Innovative Mechanisms of Development Finance

Some Key Options for Public Revenue Streams

How it works	Estimated potential revenue	Administrative feasibility	Political feasibility
1. Financial Transactions Tax			
A small tax on each trade of stocks, derivatives, currency, and other financial instruments.	**€200 billion a year at the EU level and $650 billion at the global level.** Source: A recent European Parliament report, assuming a broad-based, low-rate FTT of 0.01% - 0.05%	Technological advancements have made such tax collection much easier than it would've been even a dozen years ago. In a June 2010 report for the G-20, the IMF confirmed the administrative feasibility of FTTs. An IMF technical paper pointed out that most G-20 countries have already implemented some form of transaction tax and also offered useful information on how to design the taxes to make them most effective. The paper also confirmed that such taxes can generate substantial revenues. The tax collection can be done by existing national or regional authorities, with no new supra-national institutions.	• Particularly strong support in Europe, including the leaders of France and Germany. • On March 8, 2011, the European Parliament voted 360-299 in favor of introducing financial transactions taxes at the European Union level. • French President Nicolas Sarkozy, current chair of the G-20, is continuing to push the FTT in that body. • Among civil society, there is a strong and growing international campaign that has brought together labor unions, environmental, global health, and other groups. • One factor that has strengthened the political support in developed countries, many of which are mired in economic crisis, is that the tax is often viewed as an option for generating revenue for both domestic and international needs.
2. Currency Transactions Tax			
A form of FTT that places a tax on foreign exchange transactions and their derivatives and is collected at the point of settlement.	**$25 billion - $34 billion a year** Source: Committee of Experts commissioned by the Leading Group on Innovative Financing, based on an extremely low rate of 0.005% on the four major currencies. If the tax was applied at both ends of the transaction, revenues would increase significantly.	The Committee of Experts concluded that the implementation of a global CTT is technically and legally feasible. They pointed out that the Continuous-linked settlement (CLS) bank already settles around half of global foreign exchange transactions and is linked to national systems. CLS already charges a small tax of 22 cents per $1,000,000 traded.	• The Committee of Experts that endorsed a CTT had been commissioned to produce a feasibility study for a group of 12 governments -- Germany, UK, Japan, France, Belgium, Korea, Norway, Senegal, Brazil, Spain, Austria and Chile. These countries are part of the Leading Group on Innovative Financing for Development, comprised of 60 nations (including 75% of G20 member states).

3. Special Drawing Rights			
Utilization of the IMF's reserve assets, which are allocated to countries based on the IMF quota system and can be converted to hard currency to be used for any purpose. (Important to note that with conversion of SDRs to cash an interest rate is incurred.)	**$75 billion per year** Source: Center for Global Development, based on using 10% of developed countries' 2009 SDRs. Although never formally proposed, if developed countries converted an additional 10% of their SDRs to hard currency for adaptation, an immediate $17.6 billion could be generated. An IMF staff paper estimated that SDRs could help contribute to a $100 billion Green Climate Fund.	There are a number of SDR proposals for climate finance. The basic idea of many of the proposals is that developed countries transfer a portion of their SDRs from the 2009 allocation (approximately $176 billion of which went to developed countries) to a green climate fund to underwrite green bonds for mitigation. A variation on that proposal is that developed countries would convert a portion of their SDRs to hard currency for adaptation. Little analysis has been dedicated to the administrative feasibility of using SDRs for climate finance. However, particularly with already allocated SDRs that remain in their reserve asset form and are used to underwrite bonds, administrative feasibility should be high.	• Political feasibility is not strong particularly in the United States at this time but there may be potential for individual countries within Europe, for example, to dedicate a portion of their SDRs for climate purposes. • Unlike some of the other innovative finance proposals there is no industry opposition to SDRs which in some ways greatly increases its political feasibility. • There is strong developing country support and civil society support for using SDRs for climate finance. • There would be little or no contributing or budgetary costs for contributing governments.
4. Redirecting Fossil Fuel Subsidies			
Governments would eliminate tax breaks, subsidies and other supports to the fossil fuel industry and channel the equivalent amount of funds into development.	**$3-$8 billion a year** Source: UN Secretary-General's High-level Advisory Group on Climate Change Financing, based on Annex 2 countries within the G-20.	No major administrative hurdles.	• The G-20 has committed to ending fossil fuel subsidies. However, gaining approval of such changes from national legislative bodies has been difficult. In the US, proposals by President Obama have been defeated in Congress. • Countries would also need to further agree to redirect those subsidies towards climate finance or other development needs. • While there is strong public support for ending welfare for "Big Oil," there is also concern that oil companies would pass the cost of lost subsidies onto consumers. • Would be budget neutral. • Added benefit of reducing greenhouse gas emissions.

5. Transportation levies			
Aviation and shipping fuel emissions taxes.	**$2-$19 billion a year for maritime $1-$6 billion a year for aviation** Source: UN Secretary-General's High-level Advisory Group on Climate Change Financing (UNAGF)	Under the UNAGF proposals: For the international maritime sector, a limit would be set on greenhouse gas emissions along with a fixed price for carbon credits based on international consensus. Maritime carriers would either purchase these credits as emissions offsets or pay the tax on fuel used. (Others have proposed a maritime fuel tax without the offset option). For the aviation sector, a cap would be placed on emissions and then carbon offset credits would be auctioned at an international market-based price. The International Maritime Organization, a UN agency, would oversee the process.	• A major point of controversy is whether the tax rate would be universal or whether there would be differential treatment for developing countries. The Obama administration has said they would support a shipping fuel tax but not if it is differentiated. • A March 2011 meeting of the International Maritime Organization failed to reach consensus. • There has been some industry support. • Financial health of many airlines is already weak.
6. Carbon taxes			
Requires a fee for every ton of CO2 emitted.	**$10 billion a year** Source: UN Secretary-General's High-level Advisory Group on Climate Change Financing, based on $1 tax on 11-13Gt of energy-related emissions.	Governments already place excise taxes on fuels. However, many questions remain about international coordination. The creation of the Green Climate Fund, as an institution that would administer the revenues, may help spark more focused work on this issue.	• A recent report by Resources for the Future analyzing a U.S. unilateral carbon tax states "Although previously viewed as a political nonstarter, this option may receive serious attention when U.S. policymakers consider fundamental tax reforms to address the structural budget deficit." • RFF also points out that a carbon tax could "kickstart a serious program to ratchet back carbon emissions in the United States, and thereby remove a major impediment to wider global participation in mitigation efforts."
7. Curtailing illicit money flows out of developing countries			
Increased transparency rules for illicit flows, which involve capital that is illegally earned, transferred, or	Current illicit money flows out of developing countries add up to as much as $1 trillion a year Source: Global Financial Integrity,	Curtailing these outflows could be accomplished by implementing financial transparency rules that many organizations are now promoting to G20 nations and that are not technically complex.	• The EU Commission has recently held a consultative process on country-by-country financial reporting by MNCs. • The EU is considering expanding its Savings Tax Directive. • The US Dodd/Frank bill includes provisions that require oil, gas, and mining companies to disclose payments to governments for the extraction of natural resources and this has drawn interest from other countries.

utilized	based on World Bank and IMF data.		• Some EU countries are becoming more focused on tax evasion being used as a money laundering crime.

The Leading Group has mapped out a number of additional mechanisms, including existing public initiatives that could be expanded, such as:

- Solidarity Levy on Airline Tickets: Generates funds for UNITAID and IFFIm through a nationally implemented and internationally coordinated tax on airline ticket sales.
- Debt2Health swaps: makes funds available to Global Fund projects and at the same time reduces a country's debt burden.
- IDA credit and IBRD loan buy-downs: increase concessionality by buying down principal and interest.
- International Finance Facility for Immunisation (IFFIm): issues bonds in the capital markets backed by legally binding donor commitments to pay grants over the next 20 years.

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