UN calls for international tax to raise $400 billion to finance development needs

Financial needs of developing countries have long outstripped the willingness and ability of donors to provide aid

New York, 5 July 2012 –The United Nations is proposing an international tax, combined with other innovative financing mechanisms, to raise more than $400 billion annually for development and global challenges such as fighting climate change.

In its annual report on global development, *World Economic and Social Survey 2012: In Search of New Development Finance*, (WESS 2012) launched today, the UN says, in the midst of difficult financial times, many donor countries have cut back on development assistance. In 2011, for the first time in many years, aid flows declined in real terms.

The survey finds that the financial needs of developing countries have long outstripped the willingness and ability of donors to provide aid. And finding the necessary resources to achieve the Millennium Development Goals and meet other global challenges, such as addressing climate change, will be tough, especially for least developed countries.

The need for additional and more predictable financing has led to a search for new sources – not as a substitute for aid, but as a complement to it. A number of innovative initiatives have been launched during the past decade, mainly to fund global health programmes aimed at providing immunizations, AIDS and tuberculosis treatments to millions of people in the developing world. The UN survey finds that while these initiatives have successfully used new methods to channel development financing to combat diseases, they have hardly yielded any additional funding on top of traditional development assistance.

"Donor countries have fallen well short of their aid commitments and development assistance declined last year because of budget cuts, increasing the shortfall to $167 billion," according to the lead author of the survey, Rob Vos. "Although donors must meet their commitments, it is time to look for other ways to find resources to finance development needs and address growing global challenges, such as combating climate change."

"We are suggesting various ways to tap resources through international mechanisms, such as coordinated taxes on carbon emissions, air traffic, and financial and currency transactions," Mr. Vos said. "Such taxes also make economic sense, as they help stimulate green growth and mitigate financial market instability. In short, such new financing mechanisms will help donor countries overcome their record of broken promises to their own benefit the world at large."

Realizing the potential

The WESS finds the scope for scaling up or replicating existing initiatives is too limited to meet the needs for development financing in the coming decades. Hence, new sources will need to be tapped. Experts who carried out the survey see potential to raise over $400 billion per year through the following mechanisms:

- a tax on carbon dioxide emissions in developed countries: a tax of $25 per tonne would raise an estimated $250 billion per year, collected by national authorities, but earmarked for international cooperation;
- a tiny currency transaction tax of one half of a "basis point" (0.005 per cent) on all trading in four major currencies (the dollar, euro, yen and pound sterling), which could yield an estimated $40 billion per year for international cooperation;
- earmarking a portion of the proposed European Union financial transaction tax (which is expected to raise up to €55 billion or $71 billion per year) for international cooperation;

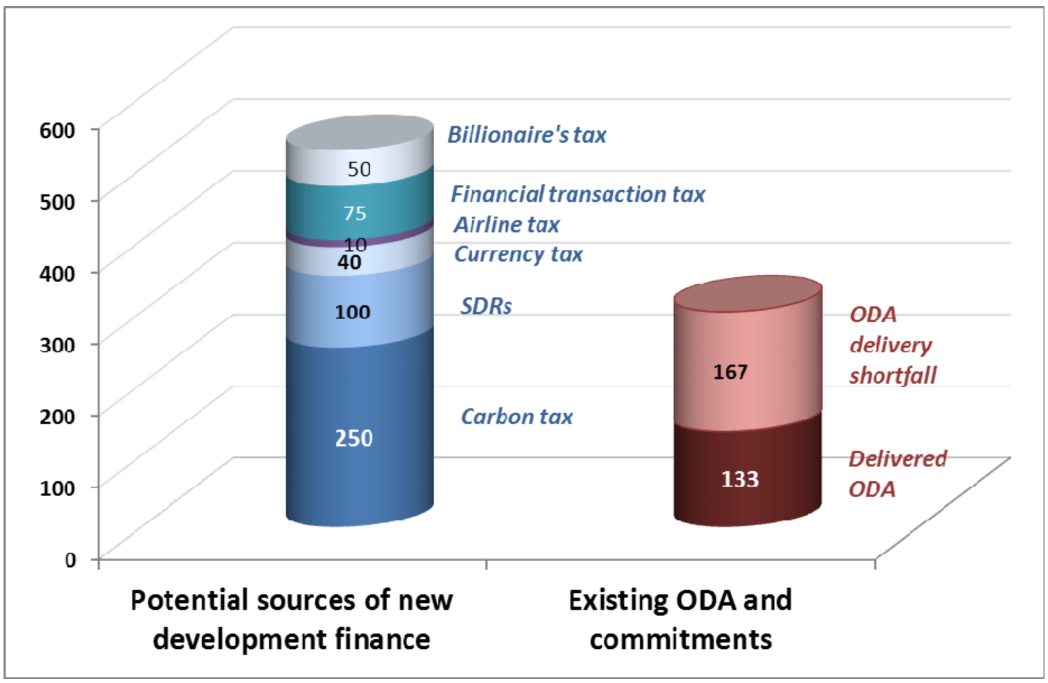
- regular allocations of IMF special drawing rights (SDRs) and use of "idle" SDRs could yield about $100 billion per year for the purchase of long-term assets which would then be used as development finance.

The survey says such mechanisms are technically feasible and economically sensible. They could readily provide the means of meeting urgent global development financing needs. Vos said that "realizing the potential of these mechanisms will require international agreement and corresponding political will, both to tap sources as well as to ensure allocation of revenues for development."

The survey also suggests other options which could be explored but would require further technical elaboration, such as a billionaire's tax, which would consist of a small tax of, say, 1 per cent on individual wealth holdings of $1 billion or more with the revenue destined to finance internationally agreed global development purposes.

"The survey provides important suggestions to generate solid financial underpinnings for the actions to be undertaken in follow up to the agreement reached at the recent United Nations Rio+20 Conference to achieve global sustainable development," according to Sha Zukang, Under-Secretary-General of the UN Department of Economic and Social Affairs.

The survey points out that the design of appropriate governance and allocation mechanisms is crucial for innovative financing to ultimately meet development needs and contribute to financing the post-2015 development agenda.



The beginnings of innovative development finance – health as a testing ground

In recent years, a number of mechanisms have been developed under the rubric of innovative development finance, mostly in the field of health. These include the International Finance Facility for Immunization, Advance Market Commitments for pneumococcal vaccine, the Affordable Medicines Facility - malaria, Debt2Health and Product Red.

The social survey confirms that these mechanisms have improved aid effectiveness and incentivized research; contributed significantly to the financing of the Global Fund to Fight AIDS, Tuberculosis and Malaria and especially UNITAID and GAVI; and they have contributed to fighting AIDS, tuberculosis, malaria and vaccine-preventable diseases.

However, the survey also finds that the funds channeled through these programmes have mainly come from existing aid budgets, rather than generating additional resources. Overall, a total of $5.8 billion has been channeled through these innovative mechanisms since 2006, but only a few hundred million dollars can be counted as additional to existing aid.

To date, innovative financing resources in the field of health have generally been allocated for vaccines and pharmaceutical products to fight specific diseases, such as HIV, tuberculosis and malaria. This has brought important benefits to specific areas of disease control. The WESS warns, however, that in some cases these global funds have bypassed broader national health priorities in developing countries and contributed to the fragmentation of international support to health systems in low-income countries. The survey concludes that instead of an array of disease-specific funds, it would be better to focus on finding new resources for more general budget support for health systems in developing countries in need and to consolidate the existing disease-specific disbursement mechanisms into a single "global fund for health".

Climate financing mechanisms

The potential for innovative development finance is particularly high in the area of fighting climate change, according to the survey. Innovative development finance mechanisms have raised about $1 billion for climate change, although disbursements have, so far, been relatively limited. Innovative financing for climate change has the potential to increase substantially in the coming years, as the European Union shifts to auctioning emissions allocations, potentially generating some $20-35 billion in annual revenues. However, with the exception of Germany, European Union members have, so far, been unwilling to commit to allocating a specified proportion of these revenues to international programmes, in part due to domestic financial pressures. Nonetheless, $3-5 billion per year could be raised if other countries were to match Germany's commitment.

Increasing finance for climate change-related uses in recent years has given rise to a proliferation of separate climate funds, with limited coordination among them. The WESS says it is important to avoid further fragmentation as traditional and innovative financing increase. As in the case of health, a more effective approach would be to consolidate disbursement mechanisms. The survey concludes that the international agreement to establish the Green Climate Fund could serve as the starting point for such a consolidation.

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Background:

The World Economic and Social Survey is an annual report produced by the United Nations Department of Economic and Social Affairs. Each year, it focuses on a different issue.
The report is available at http://www.un.org/en/development/desa/policy/wess/index.shtml

A USB drive with the report and previous editions of the WESS can be requested by sending an e-mail to dpad@un.org

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