NEW SOURCES OF DEVELOPMENT FINANCING: AN SDC WORKING PAPER

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Executive Summary

In 2000, the United Nations adopted the Millennium Declaration with a collective commitment to meet the ***Millennium Development Goals (MDGs)*** by 2015. Recent interim assessments of progress show a mixed picture and call for urgent action. Goal Eight requires all countries to enter a global partnership for development to implement the MDGs. This partnership includes the provision of adequate resources in support of the developing countries' own efforts. After the International Conference on Financing for Development, in Monterrey, in 2002, a consensus emerged that the financing gap to reach the MDGs is around US$ 50 billion and that another US$20 billion is required to address unmet Global Public Goods (GPGs). These estimates suggest roughly a doubling of Official Development Assistance (ODA). It is not only the amounts that matter, time also counts: reaching the MDGs by 2015 calls for rapid increases of public finance for development.

To give the MDGs a chance, the ***international environment*** is moving fast. A new architecture of global governance is under construction. Ten years after the Rio Conference, the world's commitment to sustainable development was renewed at the Earth Summit in Johannesburg (2002). A development round in trade is being prepared in the World Trade Organisation (WTO), in Doha (2001), Cancun (2003) and Hong Kong (2005). Financing for Development in Monterrey (2002), aid effectiveness and harmonisation in Rome (2003) and Marrakech (2004) are on the way to redefining the cooperation framework. A considerable number of countries (US, European Union members) have announced substantial increases of their ODA. Last but not least, an intense debate on innovative sources of development financing has been launched.

The US-journal, *Foreign Policy* contained an article 'Ranking the Rich 2004'. ***Switzerland*** is third to last on the Commitment to Development Index (CDI), a ranking of industrialised nations according to how their policies help or hinder social and economic development in poor countries. Of the 21 classified rich countries, only Spain and Japan performed worse. Despite the fact that this ranking was not discussed internationally, it is an alarming signal and reflects the perception of Switzerland's role in the global development debate. As such it directly affects Switzerland's reputation. Switzerland is challenged.

The main ***objectives*** of this paper are to (1) identify and compare potential new sources for development financing that are part of the international debate, (2) evaluate their opportunities and risks in view of meeting the MDGs by 2015, and (3) present options for a Swiss commitment in future. A distinction is made between three different types of sources: Financial Engineering, Global Taxes, and Voluntary Private Contributions. There are also some other options that are part of the international debate.

In the light of the current international and Swiss context and the opportunities and risks of the instruments debated, three main ***recommendations*** for Switzerland's position on NSDF are made:

1. Switzerland should prioritise ecological taxes among the NSDF and become active in appropriate ways at the national and international level

- This recommendation puts an emphasis on a pro-active commitment in favour of a global carbon tax, which has the potential to provide sufficient revenues to finance the MDGs. In contributing to curbing carbon emissions, it delivers a double dividend. The political bargaining on charging CO2-emissions at the national level to reach Kyoto Protocol targets and the global carbon tax are complementary rather than competing projects.

- Other forms of ecological NSDF should be explored: A kerosene tax would be an important first step towards a carbon tax. On its own merits, a kerosene tax internalises external costs into the air traffic market and rearranges biased market prices among different modes of international transport. The kerosene tax is part of the 2004 draft aviation policy of the Swiss Government. Similar to the kerosene tax, a maritime tax, a travel tax and the taxation of nuclear waste can be considered.

- A Swiss commitment in this area has four distinct advantages:
  (1) It is directed towards a developmental and ecological double dividend;
  (2) It may count on the strong backing from the Swiss citizens;
  (3) It is consistent with national and international environmental policy;
  (4) Switzerland gains a positive profile in the global MDG/NSDF debate.

2. Switzerland should prepare meaningful answers to other upcoming NSDF challenges at the international level, particularly regarding a freestanding/combined IFF and the Tobin/Spahn Taxes

- The IFF will rank high on the international agenda in 2005 and beyond. A freestanding IFF, however, is not sustainable beyond 2015. Switzerland's position should be neither to reject nor to welcome the freestanding IFF, but to consider the option of an IFF combined with a binding agenda on the implementation of a new global tax – preferably the carbon tax – that secures sustainable revenues after 2015. An IFF could also be combined with a byte tax or a Tobin tax.

- The Spahn version of the Tobin Tax may gain ground as a feasible option at the European level. If the European Union is moving in this direction, it will have immediate implications for Switzerland as Swiss participation in a Spahn Tax can be considered as a condition *sine qua non*. Switzerland should not open a new area of dispute with the EU; it should rather contribute to a Spahn Tax in a constructive way if political pressure mounts.

- For both options – IFF combined and a Spahn Tax – the implications at the technical level need research. Moreover, supportive alliances should be prepared to secure the political backing for both options within a reasonable time frame. This preparedness will avoid the sidelining of Switzerland in the upcoming NSDF debates.

3. ***Other NSDF options should not be lost sight of***:

- Taxing the information society through a byte tax has an immense revenue potential and merits further consideration despite the obvious current lack of political support in the North;

- Taxing arms transactions increases the costs of war and violence, and has again a double dividend. Despite its limited revenue potential, Switzerland might consider working on a global arms tax.

A considerable number of ***other proposals*** with a different character and level of conceptual clarity are reviewed in this paper. These are: a link between Special Drawing Rights (SDR); emission and development financing; making use of public guarantees; a campaign to stimulate private donations; the creation of a global lottery; using global premium saving bonds; mobilising voluntary contributions through credit cards; taxing the emigration of highly qualified human resources (exile tax); a travel tax; a tax on the world's common property; a tax on nuclear waste; and a global tax on profits of multinationals..

For these other proposals, a ***wait-and-see attitude*** seems appropriate. They are not convincing: (1) because of the lack of minimum political support and (2) because they are inadequate responses to the problem of identifying innovative sources of raising an additional US$50 billion of development financing to meet the MDGs. They are only reviewed because they are part of the international debate. For the time being, it is not recommended that Switzerland invest scarce resources or take the initiative to develop them further. If these proposals appear on the global agenda, Switzerland should remain open to re-examining the situation.

Opportunities for Switzerland to explain its position on the NSDF have been numerous. On September 20, 2004, the eve of the United Nations' General Assembly (UNGA) 2004, Brazilian President Lula da Silva extended an invitation to a high level meeting in New York to discuss new sources of financing for development. Switzerland accepted this invitation and attended with a high level delegation. The following day, the General Assembly included the NSDF on its agenda. At the UNGA, Switzerland, as one of the first speakers, was in a prominent position. Finally, the meeting of the Development Committee of the World Bank and the International Monetary Fund (IMF) followed in Washington. On all three occasions, Switzerland faced the challenge and the opportunity of outlining its perspectives on its contribution to development financing, in terms of ODA as well as the NSDF, for reaching the MDGs. In the Development Committee, Federal Councillor and Swiss President Joseph Deiss seized the opportunity to support actions towards additional development financing: "…Switzerland is ready to join a common effort to deepen the dialogue on mobilizing additional aid and exploring various options, including new financial mechanisms to make aid more predictable, sustainable, and effective."[1]

Promoting international dialogue is a particular strength of Switzerland. With its experience and infrastructure, Switzerland could also offer its services to the

[1] Joseph Deiss, Statement at the 70th Meeting of the Development Committee, 2nd October 2004.

international community to examine innovative sources of development financing. Switzerland should propose a ***high level meeting to further explore the carbon tax*** (and possibly other environmental taxes) or, if this is premature, the options of NSDF in general. The World Economic Forum (WEF) in Davos would provide an excellent informal platform to take further steps towards a more formal set-up and agreement. Expert Panels could be organised on key issues to explore common ground at the technical and political levels.

Background

The ***Millennium Development Goals (MDGs)***[2] have become the globally accepted performance indicators for development progress since September 2000, when the United Nations General Assembly (UNGA) adopted the Millennium Declaration with a collective commitment by its members to meet the MDGs by 2015. The MDGs include reducing extreme poverty and hunger by a half. Four years later, interim assessments[3] provided a mixed picture: global progress is dominated by favourable figures reported from Asia, in particular India and China, while Latin America stagnates and Sub-Saharan Africa will miss the goals. Despite considerable efforts by the developing countries themselves, international support so far has not reached the levels required. Goal Eight of the MDGs stipulates that all supportive states, including the industrialised countries, should enter into a global partnership for development[4].

Since the turn of the century, the ***international environment*** has been moving fast to give the MDGs a chance. A new architecture of global governance is under construction. Ten years after the Rio Conference, the world's commitment to sustainable development was renewed at the Earth Summit in Johannesburg (2002). A development round in trade is being prepared in the World Trade Organisation (WTO) in Doha (2001), Cancun (2003) and Hong Kong (2005). Financing for Development in Monterrey (2002), aid effectiveness and harmonisation in Rome (2003) and in Marrakech (2004) are on the way to redefining the cooperation framework. A considerable number of countries (US, European Union members) have announced substantial increases of their ODA. Last but not least, the Monterrey Consensus nourishes an intense debate on innovative sources of development financing.

This changing international environment shapes the options for pursuing MDG Eight (a ***global partnership***) by fostering growth and stability, provisioning Global Public Goods (GPGs), creating policy space for development and eliminating barriers to trade and migration, and increasing and improving concessional funding for development. A major challenge is to scale up public resources, be it by increasing Official Development Assistance (ODA) or by mobilising new, innovative sources of development financing. A groundbreaking report, drawn up under the chairpersonship of the former Mexican President Ernesto Zedillo[5] in the run-up to the International Conference on Financing for Development in Monterrey, estimates that an additional US$50 billion a year is needed to reach the MDGs. Another US$20 billion is necessary to address seriously the unmet needs for Global Public Goods

[2] For details see, among many other publications: http://millenniumindicators.un.org/unsd/mi/mi_goals.asp
[3] World Bank Development Committee, Global Monitoring Report, Washington April 2004.
[4] MDG 8 includes the following targets: Develop further an open, rule-based, predictable, non-discriminatory trading and financial system; Address the special needs of the least developed countries; address the special needs of landlocked developing countries and small island developing States; Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term.
[5] High Level Panel on Financing for Development, see http://www.un.org/reports/financing/

(GPGs). A broad consensus on this estimate has emerged. These figures mean roughly a doubling of ODA from current levels. In the words of the Development Committee of the Bretton Woods Institutions, "…it is clear that we need significant increases in additional aid: more aid, more aid up front, better quality aid and predictable and sustainable aid"[6]. The additional US$50 billion required for development would represent about three weeks' worth of the US$800 to 1000 billion surplus created spontaneously by world economic growth.[7]

The highly ***beneficial impact of more aid*** is widely recognised[8]. It has been estimated that US$3 billion a year for 10 years would be sufficient to give every child in Sub-Saharan Africa access to primary education. AIDS vaccine research could be enhanced for less than US$1 billion a year. The beneficial effect of such efforts goes far beyond the immediate purpose: it nourishes social safety nets and the economic growth of entire developing economies. A recent World Bank study finds that in countries with relatively good policies and institutions – and there are a number of them – a substantial increase in aid, such as a doubling in low-income Asia and a 60% increase in Sub-Saharan Africa, could be effectively utilised to boost progress towards the MDGs. The absorptive capacity in these 'good policy' countries is there, but external funding is lacking.

Sharing the MDG commitments and this analysis, the international community is confronted with the common challenge of how to ***increase development funding*** to the levels required. If the members of the Development Assistance Committee (DAC) of the OECD delivered their Official Development Assistance (ODA) according to the 0.7% target of the UN, agreed by most[9] of them, aid would increase to over US$ 100 billion a year and thus cut the Gordian knot. Current ODA levels fall short of this target: In 2003, the average ODA by the 22 DAC members stood at 0.25% of their Gross National Income (GNI). In fact, the ratio of ODA to donors' GNI fell from 0.34% in the early 1990s to 0.22% in 2001, and has slightly increased again since. The United States, a key donor, is at 0.13% of GNI. If all commitments made by donors at, or since, the Monterrey Consensus were honoured, ODA would increase by about US$18.5 billion to US$ 77 billion. This would be a remarkable step forward, but would still not meet the needs.

Sweden and the Netherlands recently appealed to all donors to strive for the UN target of 0.7%, which the Scandinavian countries, the Netherlands and Luxembourg already exceed. The European Union and other countries are considerably increasing ODA, thereby implementing their Monterrey commitments. Beyond ODA, major ***European countries*** are determined to find new sources of financing for development. The United Kingdom pushes Gordon Brown's International Finance Facility (IFF). Germany mandated Paul B. Spahn to report on the Tobin Tax or 'On the Feasibility of a Tax on Foreign Exchange Transactions'. France actively supports the IFF initiative, is open to discuss the Tobin Tax, and pursues an active conference

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6 Development Committee, Financing Modalities toward the Millennium Development Goals: Progress Note, April 25, 2004, p. 5.
7 Jean-Pierre Landau, Les nouvelles contributions financières internationales, 2004, p. 38.
8 Jean-Pierre Landau, remarks on the occasion of a High Level Workshop "Delivering on the Aid Agenda to Meet the MDGs" in Washington, 30 July 2004.
9 Switzerland and the United States never formally accepted the 0.7% target.

diplomacy on innovative sources for development financing. In Belgium, the Federal Parliament voted in favour of the Tobin Tax[10].

The US journal ’Foreign Policy’ has published an article ’Ranking the Rich 2004’. ***Switzerland*** is near the bottom of the Commitment to Development Index (CDI), a ranking of industrialised nations according to how their policies help or hinder social and economic development in poor countries. Of the 21 classified rich countries, only Spain and Japan performed worse. Despite the fact that this ranking was not discussed internationally, it is an alarming signal and reflects Switzerland’s role in the global development debate. As such, it directly affects Switzerland’s reputation. This foreign perception of the Swiss role in international development is in complete contrast to Switzerland's image of itself as being homeland to the Red Cross.

There have been continuing efforts since the early 1990s to increase ***Swiss ODA*** to 0.4% of GDP. The Swiss Government repeatedly confirmed its intention to reach this target by 2010. However, given the current restraints on the budget, prospects are mixed. In 2003, Swiss ODA reached an all time high of 0.38%, up from 0.33% in 2002, albeit for technical reasons[11]. It is expected to fall again in the years ahead. A profound and broad-based debate on new development financing options has so far not taken place in Switzerland. The considerable moves by European powers to expand ODA and their constructive position towards new sources of development financing present a major challenge to Switzerland. A proactive role by the Swiss Government, in order to identify and support new sources of development financing, could prevent Switzerland from being increasingly sidelined. Switzerland needs to make a constructive response to the MDG challenge by scaling up aid flows.

The ***challenges to Switzerland*** in the area of NSDF are imminent. On September 20, 2004, the eve of the United Nations’ General assembly (UNGA), Brazilian President Lula da Silva extended an invitation to a high level meeting in New York to discuss new sources of financing for development. Switzerland accepted this invitation and attended with a high level delegation. The following day, the General Assembly of the UN included the NSDF on its agenda. Finally, the meeting of the Development Committee of the World Bank and the International Monetary Fund (IMF) followed in Washington. On all three occasions Switzerland faced the challenge and the opportunity of outlining its perspectives on its contribution to development financing, in terms of ODA as well as the NSDF, for reaching the MDGs.

A ***yardstick*** is needed to measure national contributions to new sources of financing development in a framework of fair international burden-sharing. According to George Soros, a contribution based on the quota of developed countries in the IMF would be a fair measure, as the quotas roughly reflect the countries’ economic strength. In the case of Switzerland, the quota share is 1.63 % of the total, which corresponds to about 3% of the group of 17 donor countries that 52.4% of the total capital. Three percent of the additional US$50 billion required to reach the MDGs would mean an annual additional Swiss contribution of approximately US$1.5 billion. In other words,

[10] The Spahn variety of the Tobin Tax, and under the condition that other European Countries would follow.

[11] Delayed IDA disbursements caused a shift from 2002 to 2003, and a revised statistical reporting of debt relief operations increased the amounts for 2003 without reflecting a real increase in ODA resources.

Switzerland would at least have to double present ODA levels. This tentative figure again corresponds to the increase in development financing projected by the Zedillo Report.

The new resources should be highly concessional, highly predictable and sustainable. Some key features should be kept in mind when conceptualising new sources for development financing:

- ***Additionality***: New sources of development financing are not meant to replace traditional ODA; they should be additional funds to existing commitments to meet the MDGs.
- ***Mobility***: The growing mobility of economic factors affects the effectiveness of national taxation, shifting the burden of taxation on less mobile factors, increasing their tax load, and biasing the economy. Such an adverse effect can be avoided by international cooperation to raise revenues on mobile tax bases at a low rate.
- ***Urgency***: The target for meeting the MDGs is 2015. The resource gap should be tackled as a matter of urgency to have a chance of reaching the 2015 goals. It makes a difference if the new resources can be mobilised in the near future or whether it takes another 5-10 years to reach an international agreement.
- ***Double dividend***: A number of the proposed financing instruments offer a ‘double dividend’ in the sense that they raise development funding and correct negative externalities (e.g. reduce environmental pollution or mitigate currency volatility). This is efficient and facilitates the formation of supportive coalitions.

As Jean-Pierre Landau, former Executive Director for France in International Financing Institutions, has pointed out, ***no new international organisation*** is necessary beyond an international agreement. “Tax collection would remain in the hands of national states or be controlled by them. Money could go to existing international institutions and could transit (or not transit) through national budgets”[12]. On the innovative side, the new sources of development financing would be an opportunity to test pooling of development resources up to 2015. Already the Zedillo Report has recommended that the donor community adopt a common pool approach to ODA in order to prevent donor coordination problems and to eliminate the tying of aid to goods or services produced in the donor country.

The main ***objectives*** of this paper are to (1) identify and compare potential new sources for development financing that are part of the international debate, (2) evaluate their opportunities and risks in view of meeting the MDGs by 2015, and (3) present options for a Swiss commitment in future. A distinction[13] is made between three different types of sources: Financial Engineering, Global Taxes, and Voluntary Private Contributions. There are also some other options that are part of the international debate.

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[12] Jean-Pierre Landau, remarks on the occasion of a High Level Workshop “Delivering on the Aid Agenda to Meet the MDGs” in Washington, 30 July 2004.
[13] This structure has been adopted from a recent OECD paper (Reisen 2004), which served as a major source of inspiration for this paper.

1 Financial Engineering

Financial Engineering concepts use the leverage of the financial system to mobilise resources for development. The three instruments discussed below are all based on commitments by governments, each different in its form: pledges, donations and guarantees.

1.1 International Financing Facility (IFF)

Description

The system is based on legally binding donor pledges on which the IFF will issue bonds. Participating donors will be paying back bonds once they become due, from 2015 onwards. Long-term, predictable and stable aid commitments and bringing forward aid disbursement up to 2015 are the basic principles of the IFF proposal. Pledges may be defined as 'high-level financing conditions'. According to Jean-Pierre Landau, the IFF allows for anticipating rising aid flows in the future.

The current proposition envisages a period of about 30 years of IFF activity. The IFF would provide more than US$500 billion in total aid. After 15 consecutive pledging rounds up to 2015, disbursement to developing countries will rapidly reach the additional US$50 billion and steadily decrease after 2015, whereas donors' annual payments will increase continuously up to 2032. This means, on the one hand, that the burden for donors will be far lower, and very low in the beginning due to current budget constraints, but will be spread over a longer period. On the other hand, an additional US$50 billion a year in grants will flow to developing countries from 2010 onwards, and this aid will not stop immediately after 2015. Even if it is true that the IFF will not abandon these countries after that, as many critics fear, there is still a considerable risk that donors will refund the borrowing on the back of future ODA, once the bonds are due. At the end, in the long term, the IFF would not provide any additional aid to developing countries. The Landau Report points out that the anticipation of aid flows will represent an important risk if no other sources of stable financing are implemented until then. Therefore, Jean-Pierre Landau underlines the complementarity between the IFF mechanism and international taxation (see global taxes), each with its specific time frame.[14] Without specifying, the Report 'Action against Hunger and Poverty' too, believes in the complementarity between different mechanisms: "Taxation mechanisms could complement other mechanisms by offering the possibility of combining different modalities of financing devoted to both more immediate, urgent measures and to long-term, structural projects…The mechanisms examined should be seen within different timeframes of maturity."[15]

The IFF issues bonds in its own name; therefore, neither the developing countries nor the donors are responsible for the liabilities, which are entirely assumed and managed professionally through the IFF (interest and principal). The IFF will proceed to AAA-rated market borrowing whose very low interest rate is an inherent and vital

[14] Jean-Pierre Landau, Les nouvelles contributions financières internationales, 2004, p. 12.
[15] Action Against Hunger and Poverty, Report of the Technical Group on Innovative Financing Mechanisms (Lula Report), September 2004, p. 18.

condition for the efficiency of the IFF mechanism.[16] For recipient countries, IFF implies no new debts or liabilities, because donors provide the funds through the IFF principally in the form of grants.[17] Donors would be collectively liable for their commitments, but would not have any responsibility for making good payments on which another donor had defaulted. Donors would also be free, for example, to commit to the first round but not to confirm their engagement in the second and third rounds. It is essentially for these reasons that the IFF will not securitize more than around 85% of the net present value of its future income.

The IFF would be a finance facility, not an agency for disbursement of development aid to recipient countries. In other words, IFF funds are expected to pass through existing bilateral and multilateral aid programmes. This allows for some conditionality, better coordination and rapid implementation. But donors choose the delivery channel in the light of some overarching principles. They might use part of the resources for multilateral organisations, such as the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) or the International Development Association (IDA), without there being an obligation to do so.[18] The IFF governance structure needs to be independent from any single donor government.

Assessment

Strengths

- The IFF will raise sufficient funding for the MDGs.
- The IFF will provide poor countries with access to the necessary financial sources in the short term.
- There is a leverage effect on additional finance and on private sector involvement through the market-borrowing mechanism.

Weaknesses

- From 2015 onwards, there is a high risk that additionality will be undermined and ODA funds will be used to repay the bonds instead of solving current problems.
- Germany, as well as Japan, has stated that the IFF proposal would not be compatible with their national budget process.
- The IFF proposal gives no estimates of the additional private investment potential above the undertaken market borrowing.

France has aligned itself with the United Kingdom, the initiator of the IFF proposal through its Chancellor of the Exchequer Gordon Brown. The advocates of the IFF proposal underlined its technical feasibility on the international level. However, a majority of countries at the Ministerial Forum on Financing for Development in Paris, on April 8 2004 were sceptical – especially concerning budgetary issues. Nonetheless, UK investigations have shown that in the EU, only annual cash

[16] The UK has obtained assurance from an internationally recognized rating agency on estimated advance rates.
[17] The profile of donor payments could be discussed and one part could also be concessional loans.
[18] Gordon Brown mentioned in Paris that the *Global Alliance for Vaccines and Immunisation (GAVI)*, for example, is interested in applying the IFF's principles.

payments by donors have to be recorded in donors' fiscal accounts, while the pledges of future flows remain contingent, off-balance-sheet liabilities. Germany argues meanwhile that the IFF would need parliamentary approval either through a commitment authorisation[19] or in the form of an agreement under international law. A political consensus for the IFF instrument in Germany seems unlikely, because of the contradiction with its principle of using only one-third of aid flows for multilateral purposes.

Some countries doubt the efficiency and effectiveness of the proposal: Japan believes that it might be useful, or even necessary, in relation to some problems of development – for example, the fight against AIDS – but not effective for others. The United States would like to promote stronger Public-Private-Partnership (PPP).

The IFF has the advantage of a flexible geography. It does not necessitate a commitment by all developed countries but a reasonably broad support is required for it to be efficient. The initiative responds to that requirement by its flexible technical arrangements. First, as has been mentioned, donors may commit to the first round of pledging without binding themselves to further engagements. Second, parts of the aid flows could take the form of loans and not grants – at the cost of the IFF's coherence. Finally, donors individually could choose how the new sources should be used and they could be disbursed even through bilateral channels, whereas the initiators themselves have stressed the disconnection from national interest as one the IFF's strengths. All these aspects might weaken the effectiveness of IFF.

Further, it is only an anticipation of growing aid in the future not additional aid *per se*. The aid is additional only if ***IFF is combined*** with a new stable source implemented once the repayment falls due.

Swiss Perspectives

From a Swiss perspective, the challenges of development are a shared responsibility among governments, the private sector and civil society. The IFF makes use of governmental as well as private sector facilities and is, therefore, a potential step towards a strengthened mobilisation of the private sector for development. The basic assumption of the IFF underlines that frontloading would boost developing countries in the coming years in a way that they would be able to continue developing largely on their own strengths. It is uncertain whether the hypothesis will turn out to be true. Definitely some countries will still need support.[20] However, if frontloading enables poor countries to build up a fruitful ground for private investment by 2015, the private sector may play a stronger pro-development role.

Nevertheless, this paper has determined additionality as a fundamental condition of the new sources of development financing. As the IFF as a source of financing development is not automatically additional, it is important to insist that only an IFF combined with either a Currency Transaction Tax (Tobin/Spahn Tax) or an Environmental Tax (Carbon/Kerosene Tax) is desirable.

[19] 'Verpflichtungermächtigung': Article 38/1 of the 'Bundeshaushaltsordnung' (BHO).
[20] Jean-Pierre Landau, Les nouvelles contributions financières internationales, 2004, p. 44.

The Swiss Government has adopted as a guideline the principle of allocating 30% of Swiss ODA for multilateral purposes. Under the IFF, the amount attributed to multilateral instruments would exceed this by far once the loans are due.[21] There is a considerable risk of political barriers which is difficult to evaluate at this stage.[22]

So far, the Swiss government has not analysed the IFF proposal in depth. Switzerland, invited by France and Great Britain to join the ministerial conference on financing for development in Paris, sent a representative of the Swiss Embassy to this high-level meeting. The Swiss Minister of Finance wrote to Gordon Brown on April 5, 2004: 'When the IFF was proposed last year, the Swiss authorities indicated that they see no value-added in pursuing it further.'

The supporting countries continue to push for the IFF, as a High-Level Workshop organised by the World Bank on July 30, 2004, demonstrated. Switzerland was not invited to participate. Given the international movement in favour of the IFF, the Swiss Government should develop a well-founded Swiss position regarding a free standing IFF and an IFF combined option.

1.2 Special Drawing Rights (SDRs)

Description

SDRs are international reserve assets issued by the IMF to its members and are convertible into other currencies.

The idea of issuing SDRs for development purposes goes back to the early 1970s and the Brandt Commission's Report, published in 1979, but the Commission's proposal has not been followed up. Today, George Soros, in particular, pushes the idea of using issues of SDRs to finance Global Public Goods. The proposed special SDR allocation of US$27 billion would represent an increase in donors' aid flows of roughly 0.1% of the global GDP.

The SDR proposal combines two forms of assistance. On the one hand, the 38 richer countries defined in the 'transaction plan' donate their allocations to the poorer countries, allowing for provision of public goods, such as health and education on a global scale. On the other hand, developing countries add their SDRs to their monetary reserves. In fact, today developing countries are building reserves to insure unpredictable market risks with a negative real return on investment[23], whereas the monetary reserves of developing countries would be interest-free as long as they are held, because the interest income and expenditure cancel each other out. For this reason, the Zedillo Panel also calls for resumption of the issue of SDRs, stressing

[21] Although the funds might be disbursed through bilateral channels, the IFF remains a multilateral instrument.
[22] First of all, parliament could refuse to approve the government's commitment. Second, parliament could refuse the budget proposed by the Federal Council. Third, opponents could launch a referendum. In the case of a referendum, a majority in favour of the IFF might be doubtful. Private sector and especially the financial sector might reject the IFF. Moreover, governments in donor countries may face political pressure as they begin to use part of their aid budgets to repay IFF bondholders.
[23] Reserves holdings are estimated at currently US$ 2.4 trillion, including US Treasury Bills for most developing countries with a return of approximately 1.25% (compared to 2.25 for SDRs).

that cessation of allocations has severely prejudiced the interests of developing countries.

The SDRs were once thought of as a way of increasing the world stock of reserves, in order to promote international financial stability and to prevent shortages of international liquidity. Since the ‘collapse’ of the original Bretton Woods System and the fundamental change to a floating exchange rate system in the 1970s, the need for such stocks has been reduced and an estimated US$1.6 trillion lies dormant.

Indeed, monetary reserves of developed countries are adequate or even exceeding the needs. The reserves of the European Central Bank, together with the national central banks of EU members, totalled EURO 306.5 billion at the end of 2003. In fact, they have no use for SDR allocations. On the one hand, it has therefore been difficult to forge a consensus in favour of issuing SDRs. On the other hand, the case for issuing SDRs would be greatly strengthened by donating them to development concerns.

Assessment

Strengths

- The SDR donations will provide a continuous, predictable and considerable revenue potential, if allocations are annually renewed.
- The short implementation time would be a major advantage in order to meet the MDGs in 2015.
- It would reduce the ‘free rider’ problem.

Weaknesses

- SDR donations alone would not be enough to realise the objective of raising an additional US$50 billion annually.
- Some macroeconomic risks, such as liquidity requirements and inflationary pressures, are difficult to estimate.
- The most difficult obstacle is US opposition.
- The refund problem has not been solved.

The long-term vision of the SDR idea could point the way to a relatively large, continuous, and predictable flow of financing for development ‘*indefinitely’,* whereas the IFF would decrease after 2015 when the first bonds to be repaid by donors would be due. The envisaged special issue would amount to around US$27 billion, of which approximately US$18 billion would be donated, but could be scaled up in the following years. Helmut Reisen[24] argues that the group of donors could be extended to the Asian Emerging countries, which have accumulated hundreds of billions in foreign exchange reserves.

The SDR mechanism would bring equity into the international assistance contributions of developed countries, because the quota-based distributions of SDR allocations are supposed to reflect the economic strength of member countries. The United States devotes only 0.1% of its GDP to ODA; the SDR proposal would double

[24] Reisen 2004, p. 24.

this contribution. The SDR allocation mechanism limits the possibilities of donors using foreign aid to satisfy their own needs or to finance their bilateral aid programmes; nevertheless, they would continue to have some influence on the selection of a project.

In 1997, IMF members voted the Fourth Amendment to the Articles of Agreement (AoA), the legal basis for a special one-time 'equity' SDR allocation[25]. By 2004, members representing 76.16% of the votes had ratified the fourth amendment, but the United States Congress still had not. The US, with a share of 17.13% of votes, has a *de facto* veto on this proposal, since an amendment to the Articles of Agreement requires an 85% majority. [26] Peter B. Clark and Jacques J. Polak, in an IMF Working Paper, stress that a no-amendment approach would also be possible.[27] In fact, the IMF executive board has discussed the option of SDR allocations several times, but there has not been enough support.[28]

It is an unresolved issue whether the donating countries or the developing countries should pay interest on the donated allocations. According to Helmut Reisen, the rich countries should pay the interest on the SDRs. But donor nations might not be willing to pay.[29] In this case, recipients of SDRs allocations would have to cover the interest on the received funds at the SDR rate of interest, currently 2.25% a year[30]. This rate is far better than what developing countries would usually get and servicing obligations are more favourable than for other available loans.

Contrary to some critics, George Soros assumes that the risk of inflation through SDR allocations is very limited, while the risk of global deflation through declining costs of imported goods might be higher. In this case, the annual issue of SDRs could turn out to be a useful monetary tool.

Swiss Perspectives

Switzerland ratified the Fourth Amendment voted in 1997 and thus left the door open to special one-time allocations. Whether the same position will be taken if regular SDR allocations are used for development financing is an unanswered question.

If donors agree to pay interest on the newly donated allocations, Switzerland would have to pay interest of about US$ 24 million for the first special one-time SDR allocation[31].

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[25] In fact, IMF members were agreeing by this vote on a single special 'equity' allocation of SDRs to the former Soviet republics and some other poorer countries.
[26] Aside from its reluctance to see a reduction in the demand for dollar reserves, the US government is also not very interested in seeing the IMF become a central bank to the world. Besides, they are not very keen on donating SDR allocations for development. Finally, the US government is commonly hesitant to bring IMF issues into the US Congress, says an official Swiss source in Washington.
[27] But they are generally sceptical about the SDR proposal; see p. 25.
[28] See Ernest Aryeetey, WIDER-Discussion paper No 2004/3, p. 4.
[29] see Ernest Aryeetey, p. 13.
[30] The weighted average of the short-term Treasury bill rates of France, Germany, Japan, the United Kingdom and the United States; Ariel Buira, Allocating Special Drawing Rights to Increase International Financial Stability (www.undp.org/ods/monterrey-papers/buira.pdf).
[31] The Swiss Quota is 3.4585 billion SDR and Fund holdings of currency 2.14569 billion SDR (the SDR rate is US$ 1.466220 on 30 June 2004). Switzerland Special SDR allocation would amount to 724217247 SDRs.

1.3 Public Guarantees

Description

Public guarantees are risk mitigation instruments offered by public bodies. To meet the MDGs - for example, a clean water supply - broader development and some important infrastructure investments are necessary, which are characterised by high capital intensity, long gestation periods, and 'front-loading'. Public guarantees can stimulate private investment and some risk-taking in a high-risk environment, by both local and foreign residents, and thus add local and foreign savings to projects with potentially high social returns; they can also foster a sense of ownership in the recipient countries.

Such guarantees, however, have to be tailored in a way that avoids excessive risk-taking, rent-seeking by élites and lobby groups, unsustainable debt burdens and misallocated resources.

Assessment

<u>Strengths</u>

- Public guarantees could facilitate private flows and empower local players.
- Public guarantees encourage economic and political leaders to become financially more self-sustaining and, consequently, would not 'crowd out' commercial lending.

<u>Weaknesses</u>

- Commercial lending and private investments also mean higher financial dependency and commitments for the developing countries involved.
- Public guarantees have a limited potential and outreach.

The creation of an independent trust fund that will itself have limited liabilities has been suggested in a World Bank publication.[32] In the wake of the World Summit on Sustainable Resources held in Johannesburg in 2002, donors have introduced a range of initiatives to facilitate the mobilisation of finance from domestic and international financial markets: for example, extended partial credit risk enhancements.

In his OECD report, Helmut Reisen proposes public guarantees as an avenue of innovative financing for development. He refers to the *Report of the World Panel on Financing Water Infrastructure,* chaired by Michel Camdessus, discussing solutions for one specific MDG, that of reducing by half the proportion of people without sustainable access to safe drinking water.[33]

[32] Daniel Cohen, Fiscal Sustainability and a Contingency Trust Fund, in *Government at Risk: Contingent Liabilities and Fiscal Risk*, World Bank, Washington, D.C, 2002.
[33] Michel Camdessus (chair) & James Winpenny, Financing Water For All, Report of the World Panel on Financing Water Infrastructure, March 2003.
www.gwpforum.org/gwp/library/FinPanRep.MainRep.pdf

Obviously, the impact of Public Guarantees is limited and, concerning this paper which seeks ways of financing development to reach the MDGs, they have to be considered as an additional measure only.

Swiss Perspectives

Switzerland has not developed any position on the option of public guarantees. With the Export Risk Guarantee scheme, a comparable instrument has been operating in Switzerland for more than 10 years, now on a financially self-sustaining basis[34]. Swiss Export Risk Guarantee (ERG) is a public institution guided by entrepreneurial responsibility 'at arm's length' by the State Secretariat for Economic Affairs.

Public guarantees would not compete with the private insurance or financial sectors. On the contrary, they would complement those risks which the latter is unwilling or unable to take. There are good chances that the private sector will support this instrument – despite the risk of increased public spending. A follow-up will require a detailed analysis of the technical and legal implications.

2 Global Taxes

Global taxes can mobilise impressive aggregate revenue. Some of the instruments reviewed may yield amounts that are large enough to fully cover the MDG financing gap and cover GPGs, whereas the tax rate for the individual taxpayer remains almost insignificant.

Global taxes are often linked to the idea of a 'double dividend' in the sense of mobilising funding as well as having a targeted impact on society. The better the global taxes are able to tackle the problem the double dividend aims at, the lower the tax revenues will obviously be. Therefore, generally two estimates are given in the following for each tax; the effective revenue potential might be somewhere in between. Still the two major global tax proposals have considerable revenue potential and would definitely reach the addition US$50 billion needed for the MDGs. Although this paper focuses on finding new sources of development financing, any complementary, secondary effects on reducing currency speculation or CO2 emissions, for example, are equally important. The rate of taxation must be determined in a way that optimises new sources for development financing. Such an optimum rate would be lower than if the strategy primarily aimed at reducing emissions or speculation. 'Logrolling' – the mutual support of two political concerns – opens additional opportunities in the lobbying process and helps to increase public support.

A fundamental question for all global taxes is whether it is preferable to have a World Tax Authority or rather to rely on tax collecting bodies at the national level. However, the strength and weaknesses of the arguments for or against such a supranational

[34] In 1990/91 the ERG had been heavily indebted and was granted relief. In 2003, the ERG paid back CHF 175 Million and the remaining CHF 150 Million of loans from the Swiss Confederation.

tax collector depend on the specific tax. States could benefit from receiving part of the tax revenue as a compensation for collecting them, which might encourage them to support the tax.

Generally, the different global tax instruments have two other important advantages. First, the partition problem would be solved. Second, the large-scale negotiation procedures would be stopped.[35] One major weakness of all these proposals is the very limited chance of US support. In 1997, the US Congress passed legislation that makes it illegal for the United States Government to participate in any global taxation effort.[36] For some concepts, due to their flexible geometry, this is less important than for those where a free rider might undermine the effectiveness of the proposals.

Furthermore, the Landau Report seeks a fundamental change in the international fiscal system in order to facilitate cooperation among states. This would enable states to recover more efficiently the taxes lost through competition and tax evasion. Landau argues that the current tax system has been constructed on closed, national economies; hence, it does not respond to the needs of either the states or development purposes.[37] Finally, there is the difficulty or dilemma, he says, of reconciling national sovereignty and the need for common action.[38]

2.1 Tobin Tax/Spahn's Currency Transaction Tax

Description

The Tobin Tax on currency transactions lessens market volatility. But it is the double benefit of stabilisation and additional revenue that is the tempting argument for this option. The Tobin Tax has been widely discussed over the last 20 years. To analyse the Tobin Tax here, specifically as an alternative source for financing MDGs, moves the main focus from Tobin's famous 'sand in the wheels' towards the revenue potential of this tax.

The annual turnover of currency transactions is estimated at US$500 trillion. Some 80% of these capital movements do not last for more than a week and only 5% are related to the real economy. James Tobin's idea of taxing such currency transactions might reduce the volume of speculative transactions by half, according to some estimates. At a rate of 0.1%, it would generate new annual revenues of about US$ 250 billion. Participating countries - through their central banks and governments - would collect the tax and could eventually benefit by receiving a percentage - 10% has been proposed – of the collected revenue. Another 10% could be disbursed for UN –actions, while the main part - about US$200 billion - would be used to finance the MDGs. Another calculation, by Anthony Clunies-Ross, based on a significantly lower tax rate of 0.02%, still foresees a revenue potential of about US$50 billion.

The financial sector and the real economy, including small and medium-sized enterprises (SMEs) of all countries benefit directly from improved stability in the

[35] Jean-Pierre Landau, Les nouvelles contributions financières internationales, 2004, p. 12.
[36] Jean-Pierre Landau, p. 21.
[37] Jean-Pierre Landau, p. 57.
[38] Jean-Pierre Landau, p. 22.

international financial system. Moreover, reducing the risk of speculative attacks and vulnerability enables countries better to predict the development of their economy and to implement long-term policies.

Four related proposals[39] seek to adapt James Tobin's idea to the present context and solve some of its weaknesses. One of them, ***Spahn's Currency Transaction Tax***[40], did have a promising echo in the recent past at the European level. The basic idea of Paul Bernd Spahn's proposal, commissioned by the German Federal Ministry for Economic Cooperation and Development, is similar to Tobin's tax, but differs essentially in three aspects:

- First, because of the political difficulties in introducing the Tobin Tax at a global level, Spahn proposes a limited version for the European time zone.
- Second, he proposes a lower tax than some other economists do. A tax of 0.01% or alternatively 0.02% on currency transactions – on spot and forward transactions up to a one-month term – would still raise between Euro 17 billion and Euro 20 billion[41] annually, as a possible European contribution to financing the MDGs.
- Third, a very high tax would be charged in times of heavy currency market turbulence and monetary attacks. The combination of two taxes in the form of a 'Tobin-cum-circuit-breaker', as Spahn calls it, also tries to respond to the difficulty of defining the right level of taxation.

Assessment

Strengths
- The Tobin Tax is potentially the richest new source for development financing so far proposed.
- The Tobin Tax discriminates against speculative short-term transactions and favours longer-term commitments in a market-friendly way.
- The Tobin Tax would put an end to the privilege of currency transactions compared to physical transactions, on which VAT is usually charged.

[39] *Financial transaction tax*
For George Soros, financial transactions in general benefit from preferential treatment compared to physical ones (see above); therefore, all financial markets, not only currency markets, should be taxed. On the technical side, he proposes the Delta, the equivalence of derivative in terms of the underlying security to calculate the value and the adequate tax at the time of the transaction.
Offshore transaction tax
Michel Camdessus last raised this idea at the ministerial forum on financing for development, in Paris, on April 8 2004. Such a tax would respond to one of the criticisms, also stressed by the FFA, that off-shore places would undermine the Tobin Tax and the latter, therefore, is not feasible. The feasibility of Camdessus' proposal needs further investigation.
Cross-Border Capital Tax
The Cross-Border Capital Tax, proposed by Howell Zee in 1998, would raise a withholding tax at source on all private capital inflows. On the one hand, this would mitigate the destabilising impact on domestic economies of volatile global capital movements and, on the other hand, it would deal with tax evasion connected with cross-border flows from portfolio investments.
[40] by Paul B. Spahn called the „Politically Feasible Tobin Tax"
[41] Neither pound sterling nor the Swiss franc is included in this calculation unless traded against euros.

Weaknesses

- It is not easy to find the optimum rate of taxation. The currently proposed taxation of 0.1% is low enough not to significantly hurt non-speculative or conventional transactions, such as international trade – but would it be it sufficient to curb speculation?
- The technical feasibility of preventing tax evasion is still an issue. Some believe that all derivative instruments (such as futures and options) should be taxed too.
- The Tobin Tax would reduce the liquidity of the marketplace so that major transactions, such as the acquisition of large companies, would have a greater impact on exchange rates (Soros).

The United States strongly opposes the Tobin tax. The IMF, once strictly against it, now adopts a more neutral position and even sees some possible benefits from such a tax. On the other hand, some experts are questioning the effectiveness of a currency transaction tax. New forms of market instability are cited but there are no reasons for believing that the Tobin Tax would increase volatility.

Spahn's Currency Transaction Tax is a promising proposal, especially since the Belgium Federal Parliament has approved the Spahn version of the Tobin Tax. German Chancellor Gerhard Schroeder and French President Jacques Chirac also support this proposition.

Strengths

- It is easier to find a rapid agreement in Europe (European Union) – and, considering the urgency of action to reach the MDGs by 2015, this matters.
- This European zone currency transaction tax would serve as an example of best practice and provide potential leverage for a future global Tobin Tax.
- Spahn's proposition, together with the Belgium decision, brings movement and injects new dynamism into the discussion of the Tobin Tax.

Weaknesses

- By limiting the tax to Europe, the currency transaction tax would lose part of its effectiveness in relation to both the revenue potential and the stability effect.
- It might also take off some pressure for seeking a global solution and undermine the bargaining power of the Tobin tax supporters.

Paul B. Spahn stresses that evasion reactions are strongly exaggerated. The high and still growing concentration of foreign exchange trading clearly runs counter to the possibility of avoiding the tax. A currency transaction tax does not require global implementation from a practical point of view. It is important, however, that the entire European time zone participate, as concentration of currency activities is pretty much related to time zones. Therefore, it would be of primary importance that the United Kingdom, with London as the main market place of the European time zone, should participate.

For implementation, the taxable object and the taxpayers have to be identified. The tax should be charged by all traders/banks accredited at European financial centres, including Switzerland, as well as through centralised automated order-matching and settlement systems. Following the Spahn proposal, the tax could be collected either at the trading desk or at the point of settlement. The second possibility is preferable; it could be tied to access to official settlement systems, and would better respect market principles.

A Tobin Tax at the European level would be subject to decisions of the European Council and the European Parliament, and national governments would have to ratify the law. Spahn considers support beyond the EU, and including Switzerland, as important, but doubts its feasibility for the time being.

Swiss Perspectives

The Swiss Government so far has not supported moves towards a currency transaction tax, arguing that it is neither desirable nor feasible. The Swiss Federal Finance Administration (FFA)[42] is the leading body in the federal administration. It pointed out that distortions are not desirable: the Tobin Tax could affect liquidity and lead to higher transaction costs and significant shifts in incentive structures; finally, the likely impact remains unclear and difficult to estimate. FFA does not assume that global support can be achieved, which means that transactions could probably shift to off-shore centres - an argument which, according to Spahn, does not hold water. It was also said that new transaction instruments would be developed to evade taxation. Opposition must be expected from the banking sector and other financial institutions which directly benefit from the volume of currency and financial transactions. On the other hand, the Tobin Tax is largely supported by NGOs.

Spahn's Currency Transaction Tax: In the light of the positive resonance in Europe in the recent months, especially in Belgium – a milestone for the Tobin Tax, which might have a leverage effect on other European countries – it is crucial to be prepared to respond to an eventual concrete enquiry, or even demand, for cooperation by the EU. The importance of Zurich as a currency exchange market could become an obstructive element in further European negotiations and discussions on a Tobin Tax. It might even make the implementation process impossible, due to the risk of dislocation and unequal competition within Europe.

Bilateral negotiations would be necessary between the EU and Switzerland. On the one hand, the tax yield would fall to the tax collecting body first; international institutions could only obtain the tax revenue in a second step, through budgetary transfers. The same legislature that is accountable for the tax would also decide on the apportionment and use of the tax proceeds, which is quite relevant for Switzerland. On the other hand, trade-offs might be possible; for example, there could be advantages for the Swiss financial sector if Switzerland showed some goodwill on this issue. 'Support' from the financial sector would lower the risk of an eventual referendum. Full support is to be expected from the NGOs.

[42] Swiss Federal Finance Administration FFA, Financing for Development, High Level Dialogue, October 28-29, 2003.

2.2 Carbon Tax/Kerosene Tax

Description

For many OECD member countries, environmental taxes are already on the political agenda in order to combat climate change and to meet the Kyoto Protocol commitments. The Carbon Tax would tax fossil fuels (fuel and power fuel[43]) at Euro 0.01 per litre or US$ 0.048 per gallon (corresponding to approximately US$21 per metric ton of carbon) and in this way collect US$130 billion per year for Development Financing. Even Anthony Clunies-Ross' conservative estimate of a carbon tax levied on all high-income countries would still bring new revenues of US$60 billion per year. The carbon tax would be collected, similarly to the value added tax (VAT), directly on the sale of fossil fuels.

Greenhouse gas emissions are a major problem in today's world and the reduction of these emission rates is part of the 7th Millennium Development Goal. Consequently, the carbon tax would positively affect the MDGs' agenda in a double way, even if it remains difficult to calculate the impact on emission reduction.

A sub-variety of the carbon tax is the ***kerosene tax***. This would be levied on flight fuel to compensate for externalities, in particular the greenhouse effect. The Centre for Energy Conservation and Environmental Technology in the Netherlands has published a report on *'A European Environmental Aviation Charge'* where an aviation fuel tax is discussed, among other propositions. The maximum revenue potential is estimated to be about US$20 billion a year (including travel taxes).

Similarly, the ***maritime tax*** has been recently proposed by the Landau Report[44] in compensation for two kinds of externalities: the greenhouse effect and oil spills. Ten thousand oil spills have been counted over the last forty years. The disaster of the Exxon Valdez caused damages of US$9 billion; the Prestige case, about US$1.1 billion. The maritime tax could raise a maximum of US$20 billion if a very high penalising tax were applied and implemented at the global level.

Assessment

<u>Strengths</u>

- The estimated annual revenue from taxing fuel consumption would be enough to finance the MDGs.
- Carbon taxation is already practised at national level and the international tax could be based on best practices.
- It is a consumption tax and thus a fair instrument for charging those who are responsible for the gas emissions.

[43] oil, coal, gas / petrol, gasoline, diesel.
[44] Jean-Pierre Landau, Les nouvelles contributions financières internationales, 2004, pp.85-87.

Weaknesses

- The carbon tax is regressive in that it places an equal burden on low-income people and high-income consumers. However, the tax is very low and even in the United States only 4% of income is spent on gasoline.
- It is to be expected that a global agreement will take a long time to be reached and ratified.
- The carbon tax is rejected by the United States, where 20% of world fuel consumption takes place.

Rejection by the United States, the main consumer country, makes it difficult to persuade other countries to join the tax scheme. There is also strong opposition from Japan. A flexible geography is required and has to be carefully designed in order that the effectiveness of this instrument not be entirely undermined by those who do not participate.

In the European Union in 1997, a Council Directive was proposed for environmental taxes on energy products and in March 2003 the Council of Ministers gave its political consent. But, according to a paper from Eurostat published by the European Community in September 2003, this proposition contains a fundamentally different approach to the revenue raising and spending of such a tax: *'The basic idea is that an increase in environmental tax is accompanied by a reduction in taxes on labour, thereby avoiding an increase in the overall tax burden and achieving the twin benefits of reducing environmental damage whilst increasing employment through reduced labour costs'.*[45]

Taxation on mineral oil or fuel is quite common for national concerns. Many countries understand fuel taxes as a way of reducing pollution and as a redistributive mechanism in favour of the public in general. Part of the tax revenues from a global carbon tax for financing development could be shared with collecting governments.

The ***kerosene tax*** requires a specific assessment:

Strengths

- Mobilisation of additional public revenue is a central concern.
- Taxation is a market-orientated way to internalise external effects (greenhouse gas emissions).
- The tax will stop the 'race to the top' of public spending and preferential treatment to the aviation sector, actually distorting real and fair competition.

Weaknesses

- Global, or at least European cooperation, is required.
- Strong opposition from the United States and Asian countries, especially Singapore, makes a global agreement almost impossible.
- International legal constraints.

[45] Ulf Johansson & Claudius Schmidt-Faber, Environmental Taxes in the European Union 1980-2001, in Statistics in Focus, Eurostat, 9/2003, p. 3; also, New Zealand decided in 2002 upon a unilateral carbon tax to meet the Kyoto Protocol target stating that the revenues are not used *'…to improve the government's fiscal position but will be recycled, for example, through the tax system and into climate change projects.'*

Under the Chicago Convention of 1944, kerosene has been compulsorily exempted from taxation on international flights to ensure ‘fair international competition’. Advocates of the proposal consequently argue that it is a ’charge’ rather than a tax. Even in the case of the unilateral application of the kerosene tax in Europe, the Bush Administration refuses taxation on intra-European flights for US airlines. Political and economic pressure are to be expected. From the legal point of view, however, there is no reason why taxation on all Intra-European flights should not be possible. There are best practice examples for the kerosene tax on a national level. Austria had a ‘kerosene tax’ or more precisely ‘charged’ kerosene on inland flights at the current mineral oil tax rate until it entered the European Union in 1995. But, according to the Annual Report 2003/2004 of the *Community of European Railway and Infrastructure Companies,* for international flights the aviation sector still benefits from tax exemption in Europe. A new directive allows kerosene taxation on these flights through bilateral agreement.

The United States introduced a kerosene tax on inland flights in 1996 as a contribution to reducing the state deficit. The fairly small tax has no major effect on the state deficit reduction. It is remarkable that on the Intra-American flight market, which represents about 30% of the world’s flight fuel consumption, kerosene is taxed. Again, non-participation by the United States would not undermine the proposal, but it would have a considerable negative effect on both the revenue and the effectiveness.

Finally, the ***maritime tax***:

<u>Strengths</u>

- Additional public revenue could be easily collected through an existing body (IOPC).
- In combination with the Carbon and Kerosene tax, it would strengthen the green argument.
- Taxation is a market-orientated way to internalise external effects (greenhouse gas emissions and oil spills).

<u>Weaknesses</u>

- To have a sufficient impact, a very penalising tax of 150% on fuel consumption would be necessary.
- Strong opposition from the most important trading nations, especially the US.
- The tax would penalise developing countries in their access to the international trade system.

The International Oil Pollution Compensation (IOPC) Fund, which could collect the ***maritime tax***, was founded in 1971 and brings together 83 states. The Fund’s idea is to share the risk of oil spills internationally and to compensate the victims collectively for their damages. The United States is not member of the Fund.

Swiss Perspectives

Switzerland is generally in favour of further investigations and in-depth discussion on the global carbon tax. At the same time, two different propositions are currently being discussed at the national level:

- The ‘climate cent’, which would charge one cent (’Rappen’) per litre of fuel and which would have a rather limited effect on consumption.
- Four different variants of a national CO2-tax are being discussed, with Parliament finally deciding the level of charges, ranging from 30 to 50 cents (‘Rappen’) per litre of fuel.

Whereas the first proposal would use tax revenues for environmental concerns in-country and abroad, the second would return all revenues to the private sector, through the Old Age Insurance scheme, and to the population through Health Insurance. The first proposal has been put forward by the petrol union (‘Erdöl-Vereinigung’) mainly to avoid a CO2-tax. It is rejected by environmental NGOs because of its voluntary and limited (national) character. The ‘climate cent’ is very distinct from the global carbon tax. The carbon tax, which first of all seeks to generate new financial resources globally, is a complementary and not a competing proposal to the CO2-tax at the national level. The latter focuses on the environmental concern to reduce CO2-emissions, corresponding to the Kyoto protocol ratification and the CO2 Law.

A consultation procedure has taken place in 2004/2005. It might provide for bringing back in an internationally coordinated carbon tax in favour of development financing, although current discussions in Switzerland, as well as in the EU, are rather leading towards national use of the tax revenues or refunding them.

In Switzerland, the proposed extra Euro 0.01 per litre on all fuels would bring Carbon tax revenues of about CHF260 million.[46] A treaty on a global carbon tax should oblige the individual country to pay taxes in proportion to its emissions. Thus, for Switzerland, it is important to propose – independently of the national CO2-tax – an additional targeted tax to make the double dividend work.

The legal basis as well as a collecting body needed to introduce a global carbon tax already exist. The use of revenues requires an amendment to the law. Full support from environmental NGOs and some political forces is to be expected. There will be opposition, but the risk of political failure is limited considering the very low tax rate.

A national ***kerosene tax*** already exists for inland flights. In 2002, this was 4% of the kerosene deliveries, generating, together with small-scale private aviation, CHF15 million a year. As a good practice example, the experience would help to implement an international tax. The Swiss Government takes a positive attitude, provided international cooperation is ensured. Over several years the Minister of the Department for Environment, Transport, Energy and Communication (DETEC) raised this issue with his European colleagues, but there have been no concrete results. The Swiss delegation again proposed a kerosene tax at the General Assembly of the *International Civil Aviation Organization (ICAO)* in Montreal 2001. However, a large

[46] Total fuel consumption in Switzerland is about 16 billion litres a year (or 40.8 million tons of CO2).

majority rejected such a tax, partly in the context of the events of 11th September. One of the main Swiss environmental NGOs had been lobbying other European Organisations, but stopped efforts due to a lack of concrete results.

If the European Union and Switzerland decided to adopt the kerosene tax, European airlines like SWISS would face a disadvantage compared to Asian and American Airlines. Today, the aviation sector benefits from privileges (fossil fuel tax exemption, VAT exemption, etc.) in Switzerland as well as in most other countries. This would provide very good justification for the introduction of a kerosene tax. In a Government report dated 26th July 2004 on aviation policy in Switzerland, the Federal Council was determined to change this situation. The report calls not only for real costs in the aviation business, but also intends to call for the international coordination of a kerosene tax or a tax on flying distances.[47] This is an important opportunity for an international breakthrough. A debate on a kerosene tax is already going on at different levels[48]. Since the EU is exploring possibilities of a kerosene tax, Swiss initiatives will be welcome and make further analysis worthwhile. It can be expected that a number of Swiss NGOs would support such a Swiss move.

The ***maritime tax*** will considerably increase transport costs, and thus also the cost for the import of goods from overseas. As an inland state, Switzerland is traditionally not very involved in maritime transport (except Basle). It could, however, be part of a strong green argument together with the carbon and kerosene tax, where Switzerland could play a leading role.

2.3 Arms Sales Tax

Description

Taxing global arms sales, as a contribution to reducing hunger and poverty, was proposed by Brazilian President Lula da Silva during the G8 summit in Evian. The Report *Action Against Hunger and Poverty* [49] analyses this proposition among others.

With the volume of legal global arms trade estimated at around US$50 billion a year[50], a 5% tax would generate revenue of about US$2.5 billion. Anthony Clunies-Ross estimates revenue at around US$5 billion. The Landau-Report, calculating with a 10% tax, gives the same estimate of potential revenue.[51] The Lula-Report does not mention an amount, but rather underlines the difficulty of fixing an adequate tax rate: on the one hand, a high rate would tend to encourage tax evasion and illegal trade; on the other, a low rate would call into question the cost effectiveness of the

[47] An aviation fund should be put up, getting the benefits of today's national kerosene tax and financing environmental, safety and security measures.
[48] In June 2004, the Sustainable Development Commission answered in its Report *Missed Opportunity* to the government's *Air Transport White Paper* and asked the latter to ensure that the aviation industry is taxed according to the environmental cost and imposes compensation for those most directly affected. Later on in the report, it estimates that it is primarily the world's poorest people who are paying the costs of climate change.
[49] Action Against Hunger and Poverty, Report of the Technical Group on Innovative Financing Mechanisms (Lula Report), September 2004.
[50] Following the 1999 estimate of the US Department of State's overview „World Military Expenditures and Arms Transfers“, February 2003.
[51] Jean-Pierre Landau, p. 89.

mechanism.[52] Furthermore, the report emphasises the steep rise in world military spending, which has increased by 18% in real terms over the last two years and is approaching the figure of US$1 trillion a year.[53]

Assessment

Strengths

- It would reduce arms transfers between rich countries and increase the costs of arms sales between rich countries and poor ones.
- The arms sales tax has a political message and a symbolic value[54]: legal and illegal arms hurt innocent and, very often, poor people all around the world.
- Higher prices could lead to a reduction in acquisition or a debate on budget allocations (social programmes versus defence programmes).

Weaknesses

- To gain support from governments will be difficult because legal trade of arms takes place essentially between two governments which will not want to tax themselves.
- The tax would make it even more costly to the poorest states to use their right to defend themselves.
- Compared to the resource needs to cover MDG costs, the global arms tax would be a modest revenue earner.
- The loss of transparency, which has hardly been established, and a shift to more illicit trade are considerable risks, especially for trade in small arms.

However, the Report 'Action Against Hunger and Poverty' says that taxation can also lead to greater transparency and accountability in the arms trade, especially by data processing and standardisation and, in particular, for countries under UN Security Council arms embargoes.

In Evian, the Brazilian President's message was not well received by the G8 leaders for obvious reasons: 85% of global arms trade is between G8 members. In early 2004, however, President Jacques Chirac of France re-launched the idea, backed by UN Secretary General Kofi Annan and Chile's President Ricardo Lagos, and more recently by Spain. This injected fresh dynamics into the proposal. However, it is still not among the main priorities.

Swiss Perspectives

Switzerland has so far not debated or analysed this proposition. As another 110 governments do, Switzerland provides information on exports and imports of conventional arms to the UN Register of Conventional Arms. The latter would be an appropriate instrument to collect such a tax because of its transparency and its international recognition. Hence, the technical implementation implies little

[52] Action Against Hunger and Poverty, p. 40.
[53] Action Against Hunger and Poverty, p. 36.
[54] The Landau Report talks about "moralising international life"; see Jean-Pierre Landau, Les nouvelles contributions financières internationales, 2004, p. 13.

bureaucratic effort from the Swiss side. Because Switzerland's arms production is very small today, resistance would be insignificant.

2.4 Byte Tax

Description

The Byte Tax seeks to tap the information society by taxing internet traffic. It was first put on the table, at the international level, by the Club of Rome in 1994 and was strongly supported by the 1999 Report of the United Nations Development Programme (UNDP) on Human Development. In the meantime, the volume of internet traffic has exploded. In 1996, Arthur Cordell proposed 0,000001 cent per byte or 1 cent per megabyte, which would have raised US$70 billion. Now a far lower tax could be levied and would still raise the necessary additional revenue of US$50 billion a year.

Initially, Cordell argued that the existing tax system based on monetary values would no longer make sense in the information society.[55] Indeed, some estimate that in 30 years' time, consumer activity online could represent more than 30% of total consumer activity. The preoccupations of Luc Soete and Bas ter Weel are similar, proposing a byte tax as an adequate tax base to facilitate gradual integration of economies and growth of electronic commerce. This would avoid tax erosion or a 'race to the bottom' in the context of rising mobility of goods and services. Moreover, it would avoid tax evasion by internet sales especially in the intra-European market.

Some argue that the byte tax would make the access of poor countries to the information society more expensive and thus burden them again. On this account, the very basic idea of the byte tax seeks redistribution to democratise access. In fact, Soete & Weel argue that the byte tax could 'turn out to be a useful tool in redistributing income and giving people a ticket to enter a new age…'. The step forward to financing development in view of reaching the MDGs goes without saying. Indeed, as the UNDP stated in 1999, '…globally in 1996, it would have yielded $70 billion – more than total official development assistance that year.'[56]

According to Soete & Weel, the Internet Service Provider (or eventually Network Provider[57]) should collect the tax and act as the fund's intermediaries.[58]

Assessment

<u>Strengths</u>
• The byte tax would redistribute part of the benefits of the information society and compensate poorer countries, which have to date derived much less benefit from the information revolution than the North.

[55] He proposed a byte tax as replacement for VAT on information technology goods and services, rather than as an additional tax.
[56] UNDP, Human Development Report 1999, New York, Oxford, 1999, p. 66.
[57] Providing bandwidths to Internet Service Providers (ISPs).
[58] It would also be possible to collect taxation through telecom operators, adding it to the bill of their clients, who are essentially internet access providers.

- The implementation of the tax and its collecting system would technically and administratively be feasible.
- The revenue potential could be considerable.

Weaknesses

- The participation of all countries is necessary to be efficient and to avoid creating some ‘byte-paradises’.
- There is hardly any support for the byte proposals by industrialised countries. The United States is strongly opposed to this tax and even threatened to withdraw from the World Summit for the Information Society (WSIS) of the UN.
- Some believe that confidentiality would be compromised.

It is not only developed countries that do not support the byte tax; some developing countries as well remain sceptical of the tax. They fear that it might marginalise them even more as far as access to information and communication is concerned. Overall participation is necessary, however, for it to be effective. In such a context, due to the high mobility of the information sector, the tax will hardly have any chance of being successful.

As the information society has grown, proposals to tax it have come up and multiplied. At the World Summit for the Information Society (WSIS) in Geneva 2003, the proposed Digital Solidarity Fund suggested that voluntary donations should be raised on computer sales. Another tax, similar to VAT, was proposed on e-commerce, taxing the value of goods and not the transaction (byte tax). A tax on websites and domains is another option. Together with the more popular byte tax, these proposals open a vast field of investigation for new sources of financing in the near future.

The different proposals are based on the idea of democratising the information society by taxing it globally and thereby financing access in the South. Implementing such proposals now for financing development and reaching the MDGs in general, and not specifically for democratising the information society, would weaken the argument for the latter. But the new sources for development financing are destined for the poorest countries and therefore also serve to close this gap. Poverty reduction is the most basic and indispensable condition for ensuring access to any kind of services.

Swiss Perspectives

Like most industrial countries Switzerland is reticent about the byte tax.[59] On the technical side, no major difficulties are expected. The byte tax would be an excise duty like others, but charging the volume of transaction (bytes) instead of the value of transaction. Concerning legal and fiscal differences between countries, the tax would not call for international adjustment. The risks of distortion would be quite low. Collected by Internet Service Providers (ISPs) or Network Provider (NPs), the

[59] Selon Marie Thorndahl, Financements alternatifs et société de l’information, Pain pour le prochain, février 2003 ; see also Joëlle Carron, Possibilités de financement dans la société de l’information: recherché de données sur la Suisse, Pain pour le Prochain, October 2004.

revenues would flow directly to the national tax authorities of the respective country, overcoming the problem of residence.

3 Voluntary Private Contributions

Charity has a long tradition in financing humanitarian aid and development projects. The basic concept behind this set of proposals is that raising awareness of the population and of foundations of the MDGs stimulates funding and vice versa. It can be considered as another ‘double dividend’ to have more sensitive citizens regarding the MDGs on the one hand, and increased development funding on the other.

3.1 Private Donations

Description

In 2001, OECD-wide private donations for development concerns amounted to US$ 10 billion. This compares to US$50 billion of ODA, and a MDG resource gap of another US$50 billion. The revenue potential of charitable donations by private individuals and by corporate firms to fund the MDGs is unclear. To a limited extent, supplementary efforts might be able to mobilise additional private donations for development purposes. On the other hand, the revenue could considerably rise if parts of the current voluntary contributions were shifted from national concerns and inward orientation towards financing for development. The United Nations Fund for International Partnerships (UNFIP) was established in 1998 in order to promote the MDGs with a variety of organisations and to facilitate dialogues and resources.

The example of the United States, with a sum of annual private donations of US$220 billion or 2% of GNP, well illustrates not only the importance and revenue potential, but also the ambiguity of the issue. The definition of private donations seems quite broad; their nature can be very different and most will not be suitable for development financing. The Landau Report says that only 3% of this US$220 billion is donated for development purposes.[60] In general, foundations use resources very specifically and are not inclined to shift to development financing. For individual donors, the *Patriot Act* of September 2001 did not facilitate the task of convincing people to donate to international causes.

Assessment

<u>Strengths</u>

- Theoretically, the revenue potential is considerable.
- It could be argued that it is cheaper to lift people out of poverty in developing countries than in industrialised countries, therefore higher efficiency for the same amount of money can be achieved by a global focus on MDGs.

[60] Jean-Pierre Landau, Les nouvelles contributions financières internationales, 2004, p. 33.

Weaknesses

- The shift towards the MDGs' financing would crowd out other national and international social projects and institutions.
- It will be difficult to reverse the inward orientation of private donations in the United States and elsewhere, due to a lack of understanding of the global issues by many citizens.
- It is inappropriate to shift key roles of the public sector to private initiatives and to depend for basic human necessities (MDGs) on private charity with its high volatility.

Swiss Perspectives

In Switzerland, the annual aid volume provided by NGOs to developing countries is around CHF300[61] million, out of an estimated total of CHF1,000 million in private donations for all purposes.[62] Unfortunately, promotion for MDG donations will rather shift donations than stimulate additional ones, and it will be technically difficult to avoid this risk. Thus a government-led campaign to stimulate and shift private donations for development would be a political issue.

Beyond the difficulty of convincing donors, stiff resistance from Swiss NGOs, both national and international, is to be expected. In addition, tax incentives to make private donations attractive would have a negative impact on revenues and might also provoke opposition from the cantons.

3.2 Global Lottery

Description

The idea of funding UN development activities out of the benefits of a global lottery dates back to the 1970s. A global lottery game could be run at national levels based on national lottery infrastructure, or alternatively, a single global lottery could be created, with a specific organisation selling the lottery tickets worldwide. The Ministry for Foreign Affairs of Finland is investigating a version of UN Global Lotto, where National Lottery firms would be responsible for the game's implementation, according to national government legislation and to the framework given by the World Lottery Agency. There would also be supervision by the UN over the specific Fund which would take disbursement decisions through UN Operations.

In 2001, the global volume of lottery sales was about US$126 billion, with about half of it being distributed to the winning players. Still it is difficult to estimate the revenue potential of a global lottery, generated by new players and captured from existing lotteries. In current national lottery games, the administration takes about 20% of the proceeds (or 40% of the benefits). The remaining 30% of the gross profit would generate only limited revenues to finance the MDGs.

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[61] SDC 2004, page 7; another CHF 10-15 million are used for transition countries.

[62] Total income of all organisation certified by the ZEWO label (about 300 NGOs) amounts to about CHF 1.7 billion, out of which 36% or CHF 610 million is received as private donations. The difference with the estimated figure of CHF 1,000 million is accounted for by non-ZEWO members.

Hence, even if hypothetically the ‘benefits’ of all national lotteries were directed to the MDGs, Global lottery would not reach the US$ 50billion, the objective of development financing.

Assessment

Strengths

- Global lottery has an important awareness raising effect.
- It can become operational within in a reasonable time frame and financial independence is far higher than for other instruments.
- It is a continuous source of revenue.

Weaknesses

- If the global lottery captures important parts of national lotteries, it will be in competition with the latter and will negatively affect their beneficiaries, who very often support socially important institutions at the national level.
- Hence it may face political opposition, if it is expected to crowd out money from national charities.
- Global lottery will enter a crowded market place in many countries.
- Bureaucratic costs call into question not only the efficiency, but also the legitimacy of this mechanism.

It remains difficult to decide whether there is a win-win situation even for national lottery organisations, as the United Nations argues, through their operational and financial (part of the benefits) participation, and whether a global lottery would strengthen or weaken them.

According to Tony Addison and Abdu R. Chowdhury from the World Institute for Development Economics Research (WIDER), in developed countries liberalisation of the national lottery markets might be necessary. Finland, which initiated the proposal and mandated research on the subject, will certainly support this proposal.

Concerning the form of lottery, instant products are the most appropriate because the operational costs are lowest. Furthermore, gambling taxes provide in some countries, especially the United States and Australia, substantial revenues. Internet gambling today has a market share of about 3.2% or US$32 billion of a total annual gambling turnover of US$1 trillion, and lowers the transaction costs of gaming. The financial potential and its possible extension are quite promising.

Swiss Perspectives

The Swiss Government has not taken a position on the Global Lottery proposal. Introducing the global lottery would require an adaptation of the Swiss Lottery law. In 2001, the Swiss Minister of Justice and Police, who is responsible for this area, decided to revise it in view of other pending concerns. In 2004 again, the Federal Councillor decided to stop this process temporarily and to leave it to the cantons to find solutions and an agreement to open questions. It remains unclear how much the recent decision to shift competences to the cantons and the courts closes the door for the global lottery proposal and whether the revision process could be reactivated within a reasonable timeframe. The *de facto* decentralisation proposed by the Federal Councillor empowers the cantons on this subject and will make it more difficult to propose global allocation of the revenues.

The global lottery proposal provokes a considerable conflict of interest with those Swiss organisations benefiting from the national lottery revenues. Resistance by sport and cultural associations, the main beneficiaries of National Lottery, is to be expected. It will also not be easy to convince local governments (especially cantons). Neither can the impact on the national lottery or the potential shift/creation of new revenues by a globally lottery be assessed, as no reliable information is available. The evaluation of potential losses for national lottery beneficiaries and their impact is critical. Furthermore, the Federal Department of Justice and Police would have to clarify the competences between the Federal Government and the cantons, and evaluate the necessary legal conditions for implementing a global lottery in Switzerland.

3.3 Global Premium Savings Bonds

Description

Unlike the Global lottery, premium bonds are a savings instrument. Only the return on investment has a random/lottery element. Borrowers could be developing country governments, NGOs and international organisations. They would benefit from conditions as good as those facing rich country governments.

This funding idea is promoted at the WIDER[63] and is currently practised on a national level in Bangladesh, Ireland and the United Kingdom. In the UK, annual premium bond sales are presently running at US$34 billion.

To increase development education and the volume of bond holders, a menu of lottery tickets, earmarked for important causes, could be proposed, but each with the same conditions. In the UK, winnings are tax-free – another incentive to buy bonds.

Under the UK scheme, saving bonds, each with a unique number, will be entered in a monthly prize draw. The size of the total prize allocation is equivalent to the yield on UK government stock. Stock would be lent to developing countries and thus premium bonds are a debt instrument.

[63] Tony Addison and Abdur R. Chowdhury, A Global Lottery and a Premium Bond, WIDER, Discussion Paper No 80, 2003.

Assessment

Strengths

- Premium Savings Bonds might attract another type of client. Unlike pure lotteries, investors in a global premium savings bond never lose their initial investment, whereas the return on that investment depends on luck.
- It would facilitate ethical investments, raise awareness of such investments and ultimately offer an attractive savings instrument to ethical investors.
- It wouldn't crowd out national charities as much as a Global Lottery might.

Weaknesses

- Loans, not grants, are the financing instrument of Global Premium Savings Bonds.
- The problem of repayment remains unresolved.
- Rich countries (G7) would have to be the guarantors, because default by borrowers is possible. Also, bonds can be redeemed on demand and loans are long-term, so there is a mismatch in the maturity structure between assets and liabilities.

Unlike the global lottery, no benefits are allocated to finance development because expected returns on investment will be entirely redistributed to bond holders with a random mechanism if the UK model is followed. Developing countries would basically benefit from a better interest than they would get on financial markets. As the Bangladesh example shows, it could also be introduced in developing countries.

The aggregate of the different weaknesses seems too strong to pursue this option. Depending on the scale of such bond investment, opposition from the banking and financial lobby is to be expected.

Swiss Perspectives

Global premium savings bonds have not been discussed in Switzerland. Best practices from the UK could be adapted to the Swiss context. Administrative and institutional efforts would be required even if a global body for prize draws etc. were to be created.

It is not clear whether participating countries would be ready to guarantee for default on payments or other risks. This is a key question concerning the feasibility of this instrument – and it might raise further Swiss concerns.

3.4 Voluntary Contributions through Credit Card

Description

The idea has been recently proposed by the Report 'Action Against Hunger and Poverty' (Lula-Report)[64]. First, clients would simply agree to donate a small percentage of the value of their purchases. Second, credit cards companies and associated banks could also agree to donate a very small part of their earnings (commissions, annual fee, etc.). The volume of annual purchases with credit cards in the world is estimated at US$3.2 trillion. Credit-card based donations have already been experienced in many parts of the world. The Action Against Hunger and Poverty is seeking a co-branded or affinity card, which has experienced a real boom in recent years and is estimated today to account for 50% of all credit cards.

Assessment

Strengths

- A credit card scheme is relatively easy to implement and therefore low in cost.
- A win-win situation is possible for co-branded cards. Indeed associated companies would benefit from an increasing volume of clients and purchases and a better reputation, and collect - as counterpart - new sources to finance development.
- It is a continuous and additional source of revenue.

Weaknesses

- The revenue potential remains limited.
- It might crowd out revenues from other social organisations benefiting today from affinity cards.

Swiss Perspectives

This kind of credit card donation is also known in Switzerland (e.g. WWF). Switzerland has one of the strongest banking sectors in the world. But banks and credit card companies often have a mixed reputation. To support such action could bring them a better reputation and goodwill from consumers at relatively low cost.

4 Further proposals

4.1 Emigration Tax

Description

In its Human Development Report 2001, UNDP launched the idea that a tax on employees leaving their countries could counter the exodus of highly skilled persons

[64] Action Against Hunger and Poverty, Report of the Technical Group on Innovative Financing Mechanisms (Lula Report), September 2004, pp. 15-16; 59-61.

from developing countries and provide compensation if emigration took place despite taxation. According to the UNDP, such a tax could, for example, bring India US$1 billion a year in public revenue, which could be used for education. The tax should be considered as a ‘return on investment’. The UNDP estimate is based on the proposal of a taxation amounting to two months’ salary, to be paid by the employer.

The initial proposal of Jagdish Bhagwati to lessen the negative consequences of the brain drain and the idea of compensating countries of emigration, as proposed by R. W. Böhning, dates back to the 1970s.

Assessment

Strengths
- The emigration tax would mobilise additional public revenue in developing countries.
- Taxation is a market-orientated way to reduce migration.
- Emigration of qualified people with high public educational investment is more highly taxed than that of unqualified people.

Weaknesses
- Taxation discourages migration and reduces the amount of remittances sent home, which many families depend on.
- It might encourage young people to leave the country even before studying.
- Compatibility with the World Trade Organisation (WTO) and the General Agreement on Trade in Services (GATS) would have to be clarified.

It is not surprising that the Indian government supports this initiative. UNDP estimates that India loses about US$2 billion per year in education costs for exiled professionals. In 2000, the United States adopted a new law which allows 200 000 professionals, mainly in the information technology (IT) sector, to enter the US. Similar strategies are known in the EU and Japan.

The proposal is, however, of marginal interest in relation to the purpose of this paper, even if the initiative could be scaled up to a global level. The financial potential of an emigration tax remains limited and it seems obvious that this instrument could only be a complementary source of financing for development. Finally, the political implications are rather complex, and legal adjustment is not entirely a national issue but has to respect international laws and the rules of the WTO and GATS, as well as the principles of human rights.

But still, there is need for political action. Developed countries should facilitate affordable access to financial institutions for foreign workers and reduce costs of sending remittances as well as provide assistance in developing countries in the financial sector, i.e. access to microfinance.[65]

[65] Action Against Hunger and Poverty, Report of the Technical Group on Innovative Financing Mechanisms (Lula Report), September 2004, p. 15.

Swiss Perspectives

The position of the Swiss Government on this subject is not known. In Switzerland, immigration of highly skilled professionals from developing countries is marginal. Two related trends are observed. First, due to rising mobility through the internet, it has become a widespread practice to outsource IT and other services to India and other countries, for example Postfinance.[66] Second, migrants from developing countries are frequently remitting money[67] back home to their families through transfer agencies. Remittances by emigrants[68] are currently the most important source of external finance to developing countries after foreign direct investment; they exceed ODA. Some 80% of the remittances are captured by the top 20 ODA recipient countries. Switzerland counts among the top five countries of origin with US$ 8 billion of remittances annually and globally.

4.2 Travel Tax

Description

The travel tax can be considered as a fee for the use of global air space. This tax would ensure that those who create polluting emissions bear the cost of their actions. In addition, the air travel sector is expected to expand in the future. There are different proposals about what should be taxed. The Air Transport Tax proposes to charge 1% on the price of all international passenger tickets and freight transport, generating about US$2.2 billion a year. Another tax proposes that the International Air Transport Association (IATA) should collect the international air tax as part of its membership subscription.

Assessment

<u>Strengths</u>

- IATA could be an appropriate body to collect the travel tax, thus facilitating implementation and not incurring high administrative costs.
- The travel tax also responds to environmental concerns about reducing greenhouse gas emissions.

<u>Weaknesses</u>

- The travel tax might crowd out part of the revenues of the tourist industry in developing countries.

At the national level, different kinds of travel or flight taxes – apart from the kerosene tax – have been introduced in several countries, especially in Northern Europe in the mid-1990s.

[66] see Kassensturz: Schweizer Dienstleistungen made in India. http://www2.sfdrs.ch/system/frames/highlights/kassensturz/index.php
[67] E.g. Western Union.
[68] Andrés Solimano, Remittances by Emigrants: Issues and Evidence, UNU-Wider, December 2003.

But internationally, air and sea passenger transport benefit from complete VAT exemption across the European Union, while in the current regulations rail transport is taxed in some member countries – up to 16%. The double privilege of the aviation sector, on VAT and fuel taxation, creates unequal competition among different types of transport. A travel tax (like a global kerosene tax) would somehow adjust to a minor degree the unfair distortions in the transport sector. In view of systematic preferential treatment for some decades, it is unlikely that now, in turbulent times, a global tax in the aviation sector would have any chance politically.

Swiss Perspectives

In September 1997, the Airport of Zurich implemented a supplementary landing charge, the percentage of which depended on the emissions the different plane types were producing. In November 2001, members of the national Parliament[69] asked for an additional arrival and departure tax of approximately CHF10 on average, depending on the C02 and noise emissions of each plane. In the context of development financing, the different kinds of travel taxes for international purposes have not yet been discussed. The Federal Councillor in charge has not rejected the principle of taxing the aviation sector, but did stress some calculation problems (of real costs) and refused a unilateral measure by Switzerland for competition reasons. Switzerland is participating in the EU research programme Unite.

The draft aviation report proposing an international kerosene tax or tax on air distances, would leave policy space for alternative proposals as long as wide international support could be expected and the effectiveness of the instrument could be assured. In response to the above motion, the Swiss Government emphasised that it would basically refuse any unilateral national propositions that would tend to weaken the competitiveness of SWISS.

4.3 Tax on World's Common Property

Description

Similar to the carbon tax, this tax is based on environmental concerns and the idea of linking taxation of users and the collection of funds for development financing. It envisages taxing resources considered to be the common property of mankind. The proposals are directed at environmental issues, more specifically countering over-exploitation of natural resources.

Assessment

Strengths

- It has a double dividend: it would protect the global environment and weaken its exploitation, as well as raise some revenue for financing development.
- It would limit unequal distribution of resources considered from now on as common property.

[69] Motion 01.3658.

- Those countries that are often victims to the exploitation of natural resources would benefit from taxation on common property.

Weaknesses
- The potential yield and revenue impact of such taxes has not yet been explored.
- Technical questions and disagreements could undermine its final impact.
- Opposition from some countries, such as the US and Japan, is to be expected.

The positioning of satellites[70] and the exploitation of mining rights in international waters are two of the areas that could be taxed. For deep-ocean mining, a tax outside a 200-nautical-mile limit seems an appropriate measure. Deep-ocean fishing might be difficult to tax.

Swiss Perspectives

These proposals have not been discussed at all. For Switzerland, being without access to the sea and with no airspace programme, this instrument would not have any direct implication. Some multinationals and internationally active research teams are concerned, but the impact would be marginal.

Switzerland is not in a position to push this proposal, because it is neither a user nation nor particularly concerned by the abuses of common properties and their harmful consequences. Nevertheless, the Swiss Government could obviously support such propositions.

4.4 Tax on Nuclear Waste

Description

As far as is presently known, nuclear waste cannot be reused economically and should be taxed for its negative externalities. Today, it is the most dangerous waste product and is left unresolved to future generations. Hence the tax should reduce the production, as well as the stocking, of such waste. A French piece of research says that France would have to spend EURO 150 million per ton to reduce nuclear waste by 20%. Following this up, the Landau Report[71] proposes a tax of EURO 200 million for each ton produced, which would bring revenues for development amounting to EURO 12 billion per year. However, some proposals suggest a revenue potential of EURO 500 billion.

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[70] see also Jean-Pierre Landau, Les nouvelles contributions financières internationales, 2004, p. 90.
[71] Jean-Pierre Landau, Les nouvelles contributions financières internationales, 2004, pp. 117-118.

Assessment

Strengths

- It has a double dividend: it would protect the global environment, weaken its exploitation and raise some revenue for financing development.
- Estimated at EURO 12 billion the potential revenue is considerable.
- It might also be a political sign against the rearmament race.

Weaknesses

- Technical questions and disagreements could undermine its final impact.
- Opposition from the armed nuclear forces and countries with an important nuclear energy sector has to be expected.

Swiss Perspectives

In Switzerland, too, the nuclear waste problem remains unresolved. A long-term solution to deposit nuclear waste in Switzerland is difficult, because locally concerned citizens will use their democratic rights to prevent nuclear deposits in their neighbourhoods.

4.5 Tax on Profits of Multinationals

Description

According to the Landau report, the profits of multinationals are intrinsically linked to globalisation and open markets; this justifies asking them for a contribution to development. Today, fiscal revenues on the companies' profits represent approximately Euro 850 billion per year. Even a low taxation rate for development would raise important revenues. The tax would be charged only at the headquarters of a multinational to avoid double taxation.

This question is closely linked to another proposition of the Landau report: the unification of tax rates on companies' profits at the international level. A globally unified rate would stop the progressive decrease of tax revenues from multinationals due to the mobility of capital. Indeed, according to Landau, the unification of tax rates on company profits seeks first of all to re-establish the capacity of states to tax them, to reduce fiscal competition and to fight fiscal evasion. In the United States, for instance, the contribution of firms to total fiscal revenues decreased from 27% in 1965 to 17% in 1990. The application of this instrument is relatively easy. Wherever multinationals or firms settle down, the same unified tax rate would be charged.

Assessment

Strengths

- The tax would reduce ruinous fiscal competition and the race to the bottom of taxation on multinationals.
- The revenue potential is considerable.

Weaknesses

- To be efficient, support of all countries is necessary or, in other words, flexible geography is very low.
- The revenues might be highly volatile: compare, for example, the global profits of the 1000 largest multinationals in 2000 and 2002[72].
- It may be considered as a problem that tax income depends on the profitability of multinationals that are often criticised from a social and development point of view.

Swiss Perspectives

It is unlikely that Switzerland would support this proposition. Many multinationals choose Switzerland for their headquarters, not least because of the low taxation. Unification of the tax rate would put an end to the Swiss tax haven. Hence, concerning unification of taxation rate, strong opposition from the Swiss side is to be expected.

Swiss Options

This paper is an attempt to separate the chaff from the wheat, to sort the most promising options out of a great number of proposals and to seek practically feasible solutions to finance development. Considering the current international and the Swiss context and the opportunities and risks of the instruments debated, three main ***recommendations*** for Switzerland's position on NSDF are made:

1. Switzerland should prioritise environmental forms of NSDF and become active in appropriate ways at the national and international level.

1.1 A strong and proactive commitment by Switzerland in favour of a global ***carbon tax*** is the top option. The carbon tax has a high revenue potential and, by contributing to curbing carbon emissions, it delivers a double dividend. The political bargaining on charging CO2-emissions at the national level to reach Kyoto Protocol targets and the global carbon tax are complementary, not competing, projects. A Swiss commitment in this area has four distinct strengths:

(1) It is directed towards a developmental and ecological double dividend;

(2) It may count on strong backing from the majority of the Swiss citizens;

(3) It is consistent with national and international environmental policy;

(4) Switzerland gains a positive profile in the global MDG/NSDF debate.

1.2 A ***kerosene tax*** could be an important first step towards a carbon tax. On its own merits, a kerosene tax internalises external costs into the air traffic market and rearranges biased market prices among different modes of international transport.

[72] Jean-Pierre Landau, Table 11, p. 95.

The kerosene tax is part of the 2004 draft aviation policy of the Swiss Government. Similarly, a maritime tax, a travel tax, and the taxation of nuclear waste could be considered.

As ***next steps***, it is suggested that the Swiss Government proactively

- Explore potential coalitions and partnerships with other interested countries, non-governmental organisations and the private sector, for both the carbon and kerosene options;
- Encourage technical research to make the carbon and kerosene tax concepts operational at the international level;
- Analyse the conceptual, operational and legal relationship between the national mechanisms to attain the Kyoto Protocol targets and the global carbon tax;
- Explore the risks of unequal competition with non-European competitors in case a European initiative is launched.

2. Switzerland should prepare meaningful answers to upcoming NSDF challenges at the international level.

2.1 The IFF will rank high on the international agenda in 2005 and beyond. On the one hand, the IFF has a high potential to mobilise adequate amounts for the MDGs; it permits frontloading and as such an early harvest. On the other hand, additionality is not given, because repayment risks being left to future ODA or generations, and thus a freestanding IFF is in the long run a zero-sum game. Nevertheless, it enjoys strong international support, in particular from the UK and France. Because of its flexible geography, some observers believe that 'Mini-IFF' could be introduced and tested. In this context, an IFF combined with global tax merits more attention. A proactive position should be developed not only for the sake of development, but also to avoid the sidelining of Switzerland in international discussion on development financing which is currently very much orientated towards the IFF instrument. Finally, it would allow for participation in the architecture of this instrument and for insisting on the necessity to combine the IFF with a commitment to the implementation of either the Carbon Tax, Spahn tax or a byte tax. Switzerland's position should be neither to reject nor to welcome the freestanding IFF, but to consider the option of an ***IFF combined*** with a commitment to the implementation of a new global tax – preferably the carbon tax – which secures sustainable revenues after 2015.

As ***next steps***, it is suggested that Switzerland

- analyse the national legal context and changes needed in view of potential Swiss IFF commitments, including their political implications;
- develop financial scenarios (baseline, high and low levels) for what implications IFF commitments would have for the Federal budget, as well as the design and implementation of Swiss ODA over the next 30 years;
- in particular, look at the political implications of IFF commitments: is parliamentary approval required? Are they subject to a referendum?
- explore the implications of an IFF combined with a carbon/kerosene tax or Tobin/Spahn Tax up to 2015 and beyond.

2.2 The ***Spahn Tax*** variation of the Tobin Tax may gain ground as a feasible option at the European level. If the European Union is moving in this direction, it will have immediate implications for Switzerland, as Swiss participation in a Spahn Tax can be considered as a *conditio sine qua non*. Switzerland should re-examine its position towards the Tobin Tax in general, and adopt a constructive attitude in particular regarding the Spahn Tax version. There is a high revenue potential and it yields double dividends by discouraging short-term speculative monetary movements. It ends the privileged situation of currency transactions compared to physical transactions that are subject to VAT. Switzerland as a financial centre of global reach enjoys high credibility and can be sure of high visibility when cooperating to tax financial transactions. Politically, Paul Bernd Spahn's proposal of a type of Tobin Tax designed at the European level is of particular relevance. The Spahn version explicitly puts cooperation between the European Union and Switzerland on the agenda. Beyond its problem solving capacity, this European dimension, with its potential goodwill as well as the growing support at parliamentary level (Belgium, Canada), makes the Tobin/Spahn Taxes an opportunity and challenge for Switzerland to examine further. Instead of opening another area of conflict with the EU, Switzerland should contribute to a Spahn Tax in a constructive way. This preparedness will avoid the sidelining of Switzerland in the upcoming NSDF debates.

As ***next steps***, it is suggested that the Swiss Government

- Evaluate the legal and institutional implications of the Tobin/Spahn Tax in a Swiss context;
- Stimulate economic research to clarify open questions, such as the implications for the different market segments;
- Consult with stakeholders, including the private financial sector in Switzerland, to identify windows of support;
- Clarify the options of cooperation and coordination with the European Union to work jointly on designing and implementing a Tobin/Spahn Tax, and explore the positions of individual EU-members such as the UK with a view to constructive dialogue and potential alliances.

3. Two other NSDF options should not be lost sight of:

- Taxing the information society through a ***byte tax*** has an immense revenue potential and merits further consideration, despite the obvious lack of political support in the North;
- ***Taxing arms transactions*** increases the costs of war and violence and has again a double dividend. Despite the limited revenue potential, Switzerland may consider working on a global arms tax.

A considerable number of ***further proposals*** with different characters and levels of conceptual clarity have been discussed in this paper. But none of these instruments are convincing either (1) because of a lack of minimum political support or (2) because they are inappropriate solutions to the fundamental task – to identify innovative sources of the additional US$50 billion of development financing needed to reach the MDGs. They are mentioned here because they are part of the international debate, but it is not recommended that Switzerland invest scarce resources or take the initiative to develop them further. If, for one reason or another, one of these proposals appears on the global agenda, Switzerland should remain open to re-examining the situation. This wait-and-see attitude is applicable to the following ideas:

- Switzerland has voted in favour of the Fourth Amendment of the IMF's Articles of Agreement, which gives the option of linking the creation of ***Special Drawing Rights (SDR)*** to development financing. The process is blocked by the United States, however. In the event that this configuration changes, a number of technical aspects - for Switzerland and in general - will have to be clarified.
- ***Public guarantees*** could strengthen the engagement of Switzerland in Public Private Partnerships (PPP) and infrastructure development. This instrument, however, does not have sufficient international acceptance, nor will it have enough impact to reach the MDGs. Thus it could only be a complementary measure to other instruments of development financing.
- The proposal of a ***global arms tax*** to finance development has a limited reach and so far enjoys limited international support. In line with its restrictive arms exports policies, it should not be a political problem for Switzerland to take it up.
- The ***byte tax*** is an ambiguous proposition: stiff political resistance makes it unattractive to follow up the idea any further; on the other hand, the revenue potential is extremely high. However, new and revised proposals in the context of the World Summit on the Information Society (WSIS) might turn up and require a re-appraisal from Switzerland as well. The Government should remain open to an impartial view and also consider the revenue potential for development financing.
- State campaigning for ***private donations*** might 'crowd out' mainly donations to internationally active NGOs. In Switzerland, NGOs fulfil an important mission for development in the South. A shift in donations might seriously put some NGOs at risk and have negative repercussions on the collaboration between NGOs and Government. This proposal is counterproductive in a Swiss context with high mobilisation for development concerns.
- The idea of a ***global lottery*** captures important parts of national lotteries and will be in competition with the latter. As such, it would negatively affect their beneficiaries, who very often cover socially important institutions at the national level. In so far as it is expected to crowd out money from national charities, it may face political opposition, in Switzerland and elsewhere.
- Unlike the global lottery, ***Global premium saving bonds*** are a savings instrument. Only the return on investment has a random/lottery element. Borrowers could be developing country governments, NGOs and international organisations. Premium bonds could potentially raise important amounts of 'cheap money'. Being essentially loans, these bonds would create an additional financial burden to developing countries.
- To collect ***voluntary contributions through credit cards*** has a limited revenue potential and is not a government task.

- The idea of an ***emigration tax*** – taxing well-qualified emigration - does not involve Switzerland very much. Hence, more concerned countries, developing as well as industrialised countries, should instead provide new advances and further support.
- The ***travel tax*** can be considered as a fee for the use of global air space. The double privilege of the aviation sector to be exempted from VAT and fuel taxation, creates unequal competition among different types of transport. A travel tax (such as a global kerosene tax) could adjust these distortions in the transport sector. There is a double dividend.
- Due to its geographical situation, Switzerland can hardly play an active and leading role in promoting a ***tax on the world's common property***. Even if not pushing this proposal, there are no important arguments against Switzerland supporting it. Again, there is a double dividend.
- The ***tax on nuclear waste*** would yield a double dividend. The revenue potential will have to be identified; however, stiff political opposition is to be expected.
- The idea of a global ***tax on the profits of multinational enterprises***, possibly combined with global harmonisation of taxation, makes a doubtful difference between domestic and international companies and is politically unfeasible.

Tapping new sources of development financing would have a better chance of succeeding if it started at the ***European level***. It will be technically and politically a difficult task to reach a global agreement on the above proposals within a reasonable time frame. The United States opposes all kinds of global taxation, and also refuses solutions based on Financial Engineering. To limit these taxes to Europe is a second-best approach because it restrains revenues as well as the positive impact of the double dividend, especially for the carbon tax. Unilateral European application of 'global' taxes carries the danger of closing the window on wider – global – solutions and might create unintended incentives for economic discrimination against Europe. But the European way could also become a catalyst for others – Australia, Canada, New Zealand, as well as some Asian Countries.

Mobilising resources for the MDGs is an opportunity to ***strengthen the positive side of globalisation***. Many of the developing and transition countries have, especially in the last 10 years, made efforts to implement sound macroeconomic policies, to consolidate democracy, to increase transparency, and to combat corruption. Such efforts are a prerequisite to achieving economic development and finally to getting more aid. *'Notwithstanding their domestic efforts, these countries remain by and large deprived of the benefits of globalisation…'* says Brazilian President Lula da Silva's 'Action Against Hunger and Poverty'. According to the Millennium Declaration, '*the central challenge we face today is to ensure that globalisation becomes a positive force for all the world's people'*.

The time has come to honour the efforts of the developing countries. The industrialised world is challenged to contribute its part to implement Goal Eight of the MDGs, a new partnership between North and South. These new sources of development financing are not seen as alternatives to existing finance, like ODA, but as additional sources. Switzerland is traditionally oriented towards dialogue and compromise-seeking. With its experience and infrastructure, Switzerland could offer its services to the international community in exploring innovative sources of development financing. A Swiss initiative for a high level meeting on environmental global taxes should be explored. The Foreign Policy Report 2000 of the Federal Council notes: 'A country which ascribes visionary objectives to its foreign policy needs charisma, drive and the means to convert them into reality. The objectives which the new Federal Constitution sets out for Swiss foreign policy display visionary character.'[73] Concrete steps forward regarding the NSDF are steps to implement the visionary goals of the Swiss Constitution hand in hand with the global Millennium Development Goals.

[73] Federal Council, Foreign Policy Report 2000, unofficial English translation, p.21.

Annex A Summary Tables I

New Sources of Development Financing: An Overview

Financial Source	Description	Strengths/Opportunities	Weaknesses/Risks	General Observations
1 Financial Engineering	Financial Engineering concepts use the leverage of the financial system to mobilise resources for development.			
1.1 International Financing Facility (IFF)	IFF is a 'frontloading' instrument to meet the MDGs. The IFF issues bonds on the basis of donor countries' long-term and binding commitments. The bulk of disbursement would take place by 2015.	High revenue potential; long-term and stable flows; flexible geometry; fast implementation and resource transfer; cheap borrowing to AAA-rate; leverage of additional funds from capital markets; strong engagement of France and UK; credibility for donors.	Liabilities for repayment; borrowing; budget concerns in donor countries; destabilising the time profile of aid commitments (Reisen); lack of international support erodes effectiveness; the post-2015 situation; in the long term a zero sum game.	Problematic off-budget pledges; compromises made at the expense of core ideas. In recent days, the IFF is internationally the most discussed proposal; an agreement on a limited "Mini-IFF" seems conceivable; option to combine the IFF with global taxes.
1.2 Special Drawing Rights (SDRs)	Special Drawing Rights (SDRs) are issued to IMF members. Developed countries donate their SDRs to a trust fund to finance MDGs/ GPGs.	Considerable contribution; immediately operational; possibility to repeat the issue annually; long-term vision; better equity between donors; reduces free-rider problem.	Political hurdles due to *de facto* US veto; refund; either lost interest income to SDRs provider or burden to DCs; high interest rate; incalculable macroeconomic risks; central banks' opposition.	IMF members agreed in 1997 on a single special 'equity' allocation of SDRs to the former Soviet republics and some other poorer countries. An insufficient 76% majority ratified the Forth Amendment of the AoA (2004).
1.3 Public Guarantees	Public guarantees should stimulate private investment, local and foreign.	Leverage on private investment, encouraging self-sustainability in DCs.	New dependency of private investors. Will have a limited outreach.	It only can be an additional measure to other new sources.
2 Global Taxes	These taxes link new funding sources with the struggle against some dysfunctions of globalisation in order to get so called 'double dividends'.			

2.1 Tobin Tax	Tobin tax kills two birds with one stone: reducing currency market volatility and speculation as well as financing development. A tax of 0.1% could raise more than US$ 200 billion.	Highest income potential of all proposals; double dividend /logrolling; end of the privilege compared to physical transactions; catalyst to tax all financial transactions.	Failure of national participation; competing objectives; support/opting out;	The IMF, once strictly against the tax, today sees possible benefits from it.
Spahn's Currency Transaction Tax	Spahn proposes a tax for the European time zone only, at lower tax rate of 0.01% or alternatively 0.02% and a very high tax in case of monetary attacks.	Higher chances of quick agreement in Europe; best practice example and catalyst; considerable revenue.	Approved by Belgian parliament and the Commission of Finance; some support from Germany and France.	It might close the door to a global currency transaction tax for a long time. But it seems so far the only politically feasible solution.
2.2 Carbon Tax	The carbon tax pursues a double goal by taxing sales of fossil fuels. It would help environment and bring an additional US$ 60 to 130 billion a year.	High revenue potential; easy collecting; best practices at national level; better environment at local and global level.	Opting out; US support is important but unlikely (20%); time factor; the environmental benefit is difficult to assess quantitatively; different approach of EU concerning allocations of the revenues.	Combination with other environmental taxes is possible.
Kerosene Tax	The kerosene tax is drawn on flight fuel to compensate for external effects (greenhouse). Estimated revenues of US$ 20 billion a year (including travel tax).	Internalisation of external effects conforms to the market approach. Kerosene taxation is already practised at national levels. Stops 'race to the top' of state support.	Global or at least European coordination required. There is strong opposition from the United States and the Asian countries.	Flying sectors benefit globally from preferential treatments. This would justify kerosene tax. However, it might also signify that political agreement on this issue will be difficult.
Maritime Transport Tax	It seeks to compensate two kinds of externalities, the greenhouse effect and the oil spills. 10'000 oil spills have been counted in the last forty years. The tax could raise a maximum of US$ 20 billion per year (high rate).	In combination with the Carbon and Kerosene tax it would strengthen the green argument; easy to collect through an existing body (IOPC); market-orientated way to internalise external effects.	To be efficient a very penalising tax is necessary; opposition from important trading nations, especially the US; would make developing countries' access to the international trade system more difficult.	The United States is not member of the International Oil Pollution Compensation Funds (IOPC).

2.3 Arms Sales Tax	The Brazilian president proposes to tax arms trade to reduce hunger and poverty.	Reduction of international arms trade; the political message; +/- transparency.	Modest revenue earner; from some industrial countries it will be hard to get support.	Support of France, backed by UN Secretary-General, Chile and Spain, will probably give a new dynamism.
2.4 Byte Tax	Taxing the volume of internet traffic would allow financing development and the MDGs.	Revenue potential; technical implementation; feasibility; finance (partly and indirectly) democratisation of information society.	Lack of support (especially US); competing byte paradises.	Initially most of these proposals followed the idea of financing democratisation of the information society in the South.
3 Voluntary Private Contributions	Stimulating and mobilising private funds through higher awareness of the MDGs.			
3.1 Private Donations	Raising additional private funding (individuals, firms) for MDGs.	Revenue potential could be considerable; better efficiency of donations.	Crowding out of national projects and institutions.	The nature of donations can be very different and specific, thus most of it will not be suitable for development financing.
3.2 Global Lottery	Net benefits of a global lottery, the same way as on the national level, could be used as a new source of Development financing.	No self-perceived pain; +/- win-win situation; flexible geography.	Considerable operational costs (40% gross benefits); difficult to estimate the revenue potential; will affect national lottery beneficiaries; unequal fundraising engagement between countries.	Further extension is possible through internet gambling, with a market share of about 3.2% and turnover of US$1 trillion, It lowers transactions costs of gaming too.
3.3 Global Premium Saving Bonds	Bondholders avoid risk of losing their initially invested amount; prize draw instead of interest; bonds provide loan finance to DCs.	Flexible geometry; mobilising new type of clients.	Competition with established national lotteries; but less impact on national charities than with global lottery; loans instead of grants.	It is not yet clear whether participating countries will be willing to guarantee for default of payments or other risks.
3.4 Credit Card	First, clients would simply agree to donate a small percentage on purchases. Second, credit card companies and associated banks could also agree to donate a very small part of their earnings.	Flexible geometry; mobilising new type of clients; affinity card is experiencing a real boom; a win-win situation: associated companies benefit from an increasing volume of clients and purchases and a better reputation.	The revenue potential remains limited; it might crowd out revenues from other social organisations benefiting today from affinity cards.	Credit-card based donations have already been expe-rienced in many parts of the world. The volume of annual purchases with credit cards in the world is estimated at US$ 3.2 trillion.

4 Further options	Unexplored ideas to raise revenue for development and GPGs.			
4.1 Emigration Tax	An exile tax should prevent emigration of specialists from developing countries and compensate the public sector in case they do so.	Double dividend; 'Return on investment'.	Risk of reducing remittances sent home; stimulating emigration of young people before completion of their studies; globally the revenue potential would be marginal.	Support from India. 'Importation' strategies of qualified professionals by industrialised countries provoke high losses by some developing countries.
4.2 Travel Tax	Includes some other proposals: taxing flight tickets; charging IATA membership subscription.	Existing tax collecting structure (IATA).	The tax might crowd out some revenues of the tourist Industry in developing countries.	Air transport benefits from complete VAT exemption (Europe). A travel tax would adjust this unfair market distortion in the transport industry.
4.3 Tax on common property	Some natural resources and spaces (sea and airspace) are here considered as common property. Part of the benefits of their exploitation should be shared globally.	The tax has a double dividend (environmental and revenue); it limits unequal division of common property and compensates victims of nature's exploitation.	Revenue potential has not yet been explored; technical concerns could undermine the proposal; opposition of some major countries is to be expected.	The positioning of satellites and the exploitation of mining rights in international waters, are two of the areas that could be taxed. These spaces have to be defined properly.
4.4 Tax on nuclear waste	The tax should reduce production as well as the stocking of nuclear waste. A tax of Euro 200 millions for each ton produced, brings revenues for development of Euro 12 billion per year.	The potential revenue is considerable; double dividend; it would be a political sign against the race for rearmament; incentives to develop alternative energies.	Technical questions and disagreements could undermine its final impact. Opposition from the atomic forces and countries with an important nuclear energy sector to be expected.	Nuclear waste can't be reused economically and should be taxed for its negative externalities. Today, it is the most dangerous waste product and still left unresolved to future generations.
4.5 Tax on profits of multinationals	This instrument follows a double strategy: first to tax all multinationals at their headquarters; second to unify internationally the tax rate on multinationals.	The revenue potential is considerable; double dividend; would stop fiscal competition and the race to the bottom of taxation on multinationals if the international unification of the tax would be also applied.	Lack of flexible geography; strong volatility of the tax revenues; contradictory because the tax is dependent on the high profit of multinationals which are often criticised from a social and development point of view.	The profits of multinationals are intrinsically linked to globalisation and open markets, which justifies asking them for a contribution to development.

Annex A Summary Tables II

New Sources of Development Financing & Switzerland

Financial Source	**Implications for Switzerland**	**Swiss Politics Aspects**	**Swiss Position to date**	**Recommendation, remarks and next steps**
1 Financial Engineering				
1.1 International Financing Facility (IFF)	Might weaken Swiss efforts towards Public-Private-Partnership (PPP) in the short run, but strengthen private sector investments from 2015 on. Switzerland would have to repay loans after 2015.	Even if the government finally agreed, a majority in case of a referendum would be doubtful. Private sector and especially the financial sector will reject IFF.	The Swiss Ministry of Finance is strongly opposed to this proposal. Only widespread international support might be able to change its attitude.	The technical feasibility on the budget issue and the possible negative impact on PPP has to be analysed. A freestanding IFF is in the long term a zero sum game with no additionality; an IFF combined with global taxes calls for a reappraisal.
1.2 Special Drawing Rights (SDRs)	Depending on concrete application of the proposal, it would bring some interest costs or losses with it and affect the Swiss Federal budget. In any case, the sum would be quite modest.	The Swiss National Bank will certainly be opposed to this proposal (sovereignty infrin-gement). Also some political opposition has to be expected.	According to an official source, Switzerland is not very enthusiastic about the Soros idea, but there is no official position. Switzerland, however, has ratified the Fourth Amendment.	It is unclear if SDRs allocations are a budget item or not, and it seems that it leaves a margin to bookkeeping interpretation. By ratifying the Fourth Amend-ment, Switzerland is leaving the door open to the proposal.
1.3 Public Guarantees	Strengthening the engagement of Switzerland for PPP and infrastructure development. With Export Risk Guarantee scheme a similar instrument operates in Switzerland.	No competition to the private insurance or financial sector. Private sector will probably support this instrument despite more public spending.	There is neither an official position nor informal information available.	In line with its strategy of enforcing PPPs, the Swiss government should support this instrument. It may only be considered as a supplementary measure, which is unable to solve the problem by itself.
2 Global Taxes				
2.1 Tobin Tax	Swiss economy would also benefit from stability. Switzerland could eventually benefit from parts of the revenues.	Full support of NGOs; some participate in international coalition. Resistance by financial industry, despite the benefit of more stability.	Switzerland has been opposed to the Tobin tax so far.	Currently, a tax on the Euro-pean level seems to be the only politically feasible alternative to the Tobin tax.

Spahn's Currency Transaction Tax	Switzerland could demon-strate goodwill towards the EU; trade-offs are possible. Switzerland collects the tax and keep control.	Even if some NGOs would prefer a global solution and a higher tax rate, full support is to be expected.	The Belgian decision and support of Germany and France will probably change the Swiss position.	The UK behaviour (London as the biggest currency market of the time zone) is determinant for Switzerland and vice-versa. Clarifying opinions & positions mutually would help.
2.2 Carbon Tax	A necessary collecting body to introduce a global carbon tax exists at the Swiss level; but the use of revenues would call for an adjustment in legislation.	Full support from environmental NGOs and some political forces can be taken for granted. The automobile lobby will fight against it.	Switzerland is favourable to further deeper investigation of this proposition.	Switzerland promotes this option, undertakes further investigation and seeks partnerships with interested countries and NGOs. Support from (European) countries will be crucial.
Kerosene Tax	On the national level, the kerosene tax already exists. Best practice example would help implementation of an international tax.	Opposition from Airport authorities and SWISS (and eventually the trade unions in the flying sector) as well as private sector in general is to be expected. NGOs will mainly support the tax.	Switzerland is basically in favour of a kerosene tax. The Federal Councillor Moritz Leuenberger brought in the idea of a kerosene tax when meeting his European colleagues.	New Swiss aviation traffic guidelines are now in consultation; kerosene tax is among the propositions. Since the EU is seeking possibilities of such a tax, Swiss advances have better chances of bearing fruit.
Maritime Transport Tax	The tax will considerably increase transport costs and therefore the import of goods from overseas.	As an inland state, Switzerland is traditionally not very involved in maritime transport (except Basle). Probably objections from importers and consumer side.	Switzerland has not expressed any opinion on the issue.	It could be part of a strong green argument in extension to the carbon and kerosene tax, where Switzerland could play a leading role.
2.3 Arms Sales Tax	There are no major implications. Switzerland provides arms trade information to UN Register of Conventional Arms (which would collect the taxes).	Large public support and sympathy seem obvious. The arms industry will be opposed.	The recent proposal by President Lula da Silva of Brazil has not yet been discussed or analysed by Swiss officials.	Would be consistent with Swiss principles of foreign policy and the undertaking against trade in illegal weapons. Despite limited revenues, Switzerland might decide to follow this avenue.

2.4 Byte Tax	Technically there are no major difficulties. Revenues would flow – through access providers – to the Swiss Confederation.	The private sector in general and the IT sector in particular reject the byte tax. It will also be difficult to convince consumers, even if the tax is relatively low for 'normal' internet use.	Switzerland did express its opposition to the byte tax.	On one hand, it is politically unlikely to be achieved; on the other hand, the revenue potential is tempting. New and revisited propositions with stronger support would require new appraisal.
3 Voluntary Private Contributions				
3.1 Private Donations	No major legal or organisational measures have to be taken. Using tax incentives as an instrument of promotion, the Confederation would lose some tax revenue.	At least the non-development NGOs will be strongly opposed. Also cantons might manifest opposition in the event that tax incentives are practised to a large extent.	There is so far no position on this subject by Swiss officials.	A government-led campaign to mobilise private donations is a contradiction in itself. There is a considerable risk that a well functioning system of public-NGO collaboration and coordination would break down.
3.2 Global Lottery	Adaptation of the law and centralisation of the lottery concerns would be necessary, whereas the responsible member of the Federal Council recently decided quite the opposite.	Resistance by sport and cultural associations, the main beneficiaries of National Lottery, to be expected. Also local governments (especially cantons) will be opposed.	There is so far no position on this subject by Swiss officials.	Considerable conflicts of interest for probably a rather moderate financial volume leave serious doubts whether Global Lottery is an appropriate solution. An in-depth evaluation of the revenue potential would help.
3.3 Global Premium Saving Bonds	It would have considerable bureaucratic costs. Best practices could be adapted from the UK.	Depending on the dimensions, opposition from the banking and financial lobby to be expected.	There is so far no position on this subject by Swiss officials.	Weaknesses, especially the basic mechanism to provide grants rather than loans, are significant.
3.4 Voluntary Contributions on Credit Cards	Swiss Banks and credit card companies frequently suffer from strong criticism. Support would bring them a better reputation at relatively low cost.	In Switzerland too, this kind of credit card donation is known (i.e. WWF). Otherwise there is no straight comparison with other similar systems.	There is no position on this subject. Unlike other voluntary contributions, the purely private nature of this instrument does not call for any state action or intervention.	The Swiss Government could informally and formally encourage card companies and banks as well as cardholders to contribute to such a fundraising system.

4 Further options				
4.1 Emigration Tax	Legal considerations on the national level and conformity to international law (WTO, GATS) will be challenging.	It remains uncertain who finally will be the political opponents.	There is so far no position on this subject by Swiss officials.	The revenue will be moderate and initially not considered for MDG financing; a controversial issue, but the limited impact does not justify rejection.
4.2 Travel Tax	Depending on the proposal, a collecting system has to be organised on the national level. It would be another step toward the Kyoto target.	Not many positive responses from the aviation sector have yet been heard.	The Swiss Government is in favour of an international tax in the aviation sector and hence would certainly support a promising, widely accepted and efficient proposition.	According to current national and international discussions, the kerosene tax has priority among taxes in the flying sector. Such taxes could be complementary instruments.
4.3 Tax on common property	Switzerland being without access to the sea and with no airspace programme, this instrument would not have any direct implications.	No major objections to be expected.	There is so far no position on this subject by Swiss officials.	Switzerland in its specific position could have difficultly bringing in the proposal, but could support – to its own advantage – such initiatives.
4.4 Tax on nuclear waste	In Switzerland, too, the nuclear waste problem remains unresolved.	Opposition from the nuclear energy lobby is to be expected.	The Swiss Government has not pronounced its opinion on this subject.	Citizens will always use their democratic rights to hinder the government's plan. The problem should be tackled at the roots, like this option proposes.
4.5 Tax on the profits of multinationals	The impact is considerable, because multinationals and firms often choose Switzerland for their headquarters because of low tax rates. Tax harmonisation does not even exist on the Swiss level.	Strong opposition from the private sector is to be expected. Harmonisation fails because of Swiss federalism.	It is unlikely that the Swiss Government would support this initiative.	Switzerland might try to split the question: to approve the first part of the idea, to tax multinationals on a global level, which is the important part for development financing, but to refuse to harmonise internationally the tax rates on the national level.

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Annex C Abbreviations

AoA	Articles of Agreement
BWI	Bretton Woods Institutions
CDI	Commitment to Development Index
CHF	Swiss Franc
DAC	Development Assistance Committee
DCs	Developing Countries
DEA	Federal Department of Economic Affairs
DETEC	Department for Environment, Transportation, Energy and Communication
DFA	Federal Department of Foreign Affairs
ERG	Export Risk Guarantee
EU	European Union
FDI	Foreign Direct Investment
FFA	Federal Finance Administration
GATS	General Agreement on Trade in Services
GFATM	Global Fund to Fight Aids, Tuberculosis and Malaria
GDP	Gross Domestic Product
GNI	Gross National Income
GNP	Gross National Product
GPGs	Global Public Goods
IATA	International Air Transport Association
ICAO	International Civil Aviation Organisation
IDA	International Development Association
IFF	International Financial Facility
IMF	International Monetary Fund
IOPC	International Oil Pollution Compensation Funds
ISP	Internet Service Provider
IT	Information Technologies
MDGs	Millennium Development Goals
NGO	Non-governmental Organisation
NP	Network Provider
NSDF	New Sources of Development Financing
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
PPP	Public-Private Partnership
PRS(P)s	Poverty Reduction Strategy (Papers)
SDC	Swiss Agency for Development and Cooperation
SDRs	Special Drawing Rights
seco	State Secretariat for Economic Affairs
SMEs	Small and Medium-sized Enterprises
UK	United Kingdom
UN	United Nations
UNDP	United Nations Development Programme
UNFIP	United Nations Fund for International Partnerships
UNGA	United Nations General Assembly
US	United States
VAT	Value Added Tax
WEF	World Economic Forum
WIDER	World Institute for Development Economics Research
WSIS	World Summit on the Information Society
WTO	World Trade Organisation
WWF	World Wide Fund for Nature