



## **NEW RESOURCES FOR DEVELOPMENT**

### **A CIDSE Background Note<sup>1</sup>, March 2005**

Five years after the Millennium Declaration, and 10 years from the 2015 target for the achievement of the Millennium Development Goals (MDGs), it is widely acknowledged that many countries will fail to reach them. To date donor countries have not made, and are still not making available, resources that are needed to reach the MDGs. According to the Sachs report<sup>2</sup> an additional amount of US\$ 70 - 130 billion per year<sup>3</sup> is required if the MDGs are to be achieved by 2015. World leaders need to take a serious look at the distribution of resources in the world today as a result of trade practice, flows of finance, patterns of labour remuneration, taxation and public spending.

Given the urgency of the situation CIDSE, a network of 15 Catholic development agencies from Europe and North America, has put forward a number of concrete and practical proposals for the achievement of these goals as a first step to the more equal distribution of global wealth, in particular:

- The cancellation of unsustainable debt based on debt sustainability assessments according to human development criteria, not merely according to economic criteria;
- The establishment of a Fair and Transparent Arbitration Procedure to arbitrate between creditors and debtors with unbearable debt burdens on the basis of shared responsibility and the rule of law;
- The reform of trade rules to make them fairer. In particular, introducing rules to end all forms of dumping, and to allow developing countries to support and protect crops essential for food security and sustainable rural development;
- The dedication of a minimum of 0.7% of GNI to development aid and improved aid quality;
- The implementation of global taxes, such as the currency transactions tax that has been adopted by the Belgian parliament, to generate additional finance for development;
- The abolition of tax havens and improved global tax coordination;
- The establishment of a more democratic and equitable system of global governance as power imbalances at the global level are a major obstacle to development and global equity.

### **0.7 % ODA should remain the primary target**

One of the key recommendations of the Sachs Report is that “each donor should reach 0.7% no later than 2015.”<sup>4</sup> Countries of the Organisation for Economic Cooperation and Development (OECD) must make it a

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<sup>1</sup> This note has been prepared by members of the CIDSE Working Group on Resources for Development. The analysis and proposals presented in this paper do not necessarily reflect the views of all CIDSE members.

<sup>2</sup> Sachs, J.D. Investing in development, a practical plan to achieve the Millennium Development Goals. UN Millennium Project. New York, 2005

<sup>3</sup> Accordingly, the need for a total ODA of 135 billion USD in 2006 and for a progressive increase up to 195 billion USD in 2015.

<sup>4</sup> Sachs, J.D. Investing in development, a practical plan to achieve the Millennium Development Goals. UN Millennium Project. New York, 2005. Overview, p.xvi.

priority to devise measurable timelines and concrete annual budgetary commitments to increase aid in line with their 35-year-old commitment to spend 0.7% of gross national income on overseas aid. These commitments must be legally binding. Donor countries' arguments that they cannot afford a scaling up of development aid to reach 0.7% do not hold up in the face of the reality of stark differences in the levels of wealth in donor countries and levels of poverty in developing countries. The political will to fulfil a 35-year-old commitment is the missing element.

CIDSE believes that any new international proposal for development finance should be complementary and must not replace existing instruments and channels for aid.

### **Innovative Measures to raise Additional Development Finance**

Official Development Assistance (ODA) needs to be complemented by new, supplementary mechanisms to increase the amount of resources available and ensure the predictability of aid flows. Moreover, a more stable and predictable way to finance recurrent social spending and capital outlays is essential. That has been recognized as a particularly important condition for maximizing the impact of ODA.<sup>5</sup>

If the donor community is serious in its intent to achieve the MDGs, the challenge is not only to ensure that sufficient finance is made available, but also that financing instruments are sufficiently predictable and flexible to respond to the needs of developing countries. The current volatility and unpredictability of aid flows is a serious impediment to planning to meet the MDGs.

CIDSE welcomes the on-going debate that OECD and developing countries are engaged in to identify innovative measures to raise additional development finance. With its double benefits, CIDSE particularly supports the introduction of a global taxation system. While generating predictable resources, global taxes simultaneously correct imbalances in the use and accumulation of resources as well as reduce the negative effects of globalisation. Recent reports<sup>6</sup> demonstrate the technical feasibility of global taxes. CIDSE in turn, calls for the introduction of those global taxes that would serve to correct the distribution of resources and the harmful effects of their concentration while generating resources for development, namely, a tax on financial flows (specifically, on currency transactions) and a tax on environmental damage (e.g. carbon tax, air Transport tax).

#### ***Currency Transactions Tax (CTT)***

The Spahn proposal's currency transactions tax (CTT) has the potential of realising a more equitable distribution of wealth and a more stable financial climate while at the same time raising revenue that would be dedicated to financing the MDGs.

According to the two-tier (two-rate) CTT model that Professor Spahn proposed, the world community acting co-operatively, or even individual governments acting together, could better predict rapid speculative runs on currencies and moderate its effects while generating revenue for development. The currency transactions tax could thus contribute to the prevention of major currency crises, act as a monitoring device and generate revenue for development.

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<sup>5</sup> Action against Hunger and Poverty Report of the Technical Group on Innovative Financing Mechanisms, September 2004, subscribed to by the Presidents of Brazil, Chile, France and Spain, with the support of the UN Secretary General, p.7

<sup>6</sup> Atkinson, A.B. New sources of development finance: Funding the Millennium Development Goals. 2004; <http://www.oup.co.uk/pdf/0-19-927856-3.pdf> ; Landau J.P. Group de travail sur les nouvelles contributions financières internationales -rapport à Monsieur Jacques Chirac, Président de la République, Dec.2004; [http://www.diplomatie.gouv.fr/actual/pdf/landau\\_report.pdf](http://www.diplomatie.gouv.fr/actual/pdf/landau_report.pdf); Action against hunger and poverty, Report of the Technical Group on Innovative Financing Mechanisms, September 2004, subscribed by the Presidents of Brazil, Chile, France and Spain, with the support of the UN Secretary General. [http://www.mre.gov.br/ingles/politica\\_externa/temas\\_agenda/acfp/Report-final%20version.pdf](http://www.mre.gov.br/ingles/politica_externa/temas_agenda/acfp/Report-final%20version.pdf);

The feasibility of the CTT was endorsed by the World Bank in a preparatory note to the Development Committee at the Annual Meetings in 2004. The Belgian government has also laid down the necessary legislation for the CTT to be enforced once agreement for the tax is introduced across member states. See Annex 1 of Redistribution through Innovative Measures: A currency transactions tax. CIDSE. Brussels October 2004, <http://www.cidse.org/docs/200411250951166236.pdf>

The revenue generated would need to be dedicated to global social and sustainable development, ensuring fair distribution of wealth between the rich and poor, in the North and South. Moreover, the money would need to be earmarked as additional (to the 0.7% ODA) and directly supporting the achievement of the MDGs.

The feasibility of the CTT at a single low rate as a revenue-raising device was endorsed by the UN WIDER report in 2004, by the *Landau Report* sponsored by the French government, by the quadripartite report supported by Brazil, Chile, France and Spain and by the World Bank in 2004. Convinced of its feasibility, CIDSE has been lobbying for the establishment of a CTT over many years<sup>7</sup>.

### ***Aviation fuel tax/Kerosene Tax***

Global environment taxes are also seen as a “double dividend” by raising revenues as well as helping to reduce environmental damage.

An aviation or kerosene tax, in particular, would reduce the adverse impact on the environment of the aviation industry, the fastest-growing emitter of greenhouse gases<sup>8</sup> whilst also generating revenue. Some immediate advantages of the tax are:

1. Increasing the incentives for airline companies to become more fuel-efficient.
2. Using revenues generated for development, as proposed by France and Germany.
3. Providing a fairer choice between modes of transport for consumers. A tax would bring the aviation industry in line with taxation on rail and road transport.<sup>9</sup>

Within the EU, taxes on aviation fuel have been discussed since 1997, especially in the light of tax exemptions that have been in place since 1944. In 2004 a new EU directive on Energy taxes was adopted allowing the taxation of aviation fuel on in-country flights or flights within EU territory provided that the affected countries agreed.

There are chances that the implementation of a kerosene tax might be difficult, if it were to need a multilateral treaty within the framework of the International Civil Aviation Organization (ICAO). It would therefore be important to consider alternatives which would have an effect similar to that of a general kerosene tax. Alternatives include a tax on the use of air corridors based on kerosene consumption or a tax on air tickets, allowing for differentiated rates for different categories of passengers and destinations.<sup>10</sup>

### ***International Finance Facility (IFF)***

In addition to global taxation mechanisms, the UK government has proposed an International Finance Facility, with the support of France and Italy; and with the conditional support of Germany and many developing countries. The IFF proposes the frontloading of aid spending as a means to increase financial flows in the short term. The IFF would provide a sharp increase in aid resources almost instantly, which could make a significant difference in achieving the MDGs by 2015.

However, CIDSE sees the IFF proposal as only a partial step which leaves important questions to be answered:

- Not “frontloading development assistance”, but compensating current aid gaps. The MDGs and the year 2015 are only a first step towards the achievement of global economic justice and the respect of human dignity for all. Donor government will have to start repaying bondholders in 2015. At present it is foreseen that these payments will be deducted from future aid budgets. If donor governments do not significantly increase aid between now and 2015, the IFF will cause aid flows to be reduced after that date. The need for the predictability of sustained aid flows that is central to governments in implementing policies for the benefit of the poor would consequently be negated. For the IFF to be accepted as a

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<sup>7</sup> Redistribution through Innovative Measures: A Currency Transactions Tax. CIDSE/CI. Brussels, October 2004.

<sup>8</sup> UN climate experts predict an increase of aviation related as part of total greenhouse gases caused by human activities from 3,5% to 13,5% within the next 50 years

<sup>9</sup> European Federation for Transport and Environment (T&E): Ten Reasons why an Aviation Fuel Tax is Good for European Citizens – Press release 16-02-05

<sup>10</sup> As described in Landau, J.P. Group de travail sur les nouvelles contributions financières internationales -rapport à Monsieur Jacques Chirac, Président de la République Dec.2004; p. 62-63

credible and durable contribution to a more equitable global distribution of resources, it should be accompanied by a form of international taxation (a proposal supported by Germany and France). It should be based on measurable targets and binding timetables for all donors to reach and maintain the internationally agreed target of aid spending at a minimum level of 0.7% of GNI.

- Need for legally binding commitments. The IFF relies heavily on the hope expressed in the Monterrey consensus that Northern governments will “make concrete efforts towards” the 0.7% target. However, the lack of any mechanism to legally bind governments to reach their 0.7% obligation poses serious risks. Not only are post-2015 aid budgets at a risk of being used to repay IFF obligations, but also in the years before 2015, there is a risk that governments could use the resources made available by the IFF to mask their failure to maintain their previous aid commitments. Aside from making commitments legally binding, there is no other way to ensure that donor governments reach their 0.7% obligations and to guarantee that IFF reimbursements are not paid by ODA budgets.
- Coherence. As part of a coherent commitment to global common goods, the IFF bondholders should be institutions committed to ethical investments.
- Cost efficiency: There is a danger that raising money on the financial markets would be so expensive as to raise questions on the cost-justification of the establishment of the IFF. The cost of setting up and administering the IFF should be reasonable in proportion to the expected gains and in comparison with other means to provide funding for development

Recent proposals by Germany and France that reimbursements of a pilot IFF that the UK Government plans to launch<sup>11</sup> come from money generated by a global tax, such as an aviation fuel tax or a CTT, would combine the guarantee of long term financial flows with the rapid availability of resources which is the primary advantage of the IFF.

### **Implementation is the key to success**

The above-mentioned mechanisms could reduce current problems with financial aid by providing predictable and stable financial flows. However, they do not address the modalities for MDG achievement. Aid alone is not enough. CIDSE believes that without addressing the underlying causes of poverty and injustice no sustainable solution to global poverty can be found. Any real progress towards global social and economic justice requires much more coherence, especially between Northern governments’ finance and trade policies and development goals. Any new mechanism to generate finance for development would need to meet the following criteria in order to ensure human development and the protection of human rights:

- Legally binding long-term commitments: This would be essential to ensure that all financial flows for development are predictable and stable.
- Additional to current aid pledges and the 0.7% goal: Any new mechanism must not be used to disguise the lack of political will and action necessary to raise donor countries’ aid levels. Rather, any new mechanism should complement 0.7% commitments.
- Coherent policies: All measures taken should ensure coherence between economic, financial and development policies. Their final objective should be global justice and the protection of human rights.
- No harmful conditionality. As NGOs working with partners in the South, we have been witness to some of the harmful effects on the poor caused by previous and current conditionality regimes. The innovative mechanisms, especially the IFF proposal - lack clarity on the role that conditionality plays, how it is developed and implemented in the proposed disbursement mechanisms. One of the most attractive features of the IFF of creating an aid-pool and a framework for multilateral negotiations on conditions would be taken away if a donor contributing could put its own conditions on the money it contributes.

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<sup>11</sup>UK plans to introduce a pilot IFF for Immunisation with GAVI (Global Alliance for Vaccines and Immunisation) and the Bill and Melinda Gates Foundation

- Respect for recipient countries' policy space. We have also witnessed the role of the World Bank and the International Monetary Fund (IMF) in determining the policies for recipient governments' development and consequently eroding the ownership of national poverty reduction plans. The importance of developing countries being given adequate policy-space has been most recently emphasised in paragraph 8 of the 'Sao Paulo Consensus,' adopted during UNCTAD XI. We are therefore opposed to any consolidation of the IMF's signalling function as set out in the current IFF proposal.
- Inclusion of beneficiary countries in aid governance. A donor-dominated structure would contradict the principle of a global partnership for development set out in Goal 8 of the MDGs. Any mechanism for the allocation of development finance should be based on the principles of partnership and country ownership. The governance structure of the IFF, or any global fund collecting the product of global taxes, must include so-called 'beneficiaries,' and should ideally be situated in the UN system. Moreover funding strategies and decisions made should be based on strategies developed through country-owned processes within the recipient countries including civil society participation.
- Allocation of resources for comprehensive development programmes: Too narrow a focus of the criteria for resource allocation as defined by donors will undermine country ownership and might not meet the needs and priorities of the beneficiary countries. New resources should finance comprehensive development programmes according to the needs of recipient countries.

## Conclusion

CIDSE and its member organisations work for sustainable and durable solutions to world poverty, which is why it calls for long lasting and radical measures to achieve economic justice in our deeply unequal and divided world.

To achieve the Millennium Development goals urgent action is needed. While increases in ODA in donor countries should be ensured, new additional resources of finance should be adopted as complementary mechanisms to assure MDG achievement by 2015.

### **CIDSE calls upon donor countries to:**

- **Immediately set out timetables to reach 0.7% ODA**
- **Introduce and properly implement an "additional financial resource package" including the adoption of a Currency Transactions Tax and an Aviation fuel tax in combination with the establishment of an IFF which should ensure long term and predictable financial flows additional to 0.7 ODA pledges**
- **Make aid commitments legally binding**
- **Establish a governance structure which includes partner countries that is based in the UN system for the administration and disbursement of new resources**
- **Ensure aid-allocation and disbursement mechanisms based on country-owned processes and strategies for poverty reduction, respecting the principles of partnership and country ownership.**

Finally, beyond aid increases and debt relief, CIDSE firmly believes that measures to create a more balanced international trade system, more equitable international financial architecture as well as for the reform of the system of global governance will simultaneously be needed to truly achieve global justice.