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Working Paper
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WIDER Research Paper, No. 2004/45

Provided in Cooperation with:
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Imminent Prospects for Additional Finance
What Might Be Done Now or Soon and Under What Conditions
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July 2004

Abstract

Some of the ways that have recently been discussed for increasing significantly the own resources of developing countries, or the amount or usefulness of the overseas aid that they receive, are potentially promising politically. This is because the obstacles that they face are those of inertia or prejudice or lack of appropriate institutional channels rather than any serious countervailing interest. Several of the most important candidates, and the institutional developments that might facilitate them, are explored.

Keywords: foreign aid, taxation, subsidies, revenue, international economic order

JEL classification: F35, H20, FO2
Author’s note

This paper is very largely informed by a consultation on ‘Feasible Additional Sources of Finance for Development’ held at Pocantico Conference Center (Tarrytown, New York), from 29-31 May 2003 and sponsored by the Carnegie Council on Ethics and International Affairs, the Friedrich-Ebert-Stiftung, the Financing for Development Office of the UN Department of Economic and Social Affairs, and the International Labour Organization. The judgements are those of the writer, but he has drawn considerably on contributions made at the meeting and on subsequent communications with the contributors that he received as its rapporteur.
1 Goals, resource needs, and eligible classes of device for meeting them

The Pocantico consultation on the ‘Feasible Additional Sources of Finance for Development’ worked on the presumption of a need to meet the Millennium Development Goals (MDGs). It followed the common suppositions that fulfilling these goals would be facilitated by any measures to increase the own resources of developing-country governments and people, but that it would also require additional external aid for a number of developing countries in total amounts possibly of the order of US$50-60 billion a year. It was concerned with ways by which extra resources might be made available to developing countries for this purpose by international action: either through additional official development assistance (ODA) or through making more own resources accessible to their governments and people. There was also an implicit assumption that, to have the best chance of approaching the goals, ODA needed, in one degree or another, to be coordinated among donors: coordination that might or might not extend to channelling the aid through international organizations.

It would ideally be preferable if aid were contributed by affluent-country governments according to some agreed schedule based on their capacity. This would be fairer than the possible alternatives; it might well be more reliable; and it would also be potentially more efficient on the donor side since the donor governments, in principle, could sacrifice for the purpose only the public and private activities that they considered as having lowest priority. It might also seem preferable if the aid contributions from various donors could be channelled multilaterally, so that these could be allocated according to a coherent plan. It is because there seems little hope that enough resources will be contributed in the near future from national budgets, let alone on an equitable schedule, or that the bulk of governments’ budgetary contributions will pass through international agencies, that we seek second-best alternatives: contributions raised in forms that are politically easier than budgetary contributions; and ODA which, although bilateral, is relatively coordinated, guaranteed, and predictable.

Particularly attractive, on grounds of political feasibility, would be methods of providing developing countries with either ODA or own resources, that cost little or nothing to the affluent states or even realized benefits for them.

Methods that cost little or nothing, or actually reap benefits for those that would have to implement them, may reasonably be expected to be ‘soft targets’ for those aspiring to realize more finance for development and welfare outlays in developing countries. There are important possibilities that meet this description. Prima facie, these might be the prime objects of campaigning: positive-sum ventures from which no-one—state, population, or significant interest—need detectably suffer, and all the more so if there is no well-entrenched ideological opposition present and no major upheaval required in the way in which things are done.

Then there are possible ways in which bilateral ODA, while not costing more to the donors than funds normally committed, might be made more coordinated, directed, and predictable. Here the main motive of any opposition is likely to be ‘managerial’: the interests of some senior politicians and bureaucrats rather than those of the populace at large or of any group of commercial producers.
There might next be transfers entailing costs, but costs only to willing donors. There is a tantalizing prospect, not altogether without exemplars, that some of the huge private fortunes from which only a fraction of the income is required to preserve a comfortable and secure life for their owners might be directed to third world development and welfare purposes. This perhaps is a matter not so much of campaigning as of seeing that appropriate instruments (institutions) are provided.

Then there is at least one method of raising finance directly for global disposition, that without a doubt has costs, but costs that are highly diffused. At the moment there is opposition—partly ideological, partly ill-informed, partly fed by genuine but remediable deficiencies in the stock of public knowledge about the device’s effects—that is probably conclusive against it for the immediate future. At the same time, it has a number of highly practical considerations in its favour. This might be held in reserve; made the subject of relevant research and information; and considered as a political possibility in, say, five or ten years’ time.

Important in helping the advance on any front will be an insistent sense of urgency, repeated reminders about obligations accepted, and challenges over finding ways of meeting them.

Finally, progress in these directions may be helped by a variety of institutional developments. Some of these can be fairly clearly visualized. Others are more in the nature of prescriptions that we have to find some way, so far not fully specified, of meeting. Among the developments needed, particular items may be capable of clear enough definition to be themselves the subject of campaigning.

2 Soft targets for increasing own resources

2.1 Regular annual issues of Special Drawing Rights (SDRs) by the IMF

Benefits of SDR allocations in themselves

The case for regular SDR allocations has been recently made by the Zedillo high-level panel (UN 2001), and by a senior member and a highly distinguished former member of the IMF staff (Clark and Polak 2002).

The characteristic of SDRs—that they carry for the holder an interest rate based on international short-term rates and that the original recipient pays interest at the same rate—means that, if and while they are held as international reserves, their net cost to the holder is for practical purposes nil. So their issue is not particularly relevant to countries that, in any case, can raise all the reserves that they need at rates of interest or opportunity cost that approximate to those that they will receive on their reserve holdings. But many developing countries will not be able to raise assets on such terms and will consequently incur higher rates of interest or opportunity cost than they will receive on the reserves held. SDRs provide them with a costless way of holding reserves. Mussa (1996: cited Clark and Polak 2002: 22) estimated that an allocation of SDR 36 billion would mean roughly SDR 1 billion per year in net benefits to developing countries. Regular annual allocations of this amount, Clark and Polak
argue, would be cumulative in their effect, giving for example SDR 10 billion per year of net benefits after 10 years.

The cost of these benefits, if the SDRs issued were added to reserves, would be arguably zero to the rest of the world. At most, it could be argued that the few reserve-currency countries would suffer a slight diminution in the rate at which their cheap borrowing from the rest of the world increased: not even an indisputable disadvantage for themselves, and certainly not one of which they could justly complain as the deprivation of a right. If the estimated benefits to the developing countries (say benefits of the order of US$10 billion a year after 10 years) resulted in extra import spending of the same amount each year, the increase would still be minuscule in relation to world trade, now of the order of an annual US$6.5 trillion. This extra spending might well activate unused resources, to that extent of “paying for itself”. Even if it did not, it could not rate as a detectable burden on the rest of the world. Moreover, the larger the reserves held, the less the risk to the international monetary and trade system in case of instability. In addition, therefore, owned reserves involve less risk than borrowed reserves (Clark and Polak 2002).

At Pocantico, mention was made of the four arguments that had been used by the US government in the early 1990s against further issues of SDRs:

— legal (the IMF Articles specify that any allocation should be needed to meet a ‘long-term global need … to supplement existing reserve assets’);
— moral (non-conditional benefits encourage bad policy);
— efficiency (only a part of any allocations goes to developing countries); and,
— historical (SDRs were designed for a quite different situation).

It was argued that, with the fortification provided by the Clark-Polak paper, all four objections could be met. A moral argument in favour of providing additional costless reserves was that the developed countries had increased monetary instability by pressing capital-account liberalization on developing countries, and this had led to an increase in developing countries’ demand for reserves in relation to imports.

Hitherto for a number of years, only France of the major economic powers has been in favour of regular allocations, though the UK is now said to be openminded about it. But there is no hard national or sectional interest against regular allocations. No one would suffer from them. Any ideological objections do not seem likely to be very firmly fixed. The habitual arguments against seem now to be readily answered.

**Benefits of transfers of surplus SDRs**

There is a possible by-product. George Soros (2002) has revived the idea that SDRs might be deliberately transferred as a way of increasing spending power for

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1 US administrations through recent decades have backed only the ill-fated allocation authorized in 1997, which, because of its special character—the IMF constitutional amendments attached to it—needed ratification in the US Congress, and failed to get it.
developing countries. His idea is that the affluent states, which would have no need for the SDRs that they would receive in regular allocations (because they could raise assets to use as reserves at rates of interest comparable to those that they would receive from holding the assets), should transfer their allocations of SDRs for use in development.

Nothing in the IMF Articles prohibits such a transfer. It seems perfectly possible, but there is a qualification which Soros apparently regards as trivial. This is that the original recipients of the SDRs transferred would continue to be liable to the IMF for the interest on them even though now receiving no balancing interest from the IMF. The implication of this is surely that whatever entities receive the SDRs so transferred should pay the original recipients (the authorities of the affluent countries) the interest on these assets corresponding to the amounts that the latter would still have to pay to the IMF. (To assume that these authorities would not require to be recompensed is equivalent to assuming that they would contribute the capital sums concerned as grants. If that were the case, there would be no need to invoke SDRs for the purpose.)

However the SDRs, even with the (low) rate of interest attached to their acquisition, would still be of value to any authority (i) that had debts that needed to be serviced at higher rates, or (ii) that needed still further reserves, which it would otherwise have to borrow at higher rates, or (iii) that had investment possibilities which promised a higher rate of return and could not otherwise be financed at a rate as low or lower. A fund could be endowed able to dispense loans (potentially termless at interest rates higher than the IDA rate but lower than that of the IBRD) which could be used to buy back more costly debts or simply to provide finance for further investment on very favourable terms. A large part of the debts of low-income countries, and especially of the heavily indebted poor countries (HIPC), would already be paying interest at rates too low to make an exchange for loans on these conditions worth undertaking. But in 1999 low-income countries, and even HIPCs, had a significant share of their debts (14 per cent for HIPCs, 29 per cent for all low-income countries) owed to private creditors (World Bank 2001: 2-4). The average rate of interest in that year on new loans from private creditors to low-income country governments is given as 7.1 per cent (World Bank 2001), while the SDR interest rate on average for the year is given as 3.4258 per cent (IFS 2002). If there were such a fund, it could also (costlessly) hold SDRs against global contingencies not directly connected with monetary instability. For example, guarantees might be given of markets for new drugs or vaccines that met certain requirements, and the reserve of, or financed by, SDRs would be available to meet the guarantee at short notice and at a low and predictable interest cost.

Those familiar with the behaviour of monetary authorities and the few other authorized holders of SDRs appear to regard an annual allocation of about SDR 20-35 billion in the purchasing power of the last decade as the most that the holders can confidently be expected to accept at face value. Of any allocation about 60 per cent (say SDR 12-20 billion) would go to affluent countries and potentially be ‘surplus’ for redistribution.

Yet, with these various qualifications, the course proposed by Soros seems a natural and easy by-product of potential value if regular allocations of SDRs are resumed. If providing extra financial resources to developing countries were immoral or unnecessary, this procedure would not be worth consideration. We are not, however, working on that presumption. Redistribution is a potential additional bonus arising
from regular SDR allocation. But it is important to maintain the case for regular allocations independently of any possibility of subsequent transfer.

2.2 International tax cooperation

There are a number of classes of cooperative move over taxation (well discussed and widely accepted) that can be broadly expected to reap more revenue for industrialized and developing countries alike.

The obstacles are (i) that certain (mostly small) states consider that they have an interest in perpetuating the weaknesses of the current systems; (ii) that some of the required measures of cooperation would demand a self-denying discipline on the part of a large number of states, when each individually might see advantages in breaking ranks so long as most of the others kept the rules; and (iii) that some advances would dictate major changes in tax practice and international integration of elements of tax administration.

Examples of desirable moves are:

— universal application of a withholding tax at source on portfolio income payable to non-residents (Avi-Yonah 2000: 1667-70);

— abandonment of all tax preferences to non-residents on income from production or headquarters within the jurisdiction (a result that might be achieved if all significant source-country authorities applied the credit principle to all income, and not only to dividend income, derived by their resident firms from investments abroad);

— agreeing on a unitary system for assessing the income of multinationals for corporate-tax purposes, and a simple objective method for dividing the tax base provided by each firm among the claimant jurisdictions (Tanzi 1995, hinted at in page 26 and chapter 7);

— introducing rules for sharing tax-related information among authorities; and to this end, even

— instituting an integrated system for registration of taxpayers.

It will be worthwhile working on all these projects and others. But the first of them—the universal withholding tax on portfolio income earned by non-residents—has large potential for reducing evasion, for increasing as a result the overall tax take (or as an alternative for allowing rates to be reduced), and for reducing or reversing evasion-motivated capital flight from developing countries. Since 1984, when the US abandoned income taxes on interest paid to non-resident non-citizens, and other major financial centres felt obliged to follow, there has been evidence of considerable movement of portfolio capital as a result from poorer countries to major centres, presumably motivated by the desire to evade tax in the owners’ countries of residence. Estimates in the order of US$30 billion a year have been made of the revenue losses to developing countries resulting from capital flight and the evasion that goes with it.
Moreover, progress in different forms towards agreement on plugging this loophole has been recently made in both the EU and the OECD (Avi-Yonah 2000: 1654-62). The two OECD countries opposing the OECD initiative failed in the end to veto it. The schemes vented are both limited in application. The EU scheme is confined to intra-EU tax relationships and to income accruing to individuals, while the OECD one is confined to financial and service earnings. But there is clearly potential for cooperation.

Though it would be ideal if all countries applied a withholding tax, a large part of the purpose would be achieved if the OECD countries alone complied. Small specialized tax havens could still offer to foreign owners of capital, opportunities of evasion of tax in the country of residence, but, insofar as deposit institutions in the small tax havens would have to rely for returns on lending into countries that were applying the withholding tax, their depositors would indirectly be taxed.

To be fully effective, the rate of withholding tax would be at least as high as the highest marginal rate that any state would be applying to its residents’ property income, but the level of the rate might be treated as a secondary matter.

Also a secondary, though a highly important, question is what would be done with the revenue from the withholding tax. Would it be simply retained by the taxing authority, or rebated in certain circumstances to the taxpayer, or shared with the country of residence? What course was taken could, of course, have a considerable impact on the net gain to those developing countries that were the taxpayers’ countries of residence. But, for the sake of an attack on a blatantly soft target, it might be expedient to aim first at a simple agreement to apply the withholding tax, even if only among the OECD countries, before trying to settle more difficult questions of tax principle and practice.

### 3 Making already promised bilateral ODA more coordinated, reliable, and consistent

The task here is to find devices for fixing donor countries’ financial commitments more firmly and binding the donors to a degree of coordination for the purpose of coherent pursuit of development and welfare goals. The prominent proposal now on the table for doing this, the International Finance Facility (IFF), has features that may prevent it from being adopted or may throw doubt on its value. But, having the support now of two major economic powers, it deserves to be kept afloat and adapted for the sake of the less front-page elements in its agenda.

#### 3.1 The International Finance Facility proposal

Propounded at the start of 2003 by the UK government and supported by France, the IFF is a scheme designed to build on the additional bilateral ODA commitments made at and after the Monterrey summit of early 2002. This would bind the donors together in a structure intended to encourage coordination among them in aid targeting, and
also to require their aid to be consistent and predictable well into the future. The reason or pretext for this is that it would enable them, through borrowing at triple-A rates, to bring forward a considerably larger annual flow of aid disbursements, averaging to around US$50 billion annually in present prices, over much of the period between now and 2015. These disbursements would be designed to provide the ODA element tentatively regarded as necessary for meeting the MDGs by 2015, with apparent concentration on the targets of universal primary education, reducing child mortality by two thirds, ‘tackling’ HIV/AIDS, and halving poverty (UK Treasury-DFID 2003: 1, 2). The disbursements would, of course, be combined with appropriate policies on governance, trade and investment.

The scheme as originally conceived requires a large preponderance of the OECD donors, including all the big ones, to make bankable commitments of ‘additional’ aid contributions, starting at around US$16 billion a year in total, and rising annually at 4 per cent in real terms, for 15 years ahead initially and then (probably every 3 years) for rolling 15-year periods, to finish 30 years or so into the future. The promise of steadily rising contributions over 30 years would make possible a large hump of disbursements over about 10 years ending in 2015. These would be financed by loans raised on the commercial markets, but the proceeds would be spent in, or transferred to, developing countries for the most part as grants. The committed additional aid contributions, continuing into the 2030s, would service the loans.

The projections presented suppose that the additional disbursements stop abruptly after 2015 (after which the donors continue paying in for a further 15 years or more in order to service the loans already made), but the implicit hope is that further arrangements would have been made by then, presumably involving yet more additional donor contributions, to avoid the disruption likely to follow from an abrupt fall in disbursements.

The new institution created would be conceived as a financial intermediary that would raise and service the loans on behalf of the donor governments. Each donor government would, subject to the rules agreed, choose the programmes or projects supported by the loans that its own commitments had made possible. Country and field operations might be assisted by an international organization such as the International Development Association.

By the middle of 2004 it seemed fair to say that only France and Britain of the donor countries were committed supporters of the scheme, with possible interest from Sweden. Doubt had been expressed whether the US could, in accord with constitutional practice, give the ‘legally binding commitments’ required.

Probably the importance of this proposal will lie not in its implementation as it was originally formulated but in what it brings onto the agenda. It aspires to create a novel institution for the purpose of seriously addressing in a coordinated fashion objectives such as the MDGs. Two members of the G7 have been affirming that they take the goals seriously enough to be prepared to make quantified commitments far into the future and have been challenging the other donors to find some institutional device for coordinating their efforts and rendering their contributions predictable. With the coordination, they have hoped to build in best aid practice (aid-quality evaluation, agreed conditionality, country-owned poverty reduction programmes) (HM Treasury-DFID 2003: 9). They are attempting to find a compromise between bilateral and
multilateral aid (to furnish bilateral aid with some of the advantages of multilateral),
leaving the donors with considerable discretion but inducing them to accept common
guidelines and practices and a degree of future commitment and to consult together as
in a common undertaking.

On present evidence it does not seem highly probable that the IFF will come into
being exactly as projected. What can reasonably be hoped is that the challenge to
adopt a target-based approach over bilateral ODA, with inter-donor coordination and
mutual commitment, will bear fruit in some form. The important thing for the
proponents may be to have fallback positions, so that the impetus behind the proposal
is not lost. Some donors might accept the terms of the proposal more or less as they
were originally put, while room might be made for others to take part under somewhat
different conditions.

The two main difficulties of the present proposal are, first, the demand for a rolling
15-year legally binding commitment, and, second, the awkward question of how the
apparently projected sharp fall in disbursements after 2015 could be avoided or
mitigated.

First, the legally binding commitment is needed only because the borrowing is
designed to be pooled, to be undertaken through a single multilateral institution. If
each donor simply issued loans on its own account for the purpose of bringing
forward any disbursements that needed to be brought forward (ahead of the donor
contributions that were financing them), then presumably there would be no need for
legislatures to pass acts to bind their successors. Once a reputable government issues a
loan, there is an implied obligation to service it without the passage of any special
legislation. These governments’ credit is good. If it is decided that the aid
disbursements need to be brought forward ahead of the donor commitments, then,
rather than agree to pay a certain share of the costs of servicing the loans raised by a
new institution for so many years into the future, the donor might simply undertake to
raise the corresponding loans itself. This would automatically imply an obligation to
service the loans.

On the face of it, there would be no greater difficulty in persuading a donor
government to agree to raise so much in loans at various dates (with the resulting
servicing obligations) than in persuading it to agree to meet a corresponding schedule
of servicing obligations when the borrower was a separate multilateral institution.
Whatever financial year-by-year commitments that the donors might hypothetically
be prepared to make under the IFF as propounded, they would presumably be
prepared to make exactly the same commitments as individual borrowers, through
raising the same volume of loans in aggregate. Presumably the rates of interest would
be no lower for the multilateral fund as borrower than for the individual governments.
In fact, insofar as the credit of individual donor governments would not be so
intimately involved in the loans raised by the multilateral fund as in the loans raised
by themselves, lenders might regard the individual governments as even safer
customers than the fund.

The proponents of the IFF perhaps hope, with the help of the intermediary fund, to
commit the donors’ financial contributions more firmly, at a higher level, or further
into the future, than they are likely to commit themselves individually. But it is hard
to see why this should be possible. Esprit de corps, peer pressure, might be invoked.
Yet it would seem just as possible for *esprit de corps* to be generated (for the making of individual commitments to a scheme of coordinated bilateral aid) *without* as *with* a new financial intermediary. The financial intermediary is apparently intended to be simply that, ‘not a development bank or aid agency’ (HM Treasury-DFID 2003: 14). Guidelines for selection of projects or programmes, and machinery for coordination, would be separate and would not seem to require, or to be entailed by, the financial intermediary.

The second problematic element is the apparently abrupt drop in aid after 2015. This is inherent in the logic of the borrowing scheme. If *all* the additional aid that donors can commit until the early 2030s is to be reserved for servicing loans called up by 2015, then disbursements must fall sharply after that date. If that is not intended, there should be a way of escape embodied in the financial projections. Can it really be the case that a (pretended or actual) commitment to a pattern of financial flows potentially disruptive to the recipients is necessary to generate or maintain either donor undertakings over contributions or donor coordination of programmes?

This leads to the question whether it might be better to abandon the prefixed 30-year borrowing and servicing schedule as an essential part of the scheme. Three elements of commitment on the part of donors seem to be unequivocally desirable: (i) a promised schedule of financial contributions (regardless of whether they will be used as direct aid or as servicing on loans disbursed earlier); (ii) a readiness to consider *together* (and in communication with other important actors, notably the developing countries) the use of the aid for meeting development targets; and (iii) a compact to observe certain agreed guidelines and practices in the aid.

How far it is appropriate to bring forward aid-financed development outlays through borrowing is surely a question to be decided pragmatically. There will be gains and losses from doing so. (It may be reasonable in general to suppose, as the proponents of the IFF implicitly do, that the ‘investments’ directed at the MDGs will have a higher marginal social rate of return than the rate of interest at which rich-country governments can raise loans. This would suggest that any borrowing to bring the investments forward is justified. But translating from this presumption to a judgement that a particular project justifies borrowing supposes that the selection of the project and the efficiency with which it is undertaken are close enough to optimal, and it also overlooks the stability issue. The particular pattern of spending projected, if it is taken seriously at face value, seems also to imply that investments in 2015 are discontinuously more productive than those in 2016.)

The target date of 2015 for the MDGs is a useful mobilizing device. But the risk of targets is that they may not only enhance effort but also distort choices. Time will not stop after 2015. Neither will the need for aid. Using a target year as a reason for projecting patterns of flow that risk significant micro and macro disruption seems a misuse of the convenient but arbitrary choice of a date.

Bilateral aid needs the firm financial commitments, the targeted donor cooperation, the agreed aid guidelines and practices, that are the objectives of the IFF. But the existence or not of the financial intermediary should be determined pragmatically. And the extent to which outlays are to be brought forward by borrowing should probably be decided with reference to year-to-year opportunity and need, rather than solely or predominantly by an arbitrarily fixed time-pattern.
4 Tapping private fortunes

A recent estimate (cited Stansfield 2002: 100) is that 57,000 fortunes of more than US$30 million each across the world have amounted in total to US$8.37 trillion. Annual income from such a sum, even in government securities, might be of the order of US$400 billion a year. If a minority share of the annual income from this wealth were devoted to development priorities, it could exceed many times all existing ODA flows. The great bulk of these fortunes are held not for their owners’ comfort, convenience or security but presumably for the sake of prestige, a sense of achievement, and power. Philanthropy may satisfy all these motives. And spending on certain kinds of objectives in poor countries can achieve especially large results per dollar in terms of young lives saved, families preserved, health and well-being, schooling, water-supply, for example. What seems to be lacking is some combination of appropriate channels, fiscal incentives, and (in the upshot) a fashion for this kind of giving.

For the channel, we appear to need some variant of the ‘multisectoral global funds’ that have recently become prominent (see Heimans 2003), such as the now quite numerous ‘alliances’ in the health field (see Stansfield 2002). The attraction of this form is its flexibility, its openness to giving a share of control or influence to important stakeholders of all descriptions, and its access at the same time to the highest technical expertise. An outstanding example of private philanthropy activated through such a fund is the contribution by the Bill and Melinda Gates Foundation of more than US$2 billion in total as of a date in 2002 to alliances for global health (Stansfield 2002: 94), much of it to the finance of the Global Alliance on Vaccination and Immunization (GAVI) in its work on the vaccination of children.

Likely a priori to be particularly attractive to very rich individuals who are not yet deeply involved in the causes concerned are highly specific undertakings with (i) objective quantitative results, with (ii) straightforward, reliable connections between inputs and outputs, and with (iii) a potential for momentous, visible achievements in years and decades rather than centuries. Vaccination programmes are an excellent example. The more seriously involved donors become, the less perhaps they will require these special characteristics.

Over fiscal incentives, there might be an agreement among the countries likely to shelter most of the large private fortunes that incentives given to donations for international development and welfare should at least be no less generous than those for domestic philanthropy. And there might be systematic research on what form of incentive is most likely to be effective.

There may be a tipping point beyond which big private contributions to development finance become a fashion. By whatever means, the important task is to reach that point.
A route, blocked mainly by ideology and history, to internationally disposable funds: the currency-transaction tax (CTT)

The case for a general currency transaction tax (CTT) as a global revenue instrument has been dogged by (i) the disputable grounds on which it was originally, and is now sometimes still, advocated; by (ii) past uncertainties about whether it could effectively be imposed; and by (iii) misrepresentation of its character on the part of those ideologically opposed to international organization. It has become clear over the last ten years that (i) its revenue uses can be distinguished, conceptually and practically, from the stabilization uses on the ground of which it was originally advocated; and that (ii) it can be easily and very cheaply implemented, given the cooperation of only a small number of national authorities, so that there is hope that the ideologically-motivated mythology surrounding it may within a few years be dispelled.

However, the case for applying it would be greatly strengthened if we had a clearer idea of the likely effect of a CTT at various relevant rates on the volume of the exchange transactions on which it is based. Considerable enlightenment on this question should be available within a few years given appropriate research on the currency markets. It would be possible now to apply a CTT at a very low rate experimentally and judge the effect of raising it by very small increments. Reasons based on beliefs about the routine practices of currency traders have been cited for thinking that a rate below say 0.02 per cent will have very little effect on the volume of transactions (Spahn 2002). But it would be good to have firmer knowledge.

So it might be reasonable to set sights for the introduction of a general CTT say five or ten years into the future, in the hope that in the meantime relevant knowledge will be increased and there will be more time for the misapprehensions, propagated most notably in the US Congress, to be dispelled.

It is very important that the case for a general CTT as a source of global revenue is not confused with any case for using a CTT for stabilization purposes. Whether—and if so to what extent—general reduction of currency transactions through making them more costly in any particular degree would increase currency stability, or whether it would have the opposite effect, is entirely controversial. From the viewpoint of advocacy of use of the tax for revenue, the most favourable finding about a particular level of general CTT would be that it had no effect on the volume of transactions.

It has been shown that there are potentially valuable uses for a CTT in stabilization, but these uses are highly specific to particular countries and circumstances. It is clear now that there are a number of governments that can apply them unilaterally; they will probably be temporary; and they will involve rates of tax many times as high as the highest that would be contemplated for global-revenue purposes (Spahn 1996, 2002; Schmidt 2001). The revenue and stabilization uses are chalk and cheese—analogous with the revenue and protective uses of an import duty, where the two uses dictate different tax structures and levels—but in this case there is no need for one use to get in the way of the other.

Unfortunately there is a body of analysis—and of favourable and unfavourable propaganda—that has confused the two issues. Separating them implies incidentally that we cannot reasonably use, as an argument for a global revenue CTT, the
assertion that by reducing currency transactions, it compensates for a negative externality.

However, if we could lay the historical and ideological ghosts, a CTT would have most of the political and administrative advantages that we could ask of an ideal source of global revenue. Currency transactions form a base for revenue so far untapped. Imposed by the method expounded by Schmidt (1999, 2001) the tax could apparently be collected in a watertight fashion at very low cost, given only the active cooperation of the five vehicle-currency authorities (the US, the ECB, Japan, UK, Switzerland) and an explicit readiness to cooperate on the part of, say, eight others. Its burden would be highly diffused, directly detectable only to certain financial institutions, and not systematically regressive in its distribution. None of the other forms of tax that have been suggested for coordinated global application has anything like this range of advantages. Given the negligible cost of its collection and the fact that the collectors would be few and the burden general, there could not be the slightest moral ground for its appropriation other than for global purposes. But there would clearly need to be some agreed machinery for applying it to this end. At 0.02 per cent it would very probably have little effect on the volume of transactions and therefore raise sums annually of the order of US$50-60 billion. At higher rates it might raise more, even much more. But it would be good to have stronger pointers about these possibilities.

And, to repeat, we probably have to see the CTT’s general introduction as a five-to-ten-year project.

6 A climate of urgency and commitment

It will be useful if certain simple targets, including certain numbers, can become fixed in the minds of a potentially concerned section of the public:

— that the MDGs exist;
— that they deal (at least) with two key diseases, with mother and child mortality, with schooling (universal primary, and equal for girls), with water and sanitation (under ‘environment’);
— that, out of a much bigger total investment required for the purpose, most of it coming from the countries in need, an extra US$50-60 billion a year ODA (as a best estimate) over recent levels is vital;
— that so far only about US$16 billion a year has been pledged to this end; hence much more is needed.

Advocacy of the IFF, or the Soros SDR scheme, or a revenue-CTT, if it brings these magnitudes to the surface, is of value independently of its chances of gaining immediate acceptance for the particular scheme it promotes. The key message is that funding has to be found and we must look for the best available way of finding it.
There also needs to be frequent reiteration of the amounts of extra commitments that governments have made, annualized with end-dates, and requests for information to encourage them to be specific.

Possible non-government methods of modest scale that could be pursued by the UN (a premium bond for primary schooling, say; a lottery for malaria; a UN credit card for water; an air-mile repository for rehydration doses) might help to keep in people’s minds the relationship between the objectives and the need for funding, even if by the standards of the need, they do not raise much. Education of the section of the public predisposed to be responsive might in these cases be the main objective.

7 Institutional requirements

The following four items spring out of the Pocantico discussion. They mention institutional needs associated with one or more of the channels of finance mentioned above. The specifications of some can be far more precise than those of others.

7.1 A vehicle or class of vehicles for attracting funding from private fortunes

We need a structure, or set of structures, that will provide a vehicle for attracting significant funds from large private fortunes into global development ventures. It remains to be seen whether the new style of multisector funds (such as the Global Fund to fight AIDS, Tuberculosis and Malaria, GFATM) involving potentially international / governmental / industry / foundation / NGO partnerships, provide an adequate model. It may be necessary for attracting private philanthropy to rely mainly on smaller funds than these big examples (running to tens of millions rather than billions) or to subdivide large funds so that a large donor can play the dominant part in financing some discrete venture. It is important to cater for the probable motivations of potential large benefactors at a time when they are not yet intimately concerned to any particular fund or venture. Because of the high stakes involved, the probability of attracting major philanthropists might be an important consideration when a fund is set up.

7.2 Acceptable machinery for managing and redirecting funds raised for undefined global purposes

Large sources of funds available for non-specific global purposes (such as a general revenue CTT might be, or surplus SDRs made available for development) require some mechanism by which they can be acceptably allocated to particular uses. If such sources are to be tapped, we need a governing framework for sources of revenue available for general global development purposes—an approved body charged on the world’s behalf with undertaking at least the first stage of administering the proceeds. If the sums were large (US$12 billion a year in low-interest loans from recycled SDRs, say; US$50 billion a year in grants from a CTT), the question of who would make the next allocative decision in the chain would inevitably become highly political. Simply giving the job to the UN Secretariat or the UNDP or the World Bank Group could be extremely controversial. It may be that a framework agreed at least in outline is needed before the political decisions to tap the source of funding can be
made. Like the Financing for Development process of 2000-02, it would probably need to involve the UN and the Washington multilaterals jointly. The World Bank Group might have the executive role, for example, with the UN General Assembly ultimately determining limits and guidelines on proposals from an inter-agency committee.

7.3 An organization, as well endowed and empowered as current politics will permit, to foster international tax cooperation

There are good reasons for thinking that international tax cooperation would proceed more effectively if there were a permanent international secretariat with a brief for promoting the negotiation necessary to pursue certain agreed objectives. This has been argued by Tanzi (1996) and by the Zedillo Panel (UN 2001). The main objectives need not be controversial: for example, reducing evasion and unintended avoidance and the loss of revenue through self-defeating competition to attract foreign investment, while at the same time promoting equity among tax authorities and administrative and allocative efficiency. With the arguable exception of equity, these are common concerns among governments, even if some of the small states have other objectives that they regard as of greater importance. An organization to further the process might be anything from a regular inter-governmental discussion to a high-powered secretariat serving a club-type intergovernmental organization with agreed rules of fiscal behaviour accepted by its members. In current international politics, an ‘international tax organization’ under that name is not yet on the agenda. But we might hope to have within the UN a modest entity as well equipped for the task as possible. A next step could be to upgrade the Ad Hoc Group of Experts on International Cooperation in Tax Matters by making it formally an intergovernmental body; holding its meetings more frequently, at least annually; and charging it with the strengthening of international tax cooperation, in particular blocking channels of evasion (as on offshore portfolio income), stopping harmful international tax competition, investigating the feasibility of mediation and arbitration procedures in international tax disputes, and exploring the possibility of a global unitary tax system applicable to internationally operating businesses. The subject appears now to be receiving serious consideration. It may be hoped that a better endowed and equipped organization will gradually be allowed to emerge.

7.4 A body to act as an informed socioeconomic conscience of the world community

The poor of the world—poor people and poor countries—carry little power and influence in global socioeconomic matters. The need to scour around for sources of funding, merely to top up domestic efforts, for such rudimentary objectives as the MDGs is a reflection of this weakness. The world officially adopts the goals but the distribution of power is such that little priority is put on meeting them. Discussion of any potential source of finance, however small in fact the net cost to anyone, is inclined to be met by the objections of inertia and ideological habit.

Neither the formal machinery of power in international organizations nor the underlying distribution of wealth and military strength can be readily shifted. But it may be possible, to a greater extent than at present, to stir the world’s conscience, and
its potential for at least mildly adventurous common sense, so that it can be brought to adopt practically feasible and effective measures in the interest of the poor.

There is arguably a need for a small designated group of highly respected people without current executive responsibilities (possibly for the most part former leading statesmen and stateswomen) with appropriate representation from rich and poor countries, adequately staffed at a high technical level, to act as an informed conscience of the world community in socioeconomic matters. The group would remind governments of the commitments they have made, pointing to the practical implications of international resolutions, emphasizing positive-sum possibilities, challenging the inertia that tends to beset established governments and bureaucracies when no interests that touch them immediately are at stake, and representing the interests of the weak. It could be formally given a consultative role and informally accredited with a public right to be heard. Its members would need to be visibly independent of governments and multilaterals. Finding a way of selecting them that would make this independence possible while also enabling them to be recognizably representative would present a challenge. Each of them might be chosen jointly by the governments of a section of the world. It would make obvious sense for each group of governments to choose someone of the highest intellectual and moral standing who was conversant with the problems of that part of the world. If regions of roughly equal population were represented, the group would be chosen more by the agents of poor nations than by those of the rich.

The hope might be to combine, in a standing body, the kind of achievements of the Brandt Commission, in altering consciousness and stirring consciences, and the Zedillo Panel, in drawing attention, with much sophisticated support, to a number of broadly positive sum initiatives requiring only a modicum of political courage and imagination.

8 Summary

At what points is it worthwhile directing effort?

First, as means of augmenting the own resources of developing countries, two classes of action can be regarded as soft targets: resumption of regular SDR allocations on the part of the IMF; and international tax cooperation, most immediately and fruitfully toward a universal withholding tax on non-resident portfolio income. Neither faces ideological opposition. The first entails no detectable cost to anyone. The second is of fiscal value to most developed—as well as most developing—countries. The first also offers the possibility of recycling surplus SDRs as termless, moderately low-interest loans for development purposes.

Second, the IFF proposal can possibly be kept alive and brought to some useful fruition if it is treated pragmatically and flexibly: strong on the elements of commitment and coordination, and light on the financial intermediary and the detail of the projected flows of the financial model.

Third, there is such huge potential in tapping private fortunes for development finance that the shapes of multisectoral global funds need to be crafted with a view to
attracting major private donors, and fiscal incentives revised, and if possible coordinated, to the same end.

Fourth, given a delay of five to ten years, it may be possible both to dispel the historical hangovers and misrepresentations surrounding a CTT and also to complete research that will give a much clearer idea than we have at the moment of the effect on the volume of transactions, and hence the revenue possibilities, of CTTs at various rates.

Fifth, it is important to produce and maintain a sense of urgency over fulfilling the MDGs, which can be done in part by maintaining debate over means of financing them, and to familiarize the interested public with certain key financial quantities required and committed.

Sixth, there are institutional developments that would facilitate, or even be essential to, the tapping of some of these sources.

References


