities of financial institutions. Precedents for taxing the sum of profits and remuneration exist in Israel, Quebec in Canada, Italy and France. The IMF sees the combination of a FAT and a financial sector levy (a fee that financial firms would pay to provision for the costs of supporting the financial sector, and to help reduce excessive risk-taking) as the best way of achieving the objectives of paying for the present and future financial crises.

Other criticisms of the FTT are that it is either undesirable or unenforceable. The Center for Economic and Policy Research refutes some of the arguments made against the FTT. Regarding the idea that the FTT will not reduce volatility, there is a mixed relationship between transaction taxes and volatility. The FTT will raise transaction costs and reduce the volume of trading. If arbitrageurs reduce trading due to the tax there will be larger gaps between prices in different financial markets that go uncorrected, which will increase volatility. However, higher trading volumes can increase volatility when traders follow the herd and act based on the behavior of other traders (noise volatility); so, in this case, reduced volume will reduce volatility. Research is thus mixed on the relationship between volatility and transaction costs. A FTT might reduce some kinds of volatility and increase others. The Center for Economic and Policy Research believes that a FTT would cause transaction costs and resultant volatility to return to 1980s levels. The effect will be larger on liquid assets, and smaller on less liquid assets that already have higher transaction costs. The greatest effect on liquidity will be in markets that are already the most liquid, but leaving them still quite liquid. The impact on trading volumes in markets that are less liquid will be smaller. Regarding the idea that a FTT will reduce market efficiency, lower trading volume could lead to less efficiency (except for noise trading) but the effect will be a return to 1980s levels. The market will be slower to respond to changes in market fundamentals.[20]

It is important to note that the idea of a return to 1980s levels of market volume and liquidity is not trivial. The world and the financial markets have changed dramatically since the 1980s, with the advent of computers and telecommunications, a universe of new financial products, and a globally integrated and interconnected economy that did not exist thirty years ago. While the financial markets functioned adequately in the 1980s, they functioned in a vastly different world. It is not clear that the clock can be turned back or that it should.

Other concerns regarding both FTT and CTT proposals include that market participants would move to other assets or jurisdictions not affected by the tax to avoid paying it. Consequently the tax would either have to be low enough that the cost of avoiding it by moving to other asset types would be higher than the tax itself. Or, other assets would need to be taxed up to the point where moving to them would not be advantageous. The FTT might benefit from international cooperation because otherwise market participants would have an incentive to move transactions to those jurisdictions where the tax was not applied. A mechanism similar to that employed in the UK Stamp Tax, in which a tax on securities must be paid in order to effectuate a legal transfer of the asset, would help mitigate this form of avoidance. The CTT could be implemented by any country on just transactions in its own currency worldwide. The Continuous Linked Settlement (CLS) bank centralizes wholesale foreign exchange transactions so it would be relatively difficult and expensive to avoid paying the tax.

The FTT has been raised at G20 gatherings and at the UN MDG summit in 2010, but has not made it into the outcome documents from any of those meetings. However, there is a possibility of future progress as many leaders have expressed interest in supporting a FTT. Nicolas Sarkozy said at the UN Summit on MDGs that he would press for an international agreement on FTTs during his term as G20 chair in 2011.

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[20] Baker, Dean. Responses to Criticisms of Taxes on Financial Speculation. Center for Economic and Policy Research. Washington, D.C. January, 2010. <http://www.cepr.net/documents/publications/ftt-criticisms-2010-01.pdf>. Accessed November 18, 2010.

Recommendations

- CTT/FTT can be implemented unilaterally but global cooperation would be more effective
- An international FTT should be implemented with an explicit development component
- Support domestic efforts to implement versions of the FTT building on experiences in various countries
- Support future FTT proposals brought before the G20

b) Carbon Tax

Concept, background and current status

The Zedillo Commission proposed that a Carbon Tax showed more promise than a Currency Transactions Tax. The Carbon Tax would have two ostensible goals, to reduce global warming and to raise revenue. It would create incentives to economize on the consumption of fossil fuels, guide producers to less damaging sources of fuels and stimulate scientific research to focus on the problem of saving energy. The Commission was unclear as to how the proportion of funds directed to ODA, Global Public Goods and retained by each country would be determined.

Carbon Taxes are an indirect tax on the carbon content of oil, coal and natural gas. They differ from energy taxes (Btu taxes), which tax the amount of energy consumed, or ad valorem taxes on final products like gasoline or heating fuel. A UN paper estimates that a tax of $21/ton of carbon would yield $125 billion annually.[21] It would help to reduce carbon emissions. Support for this tax has been growing since the 1992 UN Earth Summit. The tax would be collected as a value-added or sales tax by fuel vendors or customs agents. However, the tax would be regressive because poor groups spend more of their income on fuel; also it might increase pressure on firewood for fuel. The main obstacle to implementing a Carbon Tax is opposition by powerful global industries. States including Denmark, Finland, Germany, the Netherlands, Norway and Sweden have already levied energy/carbon taxes at the national level.

One alternative to the Carbon Tax would rely on traded pollution permits: Companies that can reduce pollution through relatively modest investments would do so and emit less than their pollution allotment; they could sell their excess to a firm that would rather pay for a permit to pollute above the allotment than make a relatively more expensive pollution control investment. Total pollution equals the amount allotted, with companies left to work out amongst themselves which ones reduce pollution more or less. A tax could be collected on the trade in pollution permits.

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[21] UN, General Assembly (2001). "Preparatory Committee f or the International Conference on Financing for Development". Technical Note No. 3: Existing Proposals for innovative sources of Finance, 20.

Leading proposals for climate legislation would set up a cap-and-trade scheme that relies on carbon markets to force a reduction in global warming pollution. But carbon trading — the buying and selling of permits and offset credits — is mainly derivatives trading.[22] Goldman Sachs projects that if the United States adopts cap-and-trade, trading volume could rise to more than 250 million carbon contracts per year — making it the third-largest commodity market in the world, after US interest rates and stock indexes.[23] Indeed, the Commodity Futures Trading Commission says that carbon could soon be the biggest derivative product on the market.[24] Many of these contracts will carry substantial risks because they include carbon credits from offset projects. Offset credits, issued to factories, power plants, and other potential sources of greenhouse gases for the amount of pollution they avoided emitting, are difficult to verify.[25] The intended purpose of a carbon market is to create financial incentives for reducing emissions by putting a price tag on carbon. But as carbon markets mature, we can expect them to be dominated by large financiers, as is the case with other commodity markets.[26] In fact, Goldman Sachs estimates that the global carbon market will trade at nine times the underlying permit value.[27] As investors who have little, if any, interest in the environmental integrity of the underpinning carbon permits overrun the market, they could create a bubble of subprime carbon credits — just like they did with mortgages in the housing bubble.[28] Subprime carbon credits based on shoddy offset projects won't yield real emissions reductions — so the environment suffers because economies fail to meet their greenhouse gas limits. And they run a high risk of collapsing in financial value, so they could affect the broader financial sector as well. Goldman Sachs projects that carbon contracts could turn over up to 80 times each year, resulting in up to 300,000 contracts each day in the United States alone and 1.5 million globally.[29] A financial speculation tax on each trade could slow down purely speculative activity in the carbon market. Ideally, it would be combined with other important regulations, such as requiring all carbon trades to occur on exchanges, restricting participation to end-users with a direct economic interest in carbon permits, and limiting offsets.[30]

[22] Friends of the Earth, "Subprime Carbon? Re-thinking the world's largest new derivatives market, "March 2009.
[23] Goldman Sachs, "Carbonomics: Measuring Impact of US Carbon Regulation on Select Industries," cited in Breakthrough Blog, August 7, 2009.
[24] Raphael Minder, "Regulator forecasts surge in emissions trading," *Financial Times*, March 10, 2008.
[25] Michelle Chan, "Ten Ways to Game the Carbon Market," Friends of the Earth, May 2010
[26] Friends of the Earth, "Note to Krugman: Carbon Markets Are a Different Beast."
[27] Goldman Sachs, August 2009, op. cit.
[28] Friends of the Earth, op. cit.
[29] Goldman Sachs, August 2009, op. cit.
[30] Michelle Chan, May 2010, op. cit.

Recommendations

- Support a Carbon Tax

- Where a cap-and trade policy is being implemented:

    - Support a tax on the trade in carbon and related derivatives markets
    - Support derivatives regulation that would require carbon trades to occur on exchanges, not over the counter or through other opaque transactions
    - Support efforts to restrict participants in carbon markets to those with a direct interest in carbon permits, i.e. limit speculation in the carbon markets

c) International Solidarity Levy on Airline Tickets

Concept, Background and Current Status

There are currently several different ideas for how to tax the international aviation market for the purposes of development, climate change, globalization etc., including: 1) International Solidarity Levy on Airline Tickets; 2) The Airline Ticket Solidarity Contribution; 3) an airport fee; and 4) user charges based on emissions. Each tax is somewhat dissimilar and funds raised from each would not all be dedicated specifically to development, as revenues from some of the taxes would be used to combat climate change, which is also related to the Carbon Tax.

1) International Solidarity Levy on Airline Tickets (mandatory airline ticket levy)

A ticket levy would put a surcharge on flights for the use of airspace, a global common good. Simple to implement, it would be collected by airlines. International laws already permit this levy. France and several other countries have implemented this tax. Norway has had a "green" levy on national flights for which there is a rail alternative and on international flights originating from Norway since 1995. Developing countries might oppose this tax as it might reduce tourism traffic. All funds raised are earmarked for UNITAID activities.

2) Airline Ticket Solidarity Contribution

This is a voluntary contribution which individuals or corporations elect to contribute to development when booking flights (also hotels, rental cars, etc.). It only involves private contributions and the money is earmarked for UNITAID activities.

3) Airport user fees

As in the ticket levy, the concept of user charges can be applied to the use of airports. These charges should be considered by the consumer or contributor as a means to invest in the provision of global public goods.[31] The Intergovernmental Panel on Climate Change (IPCC), German Advisory Council on Global Change (WBGU) and environmental lobbies are natural supporters.

[31] German Advisory Council on Global Change (WBGU). "Charging the Use of Global Commons: Special Report." 2002. <http://www.wbgu.de/wbgu_sn2002_engl.pdf>. Accessed November 14, 2010.

4) Charges based on carbon emissions

An emissions tax would be graduated based on environmental impact (a function of seats, capacity, and distance). One proposal advocates auctioning emission permits for polluting airspace.[32]

The main focus of this section is to highlight the International Solidarity Levy on Airline Tickets as it is the most prevalent of the ISF mechanisms and strongly committed to development through its efforts with UNITAID. The concept of imposing the International Solidarity Levy on Airline Tickets as an ISF mechanism is centered on the idea of taxing individuals who take off from airports in the specific countries that are implementing the policy, and then funneling the money to development projects, and in the case of the International Solidarity Levy on Airline Tickets, mostly to UNITAID. UNITAID is the United Nations international drug purchasing facility for medicines related to HIV/AIDS, Malaria and Tuberculosis and its primary objective is to guarantee access to these drugs through the negotiation of low cost and bulk purchases while also promoting the creation and mass production of specific drugs which are generally expensive or nonexistent.

Beginning in 2003, France's President Jacques Chirac tasked Jean Pierre Landau to lead the Technical Group on Innovative Financing Mechanisms, which led to the creation of the Landau Report in 2004. Following this and several other meetings, France along with several other nations (Algeria, Brazil, Chile, Germany, Spain, United Kingdom, and Norway) agreed to implement the International Solidarity Levy on Airline Tickets. In 2005, the proposition gained more popularity due to "the ease with which it can be implemented," as 79 nations supported the declaration of September 14, 2005 to further explore the tax and its benefits.[33] The cosigners included several nations involved in 2004, along with numerous others in the developed and developing worlds, such as: India, Luxembourg, Estonia, Sweden, Bangladesh, Bolivia, Cambodia, Chad, Madagascar, Uruguay, Gabon, Haiti, Turkey and Zimbabwe to mention a few. Also, 28 of the 47 African nations supported the declaration.[34]

Leading the movement, the first country to actually implement the tax was France, as the law was approved by Parliament and went into effect on July 1, 2006. The tax is imposed on all tickets on flights leaving from France. The tax rates vary depending on one's destination and type of ticket. The rates are as follows, €1 for economy class tickets and €10 for first and business class tickets on domestic and regional flights, along with a €4 to €40 charge on international flights, depending upon the ticket class. The tax was intended to raise some €200 million annually, and in 2009 it almost reached this benchmark as it accumulated €160 million with 90% of these funds dedicated to UNITAID.[35]

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[32] German Advisory Council on Global Change (WBGU). "Charging the Use of Global Commons: Special Report." 2002, op. cit.

[33] France Diplomatie. "Articles on an International Solidarity Contribution on Airline Tickets." 2006. <http://www.diplomatie.gouv.fr/en/IMG/pdf/argumentaires-eng.pdf>. Accessed November 16, 2010.

[34] Ibid.

[35] Leading Group on Innovating Financing for Development. "Globalizing Solidarity: The Case for Financial Levies: Report to the Committee of Experts to the Taskforce on International Financial Transactions and Development." 2010. <http://www.leadinggroup.org/IMG/pdf_Financement_innovants_web_def.pdf>. Accessed November 16, 2010.

The tax proposal was further strengthened at the 2006 international conference on "Solidarity and Globalization: Innovative Financing for Development and Against Pandemics," also headed by President Chirac. The meeting consisted of more than 100 nations, several international organizations and over 60 NGOs, and by the time it ended many other states had expressed their interest to follow in France's footsteps and implement the levy. Here 12 nations, many of which had been involved for some time, re-committed to implementing the tax. These countries were: Brazil, Chile, Congo, Cyprus, the Ivory Coast, France, Jordan, Luxembourg, Madagascar, Mauritius, Nicaragua and Norway. Of these nations and others; Brazil, Chile, the Ivory Coast, France, the Republic of Korea, Madagascar, Mauritius and Niger have all officially implemented the tax and completely or partially dedicate these funds to UNITAID.[36] Since 2006, the International Solidarity Levy on Airline Tickets has continued to expand as more nations adopt this model. In May of 2009, at a joint meeting of the Leading Group on Solidarity Levies to Fund Development and the High Level Taskforce on Innovative International Financing for Health Systems it was recommended that the compulsory solidarity levy on airline tickets be expanded and to explore the possibility of creating other solidarity levies on currency transactions and tobacco.[37]

Calls for further examination and development of the levy were expressed at the Declaration of Santiago Seventh Plenary Meeting of the Leading Group on Innovative Financing for Development in January of 2010 and the Fourth High-Level Dialogue on Financing for Development in March 2010.[38] Over the past two years, the International Solidarity Levy on Airline Tickets has been linked to climate change and the environment and has inspired other uses for airline tax revenues. In 2009, at the UN Climate Change Talks in Bonn, Germany, the world's 49 poorest countries, or Least Developed Countries (LCDs), expressed their interest in a levy to combat climate change, stating, "a modest levy could raise up to $10 billion (£6.8bn) a year and help countries in the frontline of climate change adapt to the intense floods, droughts, sea level rises and crop failures that poor nations are experiencing as a result of global warming."[39] They indicated that the UNITAID success with the mechanism was the source of their inspiration. Also in 2010, it was announced that the UN High-level Advisory Group on Climate Change Financing is preparing a report on the implementation of another airline ticket tax which could potentially raise some $100 billion a year to finance the mitigation of greenhouse gas emissions and the adaptation to climate change for developing nations. It was also rumored that the report will be published in time to be exhibited at the November 2010 Climate Talks in Cancun of the United Nations Framework Convention on Climate Change (UNFCCC).[40]

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[36] UNITAID. "Globalizing Solidarity: The Case for Financial Levies." 2010. <http://www.unitaid.eu/en/20100719270/News/The-Leading-Group-on-Innovative-Financing-2010-Report-to-the-Taskforce.html>. Accessed November 11, 2010.

[37] Lutes, Mark. "UN and International Financing Proposals: A Chronology." May 15, 2010. <http://www.un-ngls.org/IMG/pdf/WWF_-_UN_and_intl_Financing_initiatives_chronology_August_2010.pdf>. Accessed November 4, 2010.

[38] Lutes, Mark, May 2010, op cit.

[39] Vidal, John. "Poor Nations Call for 'Levy' on Air Tickets to Help Adapt to Climate Change." The Guardian UK. April 6, 2009. <http://www.guardian.co.uk/environment/2009/apr/06/aviation-climate-change-tax>. Accessed November 12, 2010.

[40] Greenair. "UN Climate Change Financing Report Set to Recommend International Aviation Tax to Help Developing Countries." October 25, 2010. <http://www.greenaironline.com/news.php?viewStory=952>. Accessed November 12, 2010.

Objectives in Implementing an Air Ticket Levy

The reasons to implement the International Solidarity Levy on Airline Tickets are simple. It is easy to do, it has seen a great deal of success, it supports development and cooperation between nations, and it provides a fairly stable source of funds. This section will highlight first the general objectives of why this tax was developed, and second what are the current objectives to achieve progress in the future.

The background and overall objectives include:

1) Produce more income for developing nations

To meet the needs of the developing world, alleviate poverty and realize the MDGs, an extra $50 billion per year is necessary outside of official ODA flows, and the creation of solidarity levies could supplement this needed funding. This additional aid should be focused on helping poor nations to fight poverty, including human development and infrastructure development-motivated projects.[41]

2) Produce more constant and foreseeable funds to meet the necessities of developing nations

This tax strives to make aid more predictable, maintaining poverty reduction, while expanding aid capacities. One of the most prominent problems with regard to international development aid is not only the quantitative battle, but one of predictability as well. The amount of money provided is crucial, but ODA's volatile nature oftentimes detracts from its quality. ODA is approved as a portion of countries' annual budgets, and is often unstable and erratic. This is a considerable issue as poor nations regularly depend on ODA for their development and if budgets are prepared on the basis of an unmet aid contribution, other inequalities can occur. Most recently, this lack of funding is plaguing poor countries as aid commitments dropped or were reneged on due to the financial crisis. Aid volatility directly inhibits development progress when delivery of expected funds is uncertain. As many airline flights take place daily, the taxing of airline tickets provides the security and long-term commitment that ODA fails to achieve. An ISF mechanism like an airline tax can provide nations with supplemental ODA funds, therefore allowing them to honor their commitments.[42]

3) Enforced nationally and organized internationally

As there is no current international authority to levy taxes, the International Solidarity Levy on Airline Tickets would serve as an international tax collaboration between nations. The tax could be specified as a succession of comparable national taxes where states agree on a distinct plan to allocate accrued revenues. Linkages between the recipients and the funders (developing and developed nations) would also strengthen, making the levy more authentic, popular and conventional. Again, this agreement between nations should be dedicated to funding socio-economic development work, should be focused on the participant desires and necessities, and should not replace other related and present efforts in the field.

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[41] France Diplomatie. "Articles on an International Solidarity Contribution on Airline Tickets." 2006. <http://www.diplomatie.gouv.fr/en/IMG/pdf/argumentaires-eng.pdf>. Accessed November 16, 2010.

[42] Leading Group on Innovative Financing for Development. "An Innovative Tool for Development." February 2009. <http://www.leadinggroup.org/article43.html>. Accessed November 12, 2010.

4) Regulation mechanism to promote partnership and equalize globalization

The tax should strive to diminish the difference between rich and poor nations, and promote solidarity, as destroying extreme poverty is a moral, economic and political priority for all countries. Each partaking nation's ability to contribute will directly depend on the country's economic status. Lastly, the levy should serve as a tool to make globalization more equitable, therefore reallocating money produced by globalization towards development projects, like those of UNITAID.

Reasons for future expansion and lobbying include:

1) Easy implementation

This instrument is fairly easy to implement, as seen from its progress thus far as an ISF mechanism. This ease creates a strong foundation on which to advocate with little opposition. The tax does not affect national tax autonomy, the price of the collection of funds is nominal, and finally would only require an increase in current air ticket charges.

2) Limited Economic Impact

The levy has minimal economic impacts on airline transport and unlike many ISF mechanisms can be implemented on a nation-by-nation basis. The tax also does not discriminate among airlines or different airports in a single country, as it is applied to anyone departing a certain country. Lastly, the charges are so insignificant, that avoiding the tax (e.g. flying out of another neighboring nation) has proven more difficult and expensive than simply paying it.

3) Flexible and Fair Mechanism

The levy has continuously striven to improve the distribution of the economic benefits from globalization. On an international level the ticket prices and tax rates have generally taken into account a nation's specific characteristics (e.g.: the size of the country, as the duration of a flight can differ between nations or regions, or the country's level of development). Nations can also choose how to spend the funds. Depending on their development status or their ability to meet their specific ODA requirements, some nations may decide to dedicate a portion to development and another portion to encourage tourism, for example, as declining tourism is cited as a possible negative aspect of the airline tax.

4) Past and Current Success

One of the easiest and most useful ways to maintain the current progress and promote enhanced output in the future is to continue to educate people and nations on the success of the solidarity levy thus far, and push for its implementation. Noting the impact it has had solely with France's implementation demonstrates that the levy is viable and produces real results.

Recommendations

The International Solidarity Levy on Airline Tickets is one of the most successful ISF mechanisms currently funding development work. The levy is an easy and viable option to create funding for development purposes.

The levy is successful because it:

- Provides a significant contribution to development, e.g. France's program generates around €200 million in additional resources for developing countries yearly;

- Promotes solidarity and a collective effort for nations to work together to make developmental gains;

- Is directly aimed at a certain goal, such as prioritizing public health; and

- Demonstrates a stable and long-term commitment to development, while supplementing ODA requirements

Advocates promoting the expansion of ISF mechanisms should use this as a key example of the potential benefits of ISF to development. Using the International Solidarity Levy on Airline Tickets as a selling point for ISF could prove beneficial to the creation and expansion of other ISF mechanisms, therefore promoting further research and improvement of mechanisms with the purpose of funding for other development and poverty reduction projects. Advocates should support those nations (Brazil, Chile, the Ivory Coast, France, the Republic of Korea, Madagascar, Mauritius and Niger) which have already implemented the tax for their effort and lobby towards the nations (Congo, Cyprus, Jordan, Luxembourg, Nicaragua and Norway) who re-committed to the tax at the Solidarity and Globalization: Innovative Financing for Development and Against Pandemics, but never imposed it. Focusing advocacy efforts on the 49 LDCs (which expressed interest on a tax to combat climate change at the 2009 UN Climate Change Talks) could also prove beneficial for further implementation of the tax, while also promoting dialog and taxation to combat global warming.

d) Arms Trade Tax

Concept and Background

The concept of taxing the international arms trade in order to earmark funds for international development aid is by no means a novel idea; it has been under discussion for at least the past 30 years, beginning with the Brandt Commission reports from the Independent Commission on International Development in the early 1980s. The commission proposed that an arms trade levy would have several benefits, including the reduction of arms sales due to the price increase, and developmental growth, as weapons constitute a financial impediment to development, and fuel conflicts.[43] The ideas expressed in the report were supported by several governments and NGOs, but there was also substantial resistance, as the issue lost steam. Former president Oscar Arias of Costa Rica was one of the biggest proponents of the tax and lobbied heavily on its behalf during the 1990s. Since then, few attempts have been made to implement an arms trade tax and it is rarely mentioned, although one measure that has not disappeared is one that addresses a moral component of the arms trade, namely the idea of 'compulsory third party liability insurance' to compensate the victims of small arms use.[44]

The objectives of an arms tax are varied, making it difficult to define or implement. Nevertheless, beyond its tangible economic implications and caveats, the tax could potentially raise billions of dollars which could be dedicated to development aid. Over the last decade there has been relatively little discussion of an arms tax, but since the UN will be discussing the arms trade in several Preparatory Committee (PrepCom)[45] meetings throughout 2011 leading up to the 2012 United Nations Conference on the Arms Trade Treaty (ATT), now could be an auspicious time to reintroduce the idea. To clarify the complexity and importance of this issue, the following section will highlight the specific reasons for developing such a tax and the opposition around it.

Potential Objectives of an Arms Tax

1. **The decline of the capacity and manufacture of arms trade via a price increase due to taxation.** As small weapons are generally quite cheap, the imposition of a tax could significantly raise prices and therefore foster a potential reduction of arms transactions which would theoretically diminish the prevalence and social cost of warfare. This price hike could also lower the volume of arms imports, saving governments funds which could then be dedicated to socio-economic development projects. This would all depend on the exact intention and ability of a government to carry out the taxation and allocate these resources to the appropriate places.

2. **Specifically using an arms trade tax as an ISF mechanism to raise funds for development.** The idea is to tax the arms trade, using this resulting capital to fund specific development or disarmament programs. Besides Arias' mentions of this concept, little tangible evidence or actual policies have arisen. In 2003, during the G8 summit Brazilian president Luiz Inácio Lula da Silva proposed an arms trade tax to combat not only the issue of weapons trade, but also of extreme hunger. Called "The Lula Tax," it was considered one of the only "concrete progressive proposals" made at the summit, which could, "prove advantageous from both an economic and an ethical standpoint.[46] Unfortunately, little attention was given to this proposal, as the G8 members essentially ignored it. This lack of consideration was surely due to the amount of money these 'most developed' countries spend

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[43] Brzoska, Michael. "Taxation of the Arms Trade: An Overview of the Issues." Paper prepared for the United Nations ad hoc Expert Group Meeting on Innovations in Mobilizing Global Resources for Development, 25-26 June 2001. <http://unpan1.un.org/intradoc/groups/public/documents/un/unpan000954.pdf>. Accessed November 2, 2010.
[44] Ibid.
[45] For up-to-date information on the meetings please check PrepCom's website, http://www.un.org/disarmament/convarms/ATTPrepCom/index.htm.
[46] Burrows, Gideon. "Arms and the Taxman." The Guardian. July 1, 2003. <http://www.guardian.co.uk/world/2003/jul/01/armstrade.g8>. Accessed November 4, 2010.

on arms. The G8 would essentially bear the majority of the tax burden as it accounts for more than 85% of the international arms trade, so it is logical that they would oppose this. Brazil by contrast is a middle income country that suffers high levels of inequality and poverty, along with large amounts of small arms trade and conflicts due to the drug trade. This type of tax could be potentially beneficial for a nation like Brazil on several levels.

3. **Earmarking funds collected to compensate the victims of arms trade and warfare, creating an obligatory insurance on weapons sales.** This objective was restricted to small arms, with the objective of raising capital and lowering the volume of sales. The goal is founded on the principle of causality, making the manufacturers and consumers of arms liable for their actions. This objective also has a high potential to fail completely or be unable to raise capital necessary to actually fund development work, as the small arms market is highly illicit and the imposition of a tax would only encourage the 'black market' trade. This will be further addressed in the following section.

Caveats Surrounding the Implementation of an Arms Tax

Trade Volume, Transparency and Price Issues

One of the most complex concerns surrounding the realization of an arms trade tax is the fact that neither the volume of sales nor the prospective returns that could be accumulated from such a levy have ever been calculated accurately. Secondly, attempts to gauge these figures would be highly problematic, as the vast majority of small arms sales occur on the black market, and it is difficult to be certain if governments importing and exporting weapons are reporting accurate figures when they trade larger arms and components. Due to these uncertainties, the proposal has lacked substantial international support, and to get governments and institutions interested or concerned it will be necessary to obtain accurate data.

Complicating the information and transparency issue further is the fact that there are several bodies reporting statistics on the arms trade, but none of them has definitive data. Some of the most recognized institutions attempting to track these figures are: 1) Standard International Trade Classification (SITC); 2) the Brussels Tariff Nomenclature (BTN); 3) the UN's Register of Conventional Arms/UN Offices for Disarmament Affairs (UNODA); 4) the US Department of State; 5) the Stockholm International Peace Research Institute (SIPRI); and 6) the International Monetary Fund. The economics of the arms market are not well understood and are dependent upon the supply of and demand for weapons; therefore, the amount of revenue an arms tax could generate is uncertain. To demonstrate the economic complexity of the arms trade, the following list provides information and statistics showing the differences reported in accounting, transparency and the quantity of money involved both in military expenditure, and the arms trade:

- SIPRI notes that world military expenditure reached $1.531 trillion in 2009, accounting for 2.7% of the global GDP in 2009, which was a 6% increase from the year before and a 49% increase since 2000. The world economic crisis had little effect on the arms market. Excepting the Middle East, in 2009 all regions of the world experienced increases in military expenditure. For example, Africa spent $27.4 billion, an increase of 6.5% from 2008, with Algeria, Angola, Nigeria, Libya, Sudan and Chad being some of the biggest spenders. The

Asia and Oceania region's spending increased by 8.9% in real terms to reach $276 billion. Europe's military expenditure reached $386 billion in 2009.[47]

- SIPRI reports that only three of the five 'largest arms exporters' officially reported their financial gains from 2008, those being France, Russia and the United States. The UK and Israel did not report, making it impossible to estimate the complete global arms trade value of 2008.[48]

- According to the UNODA's report on "Transparency of Military Expenditures," of the 53 African states, only 3 countries reported their numbers for military expenditure in 2010; of the 53 Asian group states, only 13 nations reported in 2010; of the 23 Eastern European countries, only 16 reported; only five of the 33 Latin American/Caribbean states reported; and 21 of 30 countries in Western Europe reported in 2010.[49]

- The US State Department's most current report, 'World Military Expenditures and Arm's Transfers 2005' estimates the worlds Military Expenditures, Armed Forces Expenditures, and the Central Government Expenditures (among others) from 1995 to 2005. It breaks each of these categories into regional sections. In 1995 the world spent $724 billion on Military Expenditures (total military expenditures), $22.8 million on Armed Forces Expenditures (expenditures on armed forces personnel) and $8.460 trillion on Central Government Expenditures (current and capital expenditures plus net lending to government enterprises, by central or federal governments).[50]

- In 2005, Dr. Michael Brzoska at the Institute for Peace Research and Security Policy at the University of Hamburg wrote that using an export tax of 10% (not accounting for deviations in price, volume and tax evasion from the use of an arms tax) the income from an arms tax would be in the neighborhood of US$ 3 billion for major weapons and US$ 5 billion for small arms and ammunition. From 1990 to 2000, international arms trade was valued around US$25-30 billion.[51]

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[47] Stockholm International Peace Research Institute (SIPRI). "SIPRI Yearbook 2010: Armaments, Disarmament and International Security." Chapter 5. Military Expenditure. 2010. <http://www.sipri.org/yearbook/2010/05>. Accessed November 10, 2010.
[48] Stockholm International Peace Research Institute (SIPRI), 2010, op.cit.
[49] United Nation's Offices for Disarmament Affairs (UNODA). "Objective Information on Military Matters: Transparency of Military Expenditures – Fact Sheet." 2010. <http://www.un.org/disarmament/convarms/Milex/Docs/2010-10-19_MILEX.pdf>. Accessed November 10, 2010.
[50] US Department of State. "World Military Expenditures and Arms Transfers 2005." 2005. <http://www.state.gov/t/avc/rls/rpt/wmeat/2005/index.htm>. Accessed November 10, 2010.
[51] Brzoska, Michael. "Taxation of the Arms Trade: An Overview of the Issues," op. cit.

Logistical Issues

Clearly there is a substantial amount of money involved in the arms trade. Taxing it could raise large amounts of capital for development; the challenge is in the logistics of assessing a tax.

Logistical difficulties include:

1. The arms market frequently involves exports from the developed world to the developing world and among developing countries, and the tax would in theory be borne by arms producers. With regard to funding development, such taxation could be appropriate, as often, arms exports are destructive and do not increase security. However some weapon's producing countries may not agree.

2. Who will pay the tax? Depending on the specific proposal, either the producer or consumer would pay or they would share the cost. If the consumers pay the tax, many of which are developing countries, then their total expenditures would likely increase, leaving less money for development and inhibiting the development process.[52]

3. Where would the tax be collected and by whom? It is likely that the tax would be imposed as the arms are exported, given that the nations usually have better facilities for taxing exports, as they require customs documentation. Fewer countries export arms than import them; it would be simpler to focus on a smaller number of countries.

4. Defining what constitutes a weapon and which types should be taxed is problematic. The UN for example classifies weapons as 'heavy' or 'light.' There are several munitions lists, such as the Wassenaar List and others maintained by the European Union and the United States. The United States Munitions List (USML) contains 20 specific categories of weapons from firearms, to military electronics, to spacecraft systems to submersible vessels.[53] To tax each category of weapons, a specific policy would need to be implemented. This is in addition to the difficulties of taxing the small arms trade as a significant part of it takes place in informal markets.

5. At what stage of production should a weapon be taxed? It might be taxed upon the creation of the final product, but this would require agreements to avoid double taxation as many components might be produced in different places.

6. From a moral standpoint, taxing the arms trade appears to be something very appealing, but the fundamental right of countries to import weapons for their self-defense is protected by the UN Charter, which accords the Right to Individual and Collective Self-Defense.[54] Even those countries that could benefit most from arms tax revenues or from

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[52] Brzoska, Michael. "Taxation of the Arms Trade: An Overview of the Issues," op. cit.

[53] Federation of American Scientists (FAS). "International Traffic in Arms Regulations: Part 121-The United States Munitions List." <http://www.fas.org/spp/starwars/offdocs/itar/p121.htm#C-XV>. Accessed November 15, 2010.

[54] United Nations. "Charter of the United Nations, Chapter VII: Action with Respect to Threats to the Peace, Breaches of the Peace, and Acts of Aggression." Article 51. June 26, 1945. <http://www.un.org/en/documents/charter/index.shtml>. Accessed November 15, 2010.

less violence might oppose the idea of an arms tax on the basis that it reduces their capacity for self-defense.

7. An arms tax might need to take into consideration existing subsidy mechanisms in the arms trade. Weapons subsidies are generally facilitated by the exporter and can be highly complex. They vary widely in form, but some examples include: 1) one government directly subsidizing weapons or their cost to an ally country; 2) indirectly subsidizing something unrelated in the purchasing nation, under the premise that they buy *x* amount of weapons from the subsidizing government or institution;[55] 3) exporting weapons using credit schemes with subsidized interest; or 4) technical support in the form of weapons training after purchase.

8. An arms trade tax would only produce revenues from and affect trade in the international trade in arms, this would stimulate and promote the domestic production of weapons. This might result in an outcome that is counterproductive to the tax's objectives of both raising revenues and reducing the quantity of arms produced.

Conformity Issues

In addition to the logistical and policy design problems listed in the last section, there are also compliance concerns.
Some conformity issues include:

1) There are various problems regarding the supply of weapons. Supplier governments would have little incentive to participate in an arms trade tax. To guarantee or promote their participation, there would need to be political and economic incentives, such as the benefits of socio-economic development to their country. Also, if all large suppliers of weapons are not involved and in agreement, the tax could also fail as a supplier nation that refuses to participate would have an advantage and could export at a cheaper price.

2) Illegal trade would be one of the most difficult factors to control, along with being one of the utmost negative effects of the implementation of an arms tax. The illegal arms trade is already an issue of international concern, without a tax. It is thought that the enactment of such a tax would encourage the illicit trade further, especially within the small arms markets. With regard to larger weapons, the tax could potentially work, as it is difficult to hide the sale and transfer of such large and expensive items.

3) Transparency and participation are two of the biggest issues plaguing the arms trade and the prospect of a tax. Without a higher degree of transparency in the arms market, participants will lack an incentive to endorse the tax, much less implement and enforce it. Stronger mechanisms to track and calculate the size of the market are necessary.

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[55] A nation may subsidize a project in another country, e.g. infrastructure, under the premise that they buy weapons in return. The British government funded the construction of the Pergau Dam in Malaysia under the agreement that the Malaysian government would purchase a British Hawk jet. A High Court ruled this as an illegitimate use of aid money in 1994.

In sum, the implementation of an arms tax seems highly unlikely given the number of logistical, economic and fundamental political problems as described in this paper, even when the objectives of the tax could potentially provide large amounts of aid funding, promote developmental growth and reduce the number of violent conflicts in the world. At the same time, this is not an issue that will be shortly forgotten, and at least from a moral point-of-view it will continue to be an important concern. This level of advocacy will be important in the upcoming two years, as PrepCom's holds its preliminary meetings in 2011 in preparation for the 2012 the United Nations Conference on the ATT.

However, one narrower proposal that advocates could potentially favor is a tax on trade in specific weapons, such as land mines. One can also imagine allocating general tax revenues or using FTT revenues for development projects that address the consequences of specific weapons, such as landmines, e.g.: funding de-mining programs and technology, and mine victim rehabilitation. This would be a relatively easy and coherent ISF mechanism to support and something worth reviving, as: 1) with the Mine Ban Treaty (or Ottawa Treaty) already established to slow and eventually stop the placement of mines, the money from the tax could support de-mining; 2) few people would morally object to this arrangement, as the extinction of landmines promotes health, economic and social benefits internationally, not to mention the amount of money which could be saved instead of spent on medical bills or rehabilitation costs; and 3) close to 100,000 mines are eliminated each year by the UN, although millions remain. The majority of nations which suffer the most from mines are poorer developing ones, while the producers of landmines are mostly larger developed countries and rarely experience the harmful effects of the mines, while also being the liveliest participants in the international arms trade.[56] Finally, focusing on one specific weapon or issue may prove most beneficial to those concerned about the international arms trade and ISF, and will still allow them to advocate later for a stronger and more defined dialogue around taxing arms trade.

Recommendations

- Inform people of the complexity and unrealistic nature of the tax, and therefore seek to identify and advocate for concrete proposals
- Attend PrepCom's meetings in 2011 & the UN Conference on the ATT in 2012
- Support the taxation of specific weapons (e.g. landmines)
- Support the use of other tax revenues to fund arms related development projects

[56] Collins, Robin. "Tobin Tax as a Mechanism to Finance De-mining, De-mining Technology Development and Mine Victim Rehabilitation: An Introduction to the Idea." October 3, 1996. <http://www.ncrb.unac.org/landmines/UNACinfo/tobin-tax.html>. Accessed November 16, 2010.

e) Tax Cooperation and Competition, Tax Havens, and an International Tax Organization

Introduction

"Tax is the most important, the most beneficial, and the most sustainable source of finance for development."[57] Action on tax has the potential to deliver gains to poor and middle-income countries that are far greater than what can be achieved with aid. As elites in developing countries move their capital to financial centers like New York, London and Zurich, their economies are deprived of local investment capital and their governments are deprived of much-needed tax revenue. Perversely, capital flows from poor countries to capital-rich countries. Sub-Saharan Africa is a net creditor to the rest of the world. At the Monterrey Consensus meeting (Conference on Financing for Development) in 2002, it was recognized that it was essential to mobilize domestic resources, i.e. tax, and the IMF, World Bank and OECD pledged to improve international cooperation on tax. One of the tangible outcomes of Monterrey was the decision of the UN General Assembly in December 2003 to upgrade the UN committee of Tax Experts. In August 2007, the U.N. Secretary-General issued a report to the General Assembly assessing the "path to Doha," a UN conference called to review implementation of the Monterrey Consensus. Like Tax Justice Network, we would highlight a couple of elements in that report:

"There is growing recognition that international cooperation in combating tax evasion is not only indispensable in the fight against international crime and terrorism, but also that such cooperation could actually constitute an innovative source of finance for development by reducing revenue leakage." (para 125)

and

"The United Nations should broaden and intensify its tax cooperation work and play a greater practical role in dealing with tax matters, including emerging issues that are not presently addressed in other organizations." (para 126)[58]

Tax Competition and Tax Cooperation

Concept, background and current status

Tax competition occurs when countries change their tax laws to make themselves more attractive to business, such that businesses are incentivized to relocate to take advantage of these laws. Other countries then are under pressure to change their laws similarly so as not to lose out on investment, jobs and tax revenue. Tax competition also includes the following (from Tax Justice Network):

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[57] "Aid, Tax, and Finance for Development." *Taxjustice*.net. <http://www.taxjustice.net/cms/front_content.php?idcat=104>. Accessed November 10, 2010.

[58] United Nations (UN). UN Report A/62/217. "Follow-up to and implementation of the outcome of the International Conference on Financing for Development." August 2007.

- Offering incentives to encourage the artificial relocation of transactions to a territory;
- The ring-fencing of taxation benefits from local populations (ensuring that tax benefits accrue only to foreign companies with no benefit to local populations);
- Encouraging the 'race to the bottom' in taxation rates;
- Refusal to share tax information with home authorities of foreign investors;
- Refusal to recognize tax evasion as a crime;
- Non-cooperation on the recovery of tax debt;
- Encouraging the non-taxation of capital.[59]

Tax competition is generally harmful, for several reasons. It short-circuits democratic (or other) domestic or local processes by which governments set their tax policies because governments must set tax policies to remain internationally competitive, even if such policies are not in a country's best interests. It results in the tax burden within countries being shifted away from corporate taxation in particular and towards other forms of tax whose burden falls disproportionately on the poor and the middle classes. Weaker states such as many in Africa are far less able to cope with the external pressures of tax competition, resulting in a lower revenue base, greater inequality, greater dependence on foreign aid, and weaker accountability of government as a result of the shifting tax burden.

Claims are often made that co-operating or coordinating tax policies between states involves "surrendering national sovereignty." This claim is fallacious. While countries trying to adapt to tax competition individually do indeed have exclusive legal control over tax policy, in practice this autonomy is a mirage, because unfettered tax competition removes states' actual capacity to design their tax systems according to national political preferences. Cooperation on taxation allows states to achieve negotiated solutions through democratic channels. Cooperation on taxation does not necessarily mean harmonization. In the EU efforts are under way to coordinate tax policies.

Ultimately, the answer to the problem of tax competition is to set up a framework of rules to protect national tax bases, giving electorates more freedom to be able to achieve the tax systems they feel are right for their countries. This has to happen on a truly global level. The fundamental components of this would be international co-operation and transparency.

Tax cooperation requires the following (from Tax Justice Network):

- Automatic information exchange on income earned in one country attributable to a taxpayer in another country;
- The sharing of data to ensure tax is properly assessed e.g. on transfer pricing issues[60];

[59] "Tax Justice Positive 4: Tax Cooperation." *Taxresearch.org.uk.* 10 January 2007. <http://www.taxresearch.org.uk/Blog/2007/01/10/tax-justice-positive-4-tax-cooperation/>. Accessed October 20, 2010.

[60] Multinational Enterprises (MNEs) pose particular difficulties for revenue administrations in determining income and expenses that arise in different jurisdictions, and how and where to tax them. Countries need to reconcile their right to tax profits arising within their jurisdiction with the need to avoid double taxation of the same items in other jurisdictions. Making this determination is impeded by difficulties in obtaining data outside their own jurisdiction. One of the main difficulties is determining appropriate transfer prices (prices at which an enterprise transfers

- An assumption that all income is taxable giving rise to cooperation to tackle tax arbitrage;
- A broad-based intolerance of states that will not cooperate on taxation matters;
- Cooperation on international tax collection;
- Development, where appropriate, of international bases of taxation to assist mutual tax collection.[61]

One goal to aim for would be the automatic exchange of tax information between jurisdictions, preventing national élites from escaping their responsibilities and leaving poorer sections of society to shoulder the burden of taxation. This would almost certainly require some form of global institution to protect the integrity of the system.

Another proposal to counter the effects of tax competition are to set up county-by-country reporting requirements using international financial reporting standards for companies. International businesses could be taxed on a unitary or consolidated basis, so that national tax authorities treat related entities (such as subsidiaries of transnational corporations) as a single unit, with consolidated accounts, combining all the activities of the firm and eliminating internal transactions between its various parts. The resulting unitary tax base would then be apportioned between states on a formula based on the proportion of real business done in that state. Each state could still apply its own rate of tax (although it might be desirable to limit the differences.) This would stop companies from manipulating transfer pricing or conducting fictitious activities through shell companies in tax havens (and many other tax dodging techniques) that prevent developed and developing countries from taxing international businesses effectively.[62]

Recommendations

- Promote tax cooperation through international agreement on norms as might be proposed by the UN tax committee

- Promote automatic exchange of tax information between jurisdictions

Tax Havens

Concept, background and current status

Tax Havens involve losses to revenue authorities of other countries. Tax havens include Bahrain, Cayman Islands, Jersey, Singapore and others; but also some of the world's biggest financial centers – notably the City of London and New York – are tax havens. Tax havens hold trillions

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goods/property/services to associated enterprises) which determine the taxable profits of associated enterprises in different jurisdictions. Internationally, a change to a transfer price in one jurisdiction implies that the change should also be made in the other jurisdiction to avoid double taxation on the same part of the company's profits [or letting more profits escape taxation]. To minimize the risk of such double taxation an international consensus is needed on how to establish transfer prices on cross-border transactions for tax purposes. (OECD Transfer Pricing Guidelines 2009)

[61] "Tax Justice positive 4: Tax cooperation." *Taxresearch.org.uk* 10 January 2007. <http://www.taxresearch.org.uk/Blog/2007/01/10/tax-justice-positive-4-tax-cooperation/>. Accessed October 20, 2010.

[62] "Tax Wars: International Tax Co-operation and Competition." *Taxjustice.net.* <http://www.taxjustice.net/cms/front_content.php?idcat=102>. Accessed November 14, 2010.

of dollars in untaxed deposits. This is a global subsidy to wealthy people with no efficiency justification. In the US alone, proposed legislation in the Congress to close tax loopholes that allow overseas tax havens could raise up to $100 billion per year.[63]

Developing countries are estimated to lose to tax havens almost three times the amount they receive from developed countries in aid. Oxfam estimates that developing countries miss out on up to $124 billion every year in lost income from offshore assets held in tax havens.[64] Fighting tax evasion requires cooperation between developed and developing countries, and greater transparency in cross-border financial transactions. Developing countries often lack the resources to build effective tax systems. Citizens may be unwilling to pay on the grounds that governments misuse the funds, or simply because they can get away with it. It can be difficult to implement fair taxation in low-income, agrarian economies. And the poor are often subject to an equivalent of tax, in bribes and informal fees. An African Tax Administration Forum is being developed under the leadership of Botswana, Cameroon, Ghana, Nigeria, Rwanda, South Africa and Uganda. By inviting governments to share good practices, it aims to improve service delivery and taxpayer education. Success will increase accountability, strengthen democracy and combat corruption. Aid targeted at capacity building in revenue administrations is money well spent. For example, donor support to the Rwanda Revenue Authority brought a dramatic increase in tax revenue, from 9% of GDP in 1998 to 14.7% in 2005, with an equally significant effect on state accountability.[65]

Recommendations

- Target aid towards building capacity in revenue administrations

- We recommend the following proposals of the Tax Justice Network:

    - "A multilateral approach on common standards to define the tax base to minimize avoidance opportunities for both TNCs and international investors
    - A multilateral agreement to allow states to tax multinationals on a global unitary basis, with appropriate mechanisms to allocate tax revenues internationally. A global tax authority could be set up with the prime objective of ensuring that national tax systems do not have negative global implications
    - Standards on payment of taxation in host countries should join environmental and labor standards as part of the corporate responsibility agenda. Standards requiring TNCs to refrain from harmful tax avoidance and evasion should be factored into official and voluntary codes of conduct for TNCs and for the tax planning industry
    - A multilateral agreement to share information on tax administration to help countries, especially poorer ones, to stem tax evasion"[66]

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63 Sarah Anderson, Chuck Collins, Scott Klinger, Janet Redman, and Kevin Shih. Taxing the Wall Street Casino. Institute for Policy Studies. Washington, DC. 2010

64 "Aid, Tax, and Finance for Development." *Taxjustice*.net. <http://www.taxjustice.net/cms/front_content.php?idcat=104>. Accessed November 11, 2010.

65 Angel Gurría, The global dodgers. The Guardian. November 27 2008. Cited in http://taxjustice.blogspot.com/2008/11/return-of-cavalry.html

66 Oxfam. "Tax Havens: Releasing the Hidden Billions for Poverty Eradication." Oxfam International. June 1, 2000. <http://www.taxjustice.net/cms/upload/pdf/oxfam_paper_-_final_version__06_00.pdf>.

International Tax Organization

Concept, background and current status

The UN Committee of Tax Experts became a standing Committee of Experts following the Monterrey UN conference on Financing for Development held in Monterrey, Mexico, in 2002, recognizing the key importance of taxation for providing self-sustaining resources for developing countries. But this upgrade was a relatively minor change, falling far short of the original proposal in the Zedillo report for an International Tax Organization. [67]

The Zedillo Commission recommended that the International Conference on Financing for Development consider an International Tax Organization (ITO). If the ITO could curb tax evasion and tax competition, the beneficial consequences would include an increase in the proportion of taxes paid by dishonest taxpayers and mobile factors of production (such as capital); it would also result in an increase in taxes collected at given tax rates.

The Zedillo Commission recommended that an ITO would: compile statistics, identify trends and problems, present reports, provide technical assistance and develop international norms for tax policy and administration; maintain surveillance of tax developments; take a lead role in restraining tax competition designed to attract multinationals with excessive and unwise incentives; develop procedures for arbitration when frictions develop between countries on tax questions; sponsor a mechanism for sharing of tax information, to curb the scope for evasion of taxes on investment incomes earned abroad; and develop and secure international agreement on a formula for the unitary taxation of multinationals. The only item on the above list that is not already being carried out by OECD is the last point, to develop proposals for unitary taxation. This idea was firmly rejected by OECD.[68] However, only OECD members participate in these activities, an ITO would enable broader international engagement and participation. Globalization has undermined the territoriality principle on which traditional tax codes are based. Developing countries would benefit from technical assistance in tax administration, tax information sharing to permit the taxation of flight capital, unitary taxation to thwart the misuse of transfer pricing, and the taxation of emigrant income.

The U.N. Proposed Code of Conduct on Cooperation in Combating International Tax Evasion has recently pushed for greater transparency of financial information[69] and in 2009 the UN Commission on the International Monetary and Financial System (the Stiglitz Commission) recommended the acceptance by all countries of an amendment of Article 26 of the U.N. Model Tax Treaty to make the exchange of information automatic.[70] While changing a clause in the Model Treaty does not change any actual treaty, it serves to recommend a better norm when countries negotiate these treaties.

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[67] "UN Tax Committee: Why it Matters. *Tax Justice Network.* October 30, 2008. <http://taxjustice.blogspot.com/2008/10/un-tax-committee-why-it-matters-uk.html>. Accessed October 26, 2010.

[68] Frances Horner. "Do We Need an International Tax Organization?" Tax Analysts. October 2001.

[69] U.N. "Note by the Secretariat: Proposed Code of Conduct on Cooperation in Combating International Tax Evasion." October 2009.

[70] U.N. Recommendations by the Commission of Experts of the President of the General Assembly on reforms of the international monetary and financial system. March 2009.

Recommendations

- Support the creation of an International Tax Organization as a permanent body to promote tax cooperation and monitor implementation of agreed policies and recommended norms. While it is not in itself a source of financing for development it would help developing countries retain more tax revenue currently lost to tax havens, assist in tax cooperation and help reduce tax competition

2) Debt Related ISF: Debt Relief Mechanisms

Concept and Background

External debt acquired by developing nations from developed world governments, banks and bond buyers, and international financial institutions (e.g., the World Bank, the International Monetary Fund (IMF) and development banks such as the African Development Bank (AfDB)) can be a very positive but also a negative factor in the growth of poor nations. The problem is when governments over borrow (and creditors over lend), often out of over-optimistic expectations on their ability to service the debt as payments come due. Or, what appears to be a sustainable level of debt can change to an excessive one after an economic shock, such as a hurricane that wipes out a country's tourism industry. Often the accrued debt of a country is so high that its government is simply unable to repay it. In Africa for example, high debt stocks and high interest rates have joined with increasingly adverse terms of trade to make debt service unmanageable for many countries since the 1980s. The causes of external debt crises result from many factors and are by no means new issues, but part of relationships between the rich and poor, east and west, and north and south.[71] Some of the most common factors contributing to external debt are: 1) odious debt, debt accrued by nations during times of political strife, such as a dictatorship, which often has to be repaid by the state; 2) mismanagement of funds and spending by governments; and 3) loans founded upon structural adjustment program requirements that are often hard for poor nations to maintain.

There are fundamentally two approaches to easing and preventing debt crises: ameliorating already excessive debt levels and offering financial flows on less onerous terms. The international strategy for the heavily indebted poor countries sought to reduce the debt burden of a selection of low-income countries and a number of middle-income countries reduced their debt burdens through debt renegotiations. In response to the current global crisis, several new forms of official financing were organized by the IMF and World Bank, some of them highly concessional. The question has been raised, however, whether ISF mechanisms might also contribute to the legitimate international credit needs of developing countries without heightening the risks of accumulating too much debt. Many organizations and institutions such as the Leading Group on FfD and Jubilee USA Network are working hard on debt problems and ISF.

In a 2005 UN panel discussion on, "Promoting Innovative Sources of Financing for Development: What Role for Parliaments?," organized by the Inter-Parliamentary Union (IPU) and the United Nations Department for Economic and Social Affairs, it was stated that "the whole issue of innovative sources of financing must be dealt with relative to the all-important issues of debt and trade," but also warned that ISF cannot solely solve debt issues "as long as the cost of debt repayments and servicing remains vastly unaffordable to the economies of poor countries."[72] It will take a combination of creative ISF mechanisms, such as debt swaps, along

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[71] Jubilee USA Network. "How it All Began." Jubilee USA Network Website. <http://www.jubileeusa.org/resources/debt-resources/beginners-guide-to-debt/how-it-all-began.html>. Accessed November 13, 2010.
[72] United Nations (UN). "Promoting Innovative Sources of Financing for Development: What Role for Parliaments?" A Panel Discussion with Members of the Parliament Organized by the Inter-Parliamentary Union (IPU) in

with fair and reasonable restructuring of the current loan agreements between the lenders and debtors, to reduce debts to sustainable levels.

This section will highlight three ISF mechanisms intended to combat debt concerns in the developing world. Two of these mechanisms, Special Drawing Rights (SDRs) and the sale of IMF gold, are both currently being discussed and considered as potential ISF mechanisms in the international development community. This section will explain each mechanism in detail, along with their current progress and criticisms. The third mechanism, Debt2Health Swaps, demonstrates an ISF debt relief mechanism which is already in progress, emphasizing it as a model for other ISF debt related tools. The background, effects, critiques and current status will be reviewed. Lastly, the section will conclude with recommendations and considerations for advocates.

a) Debt2Health

Debt2Health is an ISF initiative of the Global Fund to Fight HIV/AIDS, Tuberculosis and Malaria in the developing world. The purpose of the program is to channel resources of indebted nations away from debt repayment and towards social development, like lifesaving investments in health.[73] The Global Fund is a global public/private partnership (between governments, civil society, the private sector and affected communities) dedicated to attracting and disbursing additional resources to prevent and treat HIV/AIDS, Tuberculosis and Malaria. Since its creation in 2002, the Global fund has become the main source of finance for programs to fight HIV/AIDS, Tuberculosis and Malaria, with approved funding of US $19.3 billion for more than 572 programs in 144 countries.[74] Based on the success of a feasibility study on debt conversion and its potential to generate hundreds of millions of dollars in debt relief, the Global Fund approved a two-year pilot program (in Indonesia, Kenya, Pakistan and Peru) which led to the program's inception.[75] Debt2Health has proven very successful to the Global Fund and the nations involved.

Debt2Health is founded on the notion of debt swaps (or debt conversion). The United Nations Development Program (UNDP) defines a debt swap as "the cancelation of external debt in exchange for the debtor government's commitment to mobilize domestic resources (local currency or another asset) for an agreed purpose."[76] To create Debt2Health agreements, the Global Fund initiates the motion, classifying and negotiating the debt conversion and assists in a three-party agreement among the creditors, the recipient nation and the Global Fund itself. Once a settlement is reached, donor nations (or institutions) relinquish a portion of their debt claim under the condition that the indebted nation invests a certain portion of these funds in health

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Cooperation with the United Nations Department for Economic and Social Affairs (Financing for Development Office). June 10, 2005. <http://www.ipu.org/un-e/panel100605.pdf>. Accessed November 8, 2010.

[73] The Global Fund. "Debt2Health, Basic Information: Fact Sheet." June 2009. <http://www.theglobalfund.org/documents/innovativefinancing/Factsheet_d2h_en.pdf >. Accessed November 7, 2010.

[74] The Global Fund. "About the Global Fund." Who We Are, The Global Fund Website. <http://www.theglobalfund.org/en/about/?lang=en>. Accessed November 15, 2010.

[75] The Global Fund. "Debt2Health, Basic Information: Fact Sheet," op. cit.

[76] United Nations Programme on HIV/AIDS (UNAIDS). "Debt-for-AIDS Swaps: A UNAIDS Policy Information Brief." 2004. <http://data.unaids.org/publications/irc-pub06/jc1020-debt4aids_en.pdf>. Accessed November 10, 2010.

related programs of the Global Fund. Therefore donor governments cancel a portion of debt owed by the indebted nation and then some of these funds are paid to the Global Fund, which are later distributed back through the same tools and principles as its other grants to the recipient nation.[77] Additionally, the domestic funds resulting from the debt conversion are not to be drawn from health expenditures; i.e., they must be additional resources. This provides supplementary money for health, while holding the beneficiary accountable and involved in earmarking these funds to healthcare. Once on the ground, the Global Fund relies on and encourages local participation at all levels of the project.[78]

Overall the Global Fund's main role in facilitating Debt2Health is to:

- Facilitate the financial arrangements between creditors and beneficiaries;
- Provide sound technical review through the Technical Review Panel (TRP);
- Ensure the proper use of funds, through auditing and results monitoring;
- Assure quality implementation through performance-based funding;
- Ensure proper use of funds, through audit and target monitoring;
- Report on results to creditors and the Global Fund Board.[79]

One of the most impressive outcomes of the Debt2Health initiative is the logistical framework in which it is being carried out. For the first time in history, debt conversion is being applied through three-way agreements, overseen by a multilateral organization. This structure not only promotes tangible results, but supports the Paris Declaration on Aid Effectiveness and aid harmonization between nations. The program also promotes local participation and ownership as recipient nations convert themselves into donors to the Global Fund.[80] In 2007, Germany was the first country to join Debt2Health and has committed $290.2 million for 2008-2010. Under the agreement with Germany and Indonesia, $72.6 million have already been allocated by the Global Fund for HIV services and public health in Indonesia.[81] Since then, in 2008 Germany signed a second agreement with Pakistan to cancel €40 million and dedicate €20 million to the Global Fund. Most recently, in 2009 Australia signed on as the Global Fund's second creditor, offering Debt2Health AUS$75 million to Indonesia to benefit tuberculosis programs.[82]

Since the inception of Debt2Health, much progress has been made, along with little complaint or opposition. Debt2Health represents an innovative approach to financing health and cancelling debt in the developing world. It also promotes multilateral cooperation to strengthen the international community. Using the debt swap process, funds that normally would have been earmarked to repay debts can be invested in socio-economic development projects like health in the developing world, supporting the goals of ISF and FfD. It is also benefits developed donor nations, as they can use this swap as a contribution to aid quotas, while recovering some of their debt claims, increasing political visibility with regard to international public health, and

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[77] Leading Group on Innovative Financing for Development. "The Global Fund and Innovative Financing." <http://www.leadinggroup.org/article375.html>. Accessed November 5, 2010.
[78] Ibid.
[79] Ibid.
[80] Ibid.
[81] Ibid.
[82] The Global Fund. "Debt2Health, Basic Information: Fact Sheet," op. cit.

promoting solidarity between the developed and developing worlds.[83] With continued cooperation between all parties and further advocacy internationally, the Debt2Health initiative will continue to flourish. Using the Debt2Health program as an example may further the progress and acceptance of ISF.

Recommendations

- Promote Debt2Health as an example of ISF 'best practice'

- Advocate for participation and growth of additional countries and projects in Debt2Health

b) Special Drawing Rights (SDR)

Special Drawing Rights (SDR) are international foreign exchange reserves (established in 1969) allocated to nations by the International Monetary Fund (IMF) which supplement member countries' official reserves and represent a claim to freely usable member currencies for which they can be exchanged. Since SDRs are not backed by assets and are created cost free by IMF, it has been argued that SDRs could be used as an ISF approach to combat financial crises (especially for the poor), as a counter-crisis allocation would provide an increase to the global money supply when most needed. When introduced, SDRs were valued at 0.888671 grams of gold, which was then equal to one US Dollar. Today, SDRs are based on a basket of four international currencies (US Dollar, Japanese Yen, British Pound and Euro) and can be exchanged for freely usable currencies.[84] SDR values in US Dollar amounts are posted daily and calculated by the average of the four currencies on the basis of exchange rates.[85] SDR interest rates are calculated weekly and built on a weighted average of representative interest rates on short-range debt in the money markets of the four currencies.[86]

SDRs are distributed to IMF member nations in proportion to their quotas, which are determined based on the countries' economic size. A nation's quota also regulates their voting power in the IMF and monetary contributions. The allocation of SDRs is determined by the IMF, usually by consensus. SDRs have only been distributed three times since their inception, once from 1970 – 1972, secondly from 1979 – 1981 and thirdly in 2009, injecting $250 billion into the world economy and increasing global liquidity.[87] The allocation process of SDRs has been a topic of continuous conversation since their inception. It has been argued that the allocation process originally created two principle problems: 1) Agreement to allocate SDRs depends on approval by developed country IMF members holding too much power due to the size of their quotas (e.g.: the United States holds about 17%); and 2) as more than one-fifth of IMF members joined after

[83] The Global Fund. "Debt2Health: The Debt Conversion Initiative of the Global Fund." <http://aidsalliance.3cdn.net/9d38aa9b63a2f6ff71_q0m6vq0ta.pdf>. Accessed November 4, 2010.
[84] The International Monetary Fund (IMF). "Special Drawing Rights – Factsheet." September 29, 2010. <http://www.imf.org/external/np/exr/facts/sdr.HTM>. Accessed November 14, 2010.
[85] Ibid.
[86] Ibid.
[87] Ibid.

1981, none of the new members had been allocated SDRs. In fact, the latter problem was solved as part of the 2009 allocation as a special allocation was added to the general one.[88]

Once allocated, SDRs are held in reserve in a country's IMF account. Once traded for currency, the country issuing the currency receives the traded SDRs and is able to collect interest on its holdings of SDRs beyond its normal allocation. Use of SDRs requires no policy conditions, unlike IMF loans, and therefore has been seen as a desirable means to support developing nations having debt or financial problems. There is one limitation, however, as governments must pay interest annually on the converted SDRs which brought their balance below their approved distributions. Nations are bound to pay interest until the currency is converted back into SDRs. Nevertheless, due to the recent financial crisis, interest rates have remained very low.

As SDRs are reserve assets owned by central banks, new allocations make countries more creditworthy. However, they can only be used in exchanges with other central banks, IMF and a very limited number of other international institutions. Therefore, several poor nations and organizations (e.g.: ActionAid and the Third World Network) are lobbying for a new and development focused allocation where these assets would favor countries most-in-need and which could be used for development projects or to relieve debt.[89]

Many civil society organizations are calling for additional allocations, some at regular intervals and others during times of crisis. This special need could be determined by gaps in nations' resources, like healthcare, housing, education and food.[90] Proposals also include the idea of 'reversible' or 'temporary' SDRs. These types of SDRs take into account the different levels of development or problems a nation seeking allocations actually face. The idea here is to issue additional no-cost SDRs to low-income nations and larger quantities of 'reversible' SDRs to middle-income nations in times of crisis. These would then expire when the crisis concludes and would be specifically dedicated to crisis situations, allowing middle-income nations to avoid conventional loans that generate additional debt.[91] "The proposal made by the G77-plus-China at the 2009 UN Conference on the World Financial and Economic Crisis and Its Impact on Development called for $100 billion worth of SDRs to be allocated by the IMF to low-income countries at no cost to them, while another $800 billion in temporary SDRs would be issued to middle-income countries. This could enable countries to pursue a quick, counter-cyclical 'quantitative easing' - stimulating the economy by lowering interest rates to near zero - at the global level at low cost, which is exactly what many individual rich countries have done."[92] Another proposal has been for the developed nations with the highest quotas to shift their

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[88] Although the special allocation had been approved by the IMF's Governors in 1997, implementation required an amendment to the Articles of Agreement of the Fund, which in turn required approval by three fifths of the member governments accounting for 85% of votes. The special allocation was thus held up until the US Congress finally approved the amendment in 2009 (see IMF. "General and Special SDR Allocations." September 09, 2009. <http://www.imf.org/external/np/tre/sdr/proposal/2009/0709.htm>.

[89] ActionAid. "ActionAid Factsheet: Special Drawing Rights (SDRs) & the Global Reserve System." 2009. <http://www.actionaid.org/assets/pdf/ActionAid%20Factsheet%20Special%20Drawing%20Rights%20%20the%20Global%20Reserve%20System.pdf>. Accessed November 7, 2010.

[90] Third World Network (TWN). "Using SDRs to Finance Development." *Soren Ambrose* and *Bhumika Muchhala*. Third World Resurgence No. 234. February 2010. pp 23-25. <http://www.twnside.org.sg/title2/resurgence/2010/234/cover05.htm>. Accessed November 2, 2010.

[91] Ibid.

[92] Ibid.

allocations of SDRs to IMF, which would create a new fund to hold them, where they could then transfer the SDRs to nations in need, in other words, "calling for wealthy countries to transfer their SDRs to those with greater need for the resources."[93] Alternatively, others propose to create a more equitable system to actually allocate SDRs to developing nations.

Beyond the positive theoretical advantages SDRs could provide to poor countries, such as repaying debt, there are several caveats surrounding the issue outside the problem of reaching decisions to allocate more of them. These issues include: 1) at times when interest rates are high, the cost of use can be expensive and adds to further debt; 2) a new policy would need to be adopted to allow rich countries to "donate" them; 3) all countries count their SDRs as assets, reducing their willingness to transfer them, even when they do not actually need them; and 4) critics claim that using SDRs to combat financial crisis could make inflation rise. All of these negative factors are considerable and real issues the SDR reallocation process would have to face.

Currently the fight for the reallocation for SDRs is still a huge issue under dialogue in the international development community, especially in the context of ISF and FfD. On June 3, 2010, ECOSOC held an informal event on innovative sources of development finance with Philippe Douste-Blazy and other experts and during the event it was concluded that "Special Drawing Rights (SDRs) can supplement aid and provide global public goods. New SDR allocations, which will not involve direct costs to developed countries, could be directed primarily to the Heavily Indebted Poor Countries (HIPCs) in order to enable them to reduce their debt burdens independently of creditors' conditionality. An annual issue of SDRs at an upper limit of 10% of combined quotas would yield SDR 20 billion and, if used for development finance, with developed countries donating their shares, would yield $25-30 billion in additional development finance."[94] The movement for the reallocation of SDRs is by no means impossible to achieve, but will take continued support and progress from the international development community for actual changes to occur. At the 2010 G20 meeting in Seoul, South Korea, the restructuring of the quota system was discussed and the ministers came to an agreement on a proposed reform draft, which will "shift country representation at the IMF toward large, dynamic emerging market and developing countries."[95] This process and dialog will continue into 2014. Further concrete decisions will take time and continuous pressure from civil society and governments.[96]

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[93] ActionAid. "ActionAid Factsheet," op. cid.

[94] United Nations Economic and Social Council (ECOSOC). "Informal Event on Innovative Sources of Development Finance: Concept Note." May 17, 2010. <http://www.un.org/esa/ffd/events/2010innovfinance/ConceptNote.pdf>. Accessed November 1, 2010.

[95] International Monetary Fund (IMF). "IMF Survey: G-20 Ministers Agree 'Historic' Reforms in IMF Governance." October 23, 2010. <http://www.imf.org/external/pubs/ft/survey/so/2010/new102310a.htm>. Accessed November 25, 2010.

[96] G20 Seoul Summit 2010. "The Seoul Summit Document: Framework for Strong, Sustainable and balanced Growth." <http://www.financialtaskforce.org/wp-content/uploads/2010/11/Seoul_Summit_Document.pdf>. Accessed December 2, 2010.

c) International Monetary Fund (IMF) Gold Sales

The IMF is the third largest holder of gold after Germany and the United States, and currently holds 93.8 million ounces of gold, valued on its books in August 2010 at $5.6 billion but with a market value of $109.6 billion.[97] Upon its inception in 1944, the IMF acquired gold through its Articles of Agreement, to serve as reserves. At that moment, the world was following the gold exchange standard as the US dollar was pegged to gold and member nations' currencies were pegged to the dollar under the Bretton Woods System.[98] In 1971, the gold standard collapsed, but the IMF decided to retain the gold for any unseen future problems. In reality, the IMF has no use for this gold, although some think that it provides fundamental strength to the IMF's balance sheet. However, on the balance sheet it is a relatively small amount compared to the IMF's $606.7 billion in total resources or its $464.4 billion in "usable" resources (i.e., hard currencies).[99]

The concept of using IMF gold reserves for development is not a new idea, as between 1976 and 1980, $3.3 billion of IMF gold sales were used to create a trust fund to finance concessional loans to poor nations. In 1999, the board approved the sale of some of its gold reserves to fund IMF participation in the HIPC initiative.[100] In recent years, dialogue in the international community surrounding the sale of IMF gold with the intent to provide debt relief to the developing world has grown considerably. However, there are some logistical problems that would have to be sorted out. By its Articles of Agreement (IMF, 1945), particularly Articles IV and V, the IMF may receive gold from countries in settlement of obligations, but it cannot lend gold as part of its stabilization programs. Nor can it lease, swap or use its gold as collateral. The IMF cannot revalue its gold without selling it, and an 85% vote of the membership is required to authorize such a sale.[101] Also, the United States holds over 15% of IMF votes (a veto) and Congressional approval is necessary to sell the gold reserves, making this more difficult. Were the IMF to sell its stock of gold rapidly in order to generate money to meet an international financial crisis, it would depress the world price for gold and diminish the value of the gold held by countries in their reserves or offered for sale by gold-exporting countries, including a number of developing countries. The various IMF gold sales that have been made were phased over time so as to disrupt the international gold market as little as possible.

For years, international civil society organizations have lobbied for the use of IMF gold as a debt workout mechanism. This massively undervalued and idle resource could potentially be converted into productive use and help to abolish the multilateral debt of the poorest nations. For example, IMF gold could also be used to set up a new trust fund to expand the lending and grant-making capacity of the highly concessional International Development Association's (IDA) at the World Bank. Also, according to several NGO studies, the gold market could absorb the sale

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[97] IMF Factsheet, "Gold in the IMF." September 2010. <http://www.imf.org/external/np/exr/facts/gold.htm>. Accessed October 15, 2010.
[98] United Nations Economic Commission for Africa (UNECA). "Africa and the Global Financial Crisis: Towards a 'Just Bargain' at the G20 Summit." A Background Paper for the April 2, 2009 G20 Summit in London. March 2009. <http://www.un.org/esa/ffd/events/2010GAWGFC/3/paper3.pdf>. Accessed November 8, 2010.
[99] IMF Factsheet, September 2010, op. cit.
[100] United Nations Economic Commission for Africa (UNECA). "Africa and the Global Financial Crisis," op. cid.
[101] Ibid.

of large quantities of gold, avoiding negative consequences, as long as sales are conducted transparently and over a long duration of time, for example over 20 years.[102]

In 2005, a huge hurdle was overcome as the IMF (for the first time) released a new paper recognizing the viability of the gold sale proposal. The paper stated that it is conceivable to sell large quantities of gold on the open market without impacting the world gold prices. It also mentioned that sales could be managed under the Central Bank Gold Agreement (CBGA), in which European central banks that wish to sell gold seek to minimize market disruption through planned and announced sales programs.[103] The paper asserted that the IMF Articles of Agreement make it possible to sell gold at market prices with the intention to cancel indebted countries' financial responsibilities to IMF. From this achievement, civil society organizations organized to promote the following objectives which are still being lobbied currently. These include:

- The phased sale of all of the IMF's gold reserves in the framework of the Central Bank Gold Agreement to fund debt cancellation for impoverished nations;
- Resources from these gold sales should be used to support the cancellation of IMF debts of all those countries which are unable to meet the MDGs by 2015;
- The proceeds of these gold sales should be used not just to cover debts owed to the IMF, but other debts as well.[104]

The question of political will is also limiting the prospects of moving the proposal forward, and little has been achieved since 2005. The US government has sought to block any deals on all IMF gold sales, even despite three statements in 2008 from Guyana, South Africa and Tanzania (all gold-producing and developing nations) in support of the proposal.[105] In 2009, ActionAid stated that, "about $5 billion could be realized from the sale of IMF gold and this would be sufficient to provide 100% relief of debt service from 2009 to 2012 for all countries that have gone through the International Financial Institutions (IFIs) debt program, plus those that are in the middle of qualifying, and a further eight that have not entered but are eligible."[106] In 2009 before the G20 Summit, UNECA released a list of current (and some older) reasons to lobby for the consideration of gold sales, including: 1) emergency situations; 2) gold prices have risen

[102] European Network on Debt and Development (EURODAD). "Sell IMF Gold to Cancel the Debt: Decision Time is Now." April 13, 2005. <http://www.eurodad.org/uploadedFiles/Whats_New/Reports/Eurodad%20Policy_Brief_on_IMF_Gold_Paper.pdf>. Accessed November 2, 2010.

[103] World Gold Council. "Government Affairs: Central Bank Gold Agreements, The Third Central Bank Gols Agreement (CBGA3). <http://www.gold.org/government_affairs/reserve_asset_management/central_bank_gold_agreements/>. Accessed December 3, 2010.

[104] European Network on Debt and Development (EURODAD). "Sell IMF Gold to Cancel the Debt: Decision Time is Now," op. cit.

[105] Hurley, Gail. "Some Non-G8 Governments Trying to Unstich the Deal at the IMF Board – What the Communique Says and What Civil Society Groups Say." EURODAD Report: G8 Plan More of the Same. 2008. <http://www.awid.org/eng/Issues-and-Analysis/Library/EURODAD-Report-G8-Debt-Plan-more-of-the-same>. Accessed November 14, 2010.

[106] ActionAid. "A Stimulus package for Developing Countries: ActionAid Factsheet," op. cit.

significantly in recent years; 3) there is no budgetary cost to advanced nations; and 4) selling IMF gold establishes a conversion of an idle supply into a dynamic resource.[107]

To much surprise, the continued efforts by civil society proved somewhat effective, as world leaders at the G20 Summit on April 2, 2009 agreed to sell $6 billion in gold reserves to fund poor nations over the next three years.[108] The balance of the gold profits was earmarked for the IMF's administrative budget. Unfortunately, this proposal was vague and required further discussion and clarification, and due to the Communiqué and the Executive Board's inability to agree on a consensus to use the gold sales for developing nations, no progress was made, instead calling for a second paper to describe the viable options. Further progressed was delayed as the US Congress was slow to approve the agreement to allow US IMF members to agree to the proposal, but in June, 2010 authorization was approved to support the sale of 400 tons of the gold reserves.[109] Since then, the IMF has begun to sell gold to boost its lending resources, but these sales have not been focused towards development. The creation of a new development focused trust fund which low-income countries could draw from would support development, and advocates should recommend that the revenues should be funneled into such a fund. Finally, the movement to use IMF gold reserves as an ISF debt mechanism has gained much momentum over the past five years. Currently the proposal is favored to be implemented and dedicated to the poorest nations, but the actual amounts and allocation procedures are still undecided. Advocates should continue to push this agreement forward, while also insisting for a further and wider funding agenda that includes the sale of all IMF gold reserves dedicated to eradicating debt in the developing world and allows for payments to other multilateral creditors.

Recommendations for SDRs and IMF Gold Sales

Special Drawing Rights (SDRs) and IMF gold sales are currently both being discussed intensively by international civil society organizations as potential debt relief mechanisms and are under consideration of the IMF. At this moment it is undecided if and how these mechanisms will be applied and what their outcomes would be. Supporting both of these debt mechanisms is important to development progress. As mentioned, both these issues are currently stalled and under discussion at the IMF. Advocates of these proposals should:

- Support the regular and substantial distribution of SDRs
- Mandate that SDRs be targeted at low income nations to support their development
- Promote a wider agenda of IMF gold sales, focused in part on repaying external debt, especially multilateral payments

[107] United Nations Economic Commission for Africa (UNECA). "Africa and the Global Financial Crisis," op. cit.
[108] International Monetary Fund (IMF). Questions and Answers: IMF Resources and the G-20 Summit." February 11, 2010. <http://www.imf.org/external/np/exr/faq/sdrfaqs.htm>. Accessed November 11, 2010.
[109] European Network on Debt and Development (EURODAD). "Implementing the G20 Deal on IMF Drawing Rights and Gold Sales and the Review of Lending Facilities for Low-Income Countries." July 2009. <http://www.eurodad.org/uploadedFiles/Whats_New/News/Update%20on%20implementation%20of%20the%20G20%20deal%20for%20the%20IMF.pdf>. Accessed November 11, 2010.

- Encourage the creation of a trust fund using other proceeds from the gold sales to support the World Bank's International Development Association (IDA)

Conclusion

A lack of financial resources is one of the largest problems facing international development progress in the world today. This lack of financing increasingly hinders the advancement of the developing world, as often governments simply do not have the resources to focus money where nations most desperately need it, e.g. on health and education.[110] To combat these disparities, new ideas and mechanisms need to be explored and created, especially ones which favor developing and LDC economic, social and political development. Unmistakably, ODA is not sufficient, and generally lacks the stability to properly fund development projects. This by no means suggests that ODA funds are obsolete or unnecessary, but quite the contrary. ODA is imperative for developmental support, but at the same time recognition of its shortcomings is also crucial. Therefore, progress outside these boundaries must be made, highlighting the importance of ISF. At the same time, ISF mechanisms have to be created and conducted in a specific manner, and one contributes to development. To ensure this, the principles of ISF mechanisms should include the following characteristics: 1) Scaling-up; 2) Additionality; 3) Complementarity; and 4) Sustainability. If these mechanisms are not development focused, then it will contradict the purpose completely. This paper demonstrates several distinct approaches of ISF for Development (some more viable or conceptual than others), from the perspective of taxation and debt. These mechanisms and proposals include: 1) the Currency Transaction Tax (CTT) and the Financial Tax (FTT); 2) a Carbon Tax; 3) the International Solidarity Levy on Airline Tickets; 4) an Arms Trade Tax; 5) Tax Cooperation, Competition, Tax Havens and an International Tax Organization; 6) Debt2Health Swaps; 7) Special Drawing Rights (SDRs); and 8) IMF Gold Sales. This broad array demonstrates the diversity and creativity of ISF, while enlightening advocates of best practices and obstacles to consider in their work.

ISF is a topic of continued and intense dialogue in the international development arena, and until the resource gaps are minimized or abolished, the need for further financing will continue. "Going forward, the challenge is to restore healthy aid levels in the uncertain environment of the continued financial crisis, while finding new modalities that can complement official sources of aid and ones that can help ensure the biggest bang for each buck."[111] In the meantime, ISF will continue to be examined and implemented, while mobilizing resources and making positive contributions to development and poverty reduction. ISF is something all advocates of international development should support and participate in, as these ideas and mechanisms could potentially be the key to many of the development problems facing the world today.

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[111] The World Bank. "Innovative Finance for Development Solutions: Initiatives of the World Bank Group." 2010. <www.worldbank.org/innovativefinancing>. Accessed December 8, 2010.

Abbreviations

ADF	African Development Fund
AfDB	African Development Bank
AMC	Advanced Market Commitments
ATT	Arms Trade Treaty
BTN	Brussels Tariff Nomenclature
CBGA	Central Bank Gold Agreement
CLS	Continuous Linked Settlement
CTT	Currency Transactions Tax
ECOSOC	United Nations Economic and Social Council
FfD	Financing for Development
FAT	Financial Activities Tax
FST	Financial Speculation Tax
FTT	Financial Transactions Tax
FX	Foreign Exchange
G20	Group of 20
G8	Group of 8
GDP	Gross Domestic Product
GNP	Gross National Product
GPIA	Graduate Program in International Affairs
GPG	Global Public Goods
HIPCs	Heavily Indebted Poor Countries
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IFFIM	International Finance Facility for Immunisation
IMF	International Monetary Fund
IPCC	Intergovernmental Panel on Climate Change
IPU	Inter-Parliamentary Union
ISF	Innovative Sources of Financing (for Development)
ITO	International Tax Organization
LDC	Less Developed Country
MDGs	Millennium Development Goals
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
OOF	Other Official Flows
OTC	Over-The-Counter
PPP	Public-private Partnership
SDR	Special Drawing Rights
SITC	Standard International Trade Classification
SWIFT	Society for Worldwide Interbank Financial Communication

TRP	Technical Review Panel
TT	Tobin Tax
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
UNEP	United Nations Environment Programme
UNITAID	United Nations Agency that acquires drugs for HIV/AIDS, Malaria and Tuberculosis.
UNODA	UN Offices for Disarmament Affairs
USML	United States Munitions List
WBGU	German Advisory Council on Global Change
WFP	World Food Programme
WTO	World Trade Organization

Resources

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**We have drawn also drawn a large amount of our research from several NGO websites who work on ISF issues, such as: www.taxjustice.net, www.stampoutpoverty.org, http://robinhoodtax.org.uk/, www.theglobalfund.org and www.makefinancework.org

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