

BOXES



BOX NO. 1: INTERNATIONAL TAXATION AND GLOBAL PUBLIC GOODS

Global public goods are frequently cited as a justification for innovative sources of funding. Strictly speaking, public goods are those that ought, by nature, to be financed collectively. This stems from their two essential characteristics: on the one hand they are “non-rival” goods, in the sense that consumption by one individual does not reduce other people’s chances of consuming them. And, on the other hand, it is technically impossible to prevent an individual from consuming the good in question. For these two reasons, one cannot charge for its consumption. There is no alternative, for such goods, to financing them by means of a compulsory charge or tax.

Transnational public goods are ones whose benefits extend beyond the frontiers of a single country, which reduces the incentive for each country to shoulder the burden of financing them. This situation could provide grounds for an international tax. Articulating this tax with the traditional development assistance mechanisms and circuits is complex matter, though, and depends on the mode of production (or “technology”) of the public good in question:

- the production of certain goods necessarily results from the addition of the individual efforts of independent states: examples include reducing CO₂ pollution and fighting global warming. Here we may speak of an aggregation technology, where the final result depends on the sum of the efforts of each participant.
- In another production technology (known as “weak link”), the efficiency of production is determined by the smallest of the states’ individual contributions (e.g. the eradication of a contagious disease, where failure to eradicate it in a given region or country compromises the overall outcome).
- finally, production of a public good may demand a massive and concentrated effort (in which case it depends on the largest individual contribution). Production (though not necessarily dissemination) of new pharmaceutical compounds and new drugs belongs to this category: the final outcome is determined by the capacity of a limited number (or even just one only) of actors to concentrate the necessary effort within its hands.

For each of these different modes of production of public goods there is a range of corresponding funding structures:

- an aggregation technology requires the harnessing of several national budgets. This would seem to warrant recourse to the conventional official assistance mechanisms, backed by conditionality if necessary.
- similarly, a technology dependent on a weak link may require decentralized and conditional budgetary financing: here too, official assistance enjoys a comparative advantage.
- but if the production of public goods demands a massive and concentrated effort (where the quantity produced depends on the largest individual contribution), other mechanisms—such as specialized funds—are required in order to allocate resources to the most efficient producers.

In which case, the superiority of funding through taxation is all the greater the more the public good to be produced (a) demands time, and (b) entails a risk. This kind of production demands guaranteed, permanent public funding. This applies to research, and especially to medical and pharmaceutical research.

In principle, this can be financed by means of intellectual property regimes, which protect the remuneration of innovation. But these regimes presuppose the existence of a solvent demand for research-derived products, which is not the case for medicines specifically intended for the poorest countries. Moreover, these regimes are now under attack for being unfairly redistributive at the expense of the developing countries. The likelihood, therefore, is that we will move toward public or quasi-public funding for research for a great many pathologies, especially those concerning the poor countries.

BOX NO. 2 PRIVATE GIVING IN THE WORLD AND IN FRANCE¹

① general considerations

- Total private giving in the United States (including foundations): 220 billion US dollars (183 billion euros), of which 40% to churches and 3% to international aid.
- Total private giving in France: 2 billion euros, of which 10% to international aid; this form of giving is growing faster than national wealth (+45% between 1991 and 2000).
- Countries of comparable wealth display wide disparities of behavior with respect to private giving to developing countries. The table below compares average per capita giving with per capita income in a sample of OECD countries.

	Ger.	Bel.	Sp.	Fr.	Ita.	Net h.	Swi tz.	UK	US
(Per capita private giving for international aid) / (GDP per capita) * 1,000	46	9.2	8.1	22	5.6	44	42	22	53

② support for development aid

- The majority of public opinion in countries supports development aid in principle: 92% in Germany, 79% in the United States, 78% in the United Kingdom, 74% in France and Japan.
- Similarly, a substantial majority favors an increase in ODA: 83% in Germany, 81% in the United States, 72% in the United Kingdom, 68% in Japan, and 96% in France.

③ broad trends in giving in France

- Giving increases with age, both as a proportion of donors (56% of people aged over 65 give, versus 36% of those aged under 25) and by amount given.
- Relative generosity declines with rising income: the least well-off (€6,100/€7,600 €) give an average of 2.05%, whereas the wealthiest (+€76,000) give 0.85%.
- International development does not rank foremost among the causes French people are prepared to support financially. With 24% of people willing to support international development, it comes after medical research 70%, protecting children's rights, and combating poverty and exclusion in France (46% each).

Nevertheless, 47% of French people want the target of 0.5% of GDP in 2007 to be respected, and 37% would like it to be raised.

Among institutions responsible for development and which are trusted by the French, the UN ranks first, with 69% of respondents wanting to see it play the leading role in this area; this is followed by the EU 61%, the NGOs 57%, the French government 52%, the alter-globalization movements 42%, and the IFIs 32%.

¹ Sources: McDonnell et al, OECD (2003); "Baromètre de la solidarité internationale des Français" CCFD, 1999 and "Les Français face à l'enjeu de la lutte contre la faim dans le monde", CCFD, 2003.

BOX NO. 3: OFFICIAL DEVELOPMENT ASSISTANCE (ODA) KEY FACTS AND FIGURES

❶ how much is needed?

Net official development aid totaled USD 68.5 billion in 2003. An estimated additional USD 50 billion of ODA per year is required to meet the Millennium Development Goals (MDGs).

By way of comparison, global economic growth spontaneously generates annual incremental wealth of between USD 800 and 1,000 billion. Consequently the effort required is equivalent to around 3 weeks of additional global growth.

❷ current ODA trends²

- Net ODA has been rising since 2001.

- It increased by USD 6 billion in 2002, comprising 3 billion in debt cancellation, 1 billion in additional aid for Afghanistan and Pakistan, and 2 billion in additional flows to the developing countries.

- The sharp growth registered in 2003 (+USD 10.5 billion) was largely (8 billion) due to the dollar's decline against the euro, the yen and the UK pound, the currencies in which payments by the main non-US donors are denominated, and to contributions to the reconstruction of Iraq (2 billion).

- Actual financial transfers constitute only a limited percentage of total ODA. In 2002 they represented only USD 35.3 billion (61% of the total), the remainder consisting of:

- 15.5 billion in technical cooperation,
- 4.5 billion in debt relief,
- 3 billion in administrative costs.

- These financial transfers proper have grown slightly since 1998; however, this rate is half that of the net rate of growth in ODA:

In USD billion	1998	2001	2002	98-03 change
Financial transfers proper	33	33	35	+6%
Net ODA	52	52	58	+ 12%

² Sources: OECD/DAC Statistics, "Global Development Finance 2004: Harnessing Cyclical Gains for Development," World Bank, 2004.

BOX NO. 4: FINANCING FOR FUNDS AND PROCEDURES SPECIALIZING IN HUMAN DEVELOPMENT

The international community has undertaken several assistance programs specifically targeting human development. This box reviews the state of financing for the Global Fund to fight AIDS, Tuberculosis and Malaria; the Education for All Fast Track initiative; and the Vaccine Fund.

❶ The Global Fund to fight AIDS, Tuberculosis and Malaria

UNAIDS estimates¹ that USD 12 billion will be needed in order to tackle AIDS in low and middle-income countries in 2005, USD 16 billion in 2006, and USD 20 billion in 2007.

The Global Fund to fight AIDS, Tuberculosis and Malaria was set up in 2001 to meet this challenge. By January 1, 2004, the Fund had received pledges of USD 4.9 billion, and had actually received USD 2.1 billion. Of this amount, 285 million were spent in the two years following the Fund's inception².

❷ The Education for All Fast Track Initiative

An estimated annual USD 3.7 billion dollars is required in order to achieve universal primary education, of which 2 billion for sub-Saharan Africa³.

The World Bank Development Committee launched the Fast Track initiative In April 2002. This is not a specialized fund but a donors' coordinating mechanism. Eighteen countries have been declared eligible for the mechanism based on general economic criteria, and ten of these⁴ have effectively submitted programs. These countries' annual financing needs (excluding three of them⁵) are estimated at USD 510 million. At December 31, 2003, donors had pledged a total of USD 170 million, of which 6 million have actually been spent⁶.

❸ The Vaccine Fund

The Vaccine Fund was set up to finance access to vaccination in the 75 poorest countries in the world (per capita GDP < 1,000 US dollars). An estimated USD 400 million a year is required until 2006. The development of new vaccines is expected to raise this figure significantly thereafter, to around USD 1 billion annually as from 2011.

The Fund was set up in 1999 and began operating in 2000. Since then, it has collected pledges totaling USD 1.3 billion, including 750 million from the Bill and Melinda Gates Foundation. The Vaccine Fund had disbursed a total of USD 500 million by the end of 2003.

¹ UNAIDS, *2004 Report*, 2004.

² Cf. interviews held by the mission with the Global Fund.

³ IMF/World Bank Development Committee, *Global Monitoring Report: Policies and Actions for Achieving MDGs and Related Outcomes*, April 16, 2004.

⁴ Burkina Faso, Gambia, Guinea, Guyana, Honduras, Mauritania, Mozambique, Nicaragua, Niger, and Yemen.

⁵ Gambia, Mozambique and Yemen.

⁶ IMF/World Bank Development Committee, *op. cit.*

BOX NO. 5: VOLATILITY OF OFFICIAL DEVELOPMENT ASSISTANCE ¹

Several recent studies have highlighted the volatility of official aid flows received by the developing countries. They show that:

- this volatility exceeds the volatility of these countries' national tax revenues. The results are summarized below:

Ratio of variance of aid to that of tax revenues		
	countries for which aid accounts for less than 50% of public revenues	countries for which aid accounts for more than 50% of public revenues
aid and revenues as % of GNP	4.96	7.42
aid and revenues in dollars per capita	1.73	3.00

- program aid tends to be more volatile than project aid.
- the more a country depends on external aid, the more volatile the aid it receives (volatility rises from 50 to 75% when the ratio of aid to tax revenues crosses the 50% threshold).
- aid tends to be (slightly) pro-cyclical: it rises (or falls) with economic activity, amplifying rather than attenuating fluctuations. This is especially true for grants and technical assistance.

For receiving countries, aid is also relatively unpredictable: they cannot rely on donors' pledges in planning for future payments.

Consequently:

- actual disbursements are 20% below pledged amounts, on average (but 35% lower for program aid and 10% lower for project aid). In a sample of 71 countries studied, only 18 had received amounts in excess, on average, of what had been promised.
- one frequently encounters sharp upward spikes in amounts pledged, which are then not followed up by actual disbursements. This could result from temporary vogues among donors, especially in the wake of a political change (e.g. the Central African Republic following the demise of the Bokassa regime).
- more generally, according to statistical tests, the predictive power of pledges relative to disbursements is very weak, and the poorer the country the weaker the predictive power.

The causes of this situation are analyzed briefly. The quality of macroeconomic policies is an important factor. But the studies also assign responsibility for deviations observed between pledges and actual payments to uncertainties in the donors' own internal budgetary procedures.

¹ Sources : [a] Bulir and Hamann : "How Volatile and Unpredictable Are Aid Flows and What Are the Policy Implications?", IMF Working Paper WP/01/167 (2001); [b] Bulir and Lane : "Aid and Fiscal Management", IMF Working Paper WP/02/112 (2002); [c] "Foster (Mick) : The Case for Increased Aid", Report to the Department for International Development; (UK). December 2003.

Box no. 6: Intergenerational tradeoffs and official development assistance

Should official development assistance be financed out of ordinary fiscal revenues or by borrowing? Until now, ordinary fiscal revenues have generally been regarded as the most appropriate means of financing this kind of expenditure. Countries (cf. the United Kingdom notably) whose budgetary rules distinguish between tax-funded expenditures and those funded through borrowing classify ODA in the former category.

But proposals for “innovative” forms of financing, such as the IFF and international taxation, cast the issue in a new light. An essential difference between these two instruments lies in their impact from the point of view of time: taxation hits existing generations, whereas borrowing shifts the final burden onto the future.

Here we explore the conditions and factors behind this choice.

Fundamentally, financing through borrowing permits (❶) a decoupling in time between fiscal payments by donors and aid flows received by beneficiary countries; and (❷), as a consequence, a possible frontloading of aid disbursements to these countries. We examine each of these aspects in turn.

❶ the decoupling of fiscal payments and financial transfers to the developing countries:

- it may make sense from a financial point of view¹ For a given amount of total aid over a given period, the needs of the developing countries do not necessarily coincide in time with the fiscal possibilities of donors². One can thus improve the situation by adjusting the profile of ODA disbursements. It is precisely the function of capital markets to make those adjustments between globally equivalent income and expenditure streams (at net present value) but which are staggered over time³.
- this decoupling is risky, however, if future ODA flows are uncertain. The risk is borne entirely by future generations of the poor⁴. So one needs to consider the extent of this risk. Or, symmetrically, we need to question our grounds for hoping that future ODA will be significantly greater than today (and for financially anticipating that increase). There are four possible such grounds:
 - an easing of the financial constraints on donor countries' budgets. This seems unlikely. On the contrary, indeed, the state of the developed countries' public debt and their aging populations are going to breed rising costs, thereby raising the opportunity cost of ODA.

¹ Source : Schneider (Jean-Luc): “Du bon usage de l'IFF” (putting the IFF to good use); roneo; French Ministry of the Economy, Finance and Industry (2004).

² In formal terms, the optimum time profile for fiscal payments should be such that it equals the marginal rate of taxation and social security contributions for each year [3]; at the same time, the optimum timetable for transfers to beneficiaries should equal the marginal return on aid each year.

³ Source : Schneider (Jean-Luc) : “Du bon usage de l'IFF,” op.cit.

⁴ The logic behind the currently envisaged mechanisms consists in basing borrowing on future increases in ODA, i.e. in anticipating fulfillment of the 0.7%/GNP target. But if this increase fails to materialize, the operation would result in a steep drop in aid actually paid when the loan falls due for repayment, which would hit the poor at that time especially hard.

- the existence today of urgent fiscal expenditure items which may disappear in the future, thereby leaving more room for ODA. This could happen, especially where unemployment benefits are concerned, assuming a decline in unemployment.
- greater altruism among the populations of the developed countries, spontaneously agreeing to increased taxation in the future. One cannot rule this out, but it would be hazardous to build an innovative approach to development financing on this assumption alone.
- Finally, better public information in the developed countries, raising awareness of the difficulties facing the poor and of the more or less direct risks those difficulties pose for the welfare of developed countries' citizens.

➊ faster ODA disbursements.

Once the total amount of ODA for a given period has been determined, there are three cases in which it may be justifiable to speed up disbursements:

- if we attach more value to the welfare of today's poor as compared to tomorrow's poor,
- if the aid disbursed today is globally more effective than aid disbursed tomorrow,
- finally, if a spontaneous (exogenous) decline in poverty were to occur, thereby reducing future aid requirements.

Looking at these three possibilities in turn:

- future costs and benefits are usually discounted to measure their present value. How can this methodology be applied to poverty reduction? The discount rate has two components, namely:
 - a social time preference rate. Where poverty is concerned, the rate results from an ethical choice. For personal reasons (and depending on how optimistic one is for the future), one may (or may not) value a reduction of poverty now to a greater reduction of poverty in the future. But it is impossible to rationalize this kind of choice.
 - an economic component, justified on the grounds that future generations will spontaneously be wealthier than present ones, and, therefore, that the marginal utility of an improvement in their welfare is less. But this argument cannot apply to poor people, whose degree of poverty is measured by an *absolute* income level.

In sum, the correct discount rate for calculating the benefits of poverty reduction is probably very low—possibly zero. To act otherwise would be to favor one generation over another on subjective grounds. That choice would be all the more problematic that, in reality, it would entail a geographic choice as well: the majority of today's poor are Asian; tomorrow's will mainly be African.

- it is possible that aid disbursed today is more effective in reducing poverty than aid disbursed tomorrow:

- studies show the social return on aid—measured at the microeconomic level of projects—is very high (of the order of 20%); which suggests that a great many very effective projects are not being financed at present⁵.
- second, there may be rising returns from ODA; aid granted today enhances the effectiveness (i.e. raises the return) of aid disbursed tomorrow. This is probably the case with human development.

But it is not absolutely certain: it is possible that a country's absorption capacity increases with time. This is so, notably, if technical progress is "endogenous," i.e. if the return on capital in the economy rises in line with per capita GNP. In that case, on the contrary, future aid will be more effective than today's aid. Frontloading disbursements would lead to a loss of efficiency and to a loss of efficiency (the country would forgo very profitable future investments in favor of immediate, but less profitable, investments). These considerations lead certain experts to recommend the reverse of the IFF mechanism, whereby donors' immediate fiscal payments would be paid into trust funds which would serve to finance future transfers to the developing countries⁶.

- We can look forward with certainty to a decline in the number of poor people by 2015. The MDGs will be achieved in a certain number of countries, thereby reducing the need for aid. But it is also probable that the poverty persisting after that date will prove much harder—and more costly—to roll back, which could limit the reduction in the volumes of aid required.

Conclusion

- There is no objective ethical argument for "choosing" between present and future generations of poor people, and hence for establishing mechanisms whose sole effect would be to shift the impact of aid intended to reduce poverty back in time, but without increasing it overall.
- Consequently, frontloading ODA disbursements (and recourse to borrowing) can only be justified on the basis of increased efficiency . Frontloading must apply to expenditures generating high (and if possible rising) social returns, at any rate greater than the returns on expenditures made at a later date. More precisely, an expenditure made today must have a greater overall impact on poverty across all generations than expenditure made to morrow. This requirement calls in turn for precise definition of the expenditures eligible for this mechanism and of the conditions for its implementation. The other aid expenditures must be financed by the present generations. This distinction must be applied rigorously especially with regards to arguments such as : "all useful investments are an investment for the future," which, if taken literally to justify frontloading, could reduce the overall efficiency of aid.
- Finally, on the same ethical grounds, future generations of the poor must be protected from the risk of a drying-up of aid resulting from the repayment of previously-contracted loans. And any such schemes should be designed with cast-iron guarantees on that score.

⁵ Source: Foster (Mick): "The case For Increased Aid" Report to the Department for International Development; (UK). December 2003 (Annex III).

⁶ Source: Heller (Peter); Gupta (Sanjeev), "Challenges in Expanding Development Assistance" IMF Policy Discussion Paper 02/5 (2002).

BOX NO. 7: AN EXAMPLE OF CONDITIONALITY SUITED TO STABLE FINANCING: THE VACCINE FUND

The Vaccine Fund has established an original system of governance for programs aimed at reconciling predictability of aid for beneficiary countries with effective oversight by the Fund of how resources are used.

The system is based on the following rules:

- the Vaccine Fund and beneficiary states jointly define vaccination goals, establish a funding plan, and calculate resources to be supplied by the Fund in consequence. This planning adopts a five-year time frame during which the Fund pledges to supply the agreed assistance.
- Plans for each country and the level of contributions by the Fund are approved by an independent committee of experts which is also responsible, during the five-year period, for verifying compliance with the states' and the Fund's respective undertakings. The Fund commits to programs only if it is certain of being able to finance them.
- Beneficiary states are free to utilize the funds provided at their discretion and are accountable to the Vaccine Fund and to the panel of experts solely for the results of their actions.
- Financial assistance by the Fund is paid out in two stages. Between a third and a half of the total amount is paid up-front; the balance is paid after completion of an intermediate verification of the receiving state's performance and that it has respected its undertakings.
- In certain countries, government agencies have been deemed unfit to manage the programs financed by the Fund. The latter has therefore cut off their funding, redirecting resources to NGOs entrusted by it with carrying out the program in place of the government agencies.

BOX NO. 8: DOUBLE DIVIDEND

There is a “double dividend” when a tax yields two benefits simultaneously, i.e. generates revenues and eliminates distortions. A double dividend potentially arises whenever taxation serves to correct a market imperfection, especially in the environmental sphere.

In fact the term covers two distinct situations:

- where revenues are spent to assist development, for example. This is the most commonly used definition in everyday language and in political discourse.
- where the proceeds of the tax serve to reduce or eliminate another more distorting levy: to finance reductions in social security charges, for example. The overall revenues are unchanged, but the economic impact of taxation is improved. This formulation is found more commonly in the economic literature.

The existence of the double dividend is sometimes disputed. Some people claim that if the tax effectively eliminates the distortion, it eliminates the tax base at the same time, thereby doing away with the revenue. If, conversely, it continues to generate substantial revenues, this means the tax has not succeeded in changing people’s behavior and eliminating the distortion.

The reality is more complex, however, and intermediate situations may occur. It all depends on the price elasticity of demand for the good. If this is sufficiently low, but not nil, even a significant tax will yield revenues without eliminating the tax base. The time factor plays a part also. Elasticity may be low in the short term and high in the longer run. In that case, the tax will generate revenues for the time being, while tending to steer people’s choices and progressively influence behaviors toward elimination of distortions. Experience with tobacco taxes could serve as an example of such a trend. In such cases, a strategy of progressively raising taxation and adjusting time frames can generate revenues in the short term and eliminate distortions in the long run. A low-level, but progressively rising, carbon tax could work in this way.

BOX NO. 9: THE IOPC FUNDS: AN EXAMPLE OF AN EXISTING “INTERNATIONAL TAX”

The International Oil Pollution Compensation Fund is an international organization founded in 1971 in order to pool the financial risks incurred by oil and gas carriers as a result of oil spills. The organization compensates victims from levies paid by the oil companies.

The IOPC Funds' legal structure illustrates how a tax-style international financial contribution might operate:

- the IOPC Funds were created by an international treaty signed by the Funds' 83 member states (the United States is not a member).
- this treaty has been ratified and implemented in the national law of the signatory states (in France, this took the form of a law followed by an enabling decree), giving force of law to the annual contributions paid by the oil companies.
- the scale of contributions is set annually by simple majority vote by the executive organ of the IOPC Funds, which is designated by the member states.
- the contributions are paid directly to the IOPC without transiting via national budgets.
- governments play a dual role in the collection process: they have a general obligation to ensure the proper functioning of the system, by verifying companies' returns if necessary (in France this is done by the General Directorate for Energy and Raw Materials); sanctions applicable in case of non-payment of contributions are determined in accordance with the national law of each state (in Denmark, for example, which has adopted the strictest regime, this can lead to fines and prison sentences).

BOX NO. 10: INTERNATIONAL GEOSTATIONARY ORBITAL POSITION ASSIGNMENT PROCEDURE

Positions on the geostationary orbit and broadcasting frequencies are assigned on a first-come, first-served basis by the International Telecommunications Union (ITU), a specialized agency of the United Nations with 172 member states. Licenses are delivered free of charge¹ with flexible limits on their duration:

- the duration of the license is left to the applicant's discretion (durations of 30 years are common, and several recent applications have opted for 60-year durations);
- holders may prolong their licenses unilaterally, subject to notifying the ITU three years before expiration.

This system leads countries to reserve more orbital positions than they need, since it costs nothing to hold a concession; there is practically no limit on its duration; holders' rights take precedence over those of new applicants in case of interference; and it gives holders room for maneuver in negotiations in the event of a new application, since it allows them to offer concessions to an "inconvenienced" country.

Under this system, countries and operators with a large number of reserved positions thereby enjoy an advantage over others. Finally, the system creates barriers to entry for new operators or countries.

¹ Since 2001, a fee of between 1,500 and 700,000 Swiss Francs is payable to cover costs incurred by the ITU in examining applications. This system is not working very well at present, the ITU having recorded more than CHF 12 million in unpaid fees in 2003.

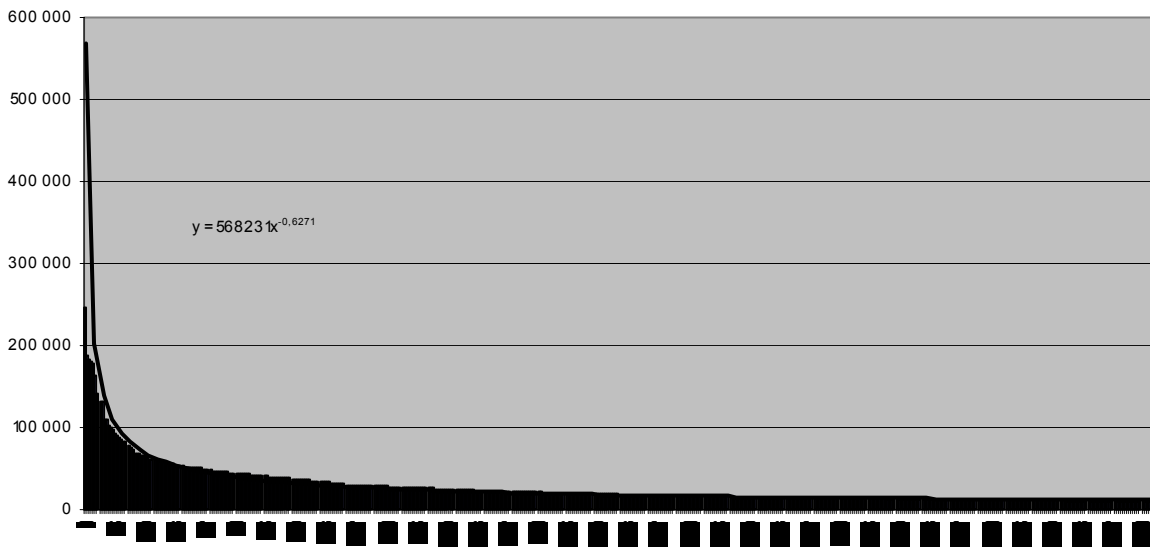
**BOX NO. 11: ESTIMATING THE BASE FOR A CORPORATE INCOME TAX SURCHARGE
ON MULTATIONALS**

❶ The major multinational corporations' profits have been estimated based on the annual rankings of the 500 largest global corporations by *Fortune* magazine.

The revenues and aggregate net profits of these 500 corporations, which are generally the most international corporations, have been extrapolated to a sample of a further 500 corporations in order to calculate a revenue and net profit base for 1,000 corporations.

Revenues have been extrapolated using the trendline closest to the revenue dataset for the Fortune Global 500. The chart below illustrates the outcome for the year 2000:

Profil des chiffres d'affaires 2002 (500 entreprises les plus importantes)



Net profit was extrapolated by applying the weighted average margins observed for the first 500 corporations to 500 additional corporations.

Due to the limitations inherent in this type of calculation, these findings should be seen more as a rough estimate than as a precise quantification of the tax base in question.

❷ Results of the foregoing extrapolations are tabulated below:

(in constant USD billion - 2002)	1990	1995	2000	2001	2002
Total revenues (a)	7,800	17,160	19,580	19,080	18,200
Total net profit* (b)	346	531	924	420	181
Net margin (a/b)	4.4%	3.1%	4.7%	2.2%	0.99%

According to the table, results vary considerably in the short term (profits and margins fell by 80% between 2000 and 2002). Any additional revenue from a surtax on large multinational firms would therefore be likely to be highly volatile.

BOX NO. 12: BANK TRANSPARENCY AS A PUBLIC GOOD

Some countries view bank secrecy as an element of individual freedom, and even as an aspect of the right to privacy. But the existence of bank secrecy in one country has consequences for other countries. In particular, bank secrecy may serve as a prime conduit for tax evasion or illegal practices. In that sense, bank secrecy exactly corresponds to economists' definition of a negative externality. The exercise by one country of what it regards as a legitimate right entails collateral consequences for other countries; the consequences may not necessarily be deliberate, but they are undeniable. In other words, alongside its supposedly positive effects, bank secrecy is the source of a "public bad" in the form of tax evasion and as a conduit for criminal activities. The fact that countries that do apply bank secrecy can lift it when fighting crime is evidence that they recognize it to be a "public bad."

In theory, a negative externality can be offset by a tax designed to reflect and internalize its cost to the global community. It is hard to find a practical example of this theoretical intuition in the present day. Certain countries that practice bank secrecy claim that their development assistance greatly exceeds the average for the developed countries, although it is not possible to determine whether this difference fully compensates for the externality created by bank secrecy.

CONTRIBUTIONS BY MEMBERS OF THE GROUP

Towards global taxation in the service of alternative globalisation

In a letter dated 21 October 2003, the President of the French Republic, Jacques Chirac, appointed Jean-Pierre Landau, Inspector General of Finance, to chair a working group set up to "reflect upon the feasibility of new international financial contributions to reduce poverty, to promote development and to finance global public goods such as the environment, public health or rare resources", and to submit a report on its conclusions.

ATTAC was requested to participate and agreed to contribute its expertise.

It would like to compliment Jean-Pierre Landau upon the excellence with which he has steered not only the plenary sessions of this working group but also its reports, which are essential to measure general progress.

ATTAC was able to express its views freely and constructively.

It is entirely understandable that the general report of such a diversified group endeavours to give more weight to points of agreement than to the isolated opinions of individual group members. ATTAC endorses this principle unreservedly. The report nevertheless gives a highly objective account of diverging opinions.

This is the background against which ATTAC decided to accept the Chairman's invitation to the members to send him a special paper highlighting what they consider to be essential points.

ATTAC acknowledges the relevance of the President of the Republic's statement that "globalisation creates wealth and promotes freedom and growth. But it also generates new global risks and aggravates the persisting poverty and inequality in the world".

We believe that the globalisation stigmatised by the President of the Republic **is one which** allows itself to be regulated by the markets and so abandons those considered insolvent to "persisting poverty and inequality". The "new global risks" are unfortunately aggravated by the presence of billions of people in the world. This is what we refer to as neoliberal globalisation, i.e. a form of globalisation which undermines the legitimacy and effectiveness of public intervention in regulation. But how can we produce "global public goods" without public regulation?

I. Reasons for international taxation

1) Globalisation and tax competition

The existing tax systems were developed when borders and tax jurisdictions coincided with national states. Indeed, these systems predate national states by several centuries. The existence of national borders allowed states for many centuries to adopt sovereign and largely independent monetary and tax policies. **The ongoing globalisation process has radically changed the environment of tax policies.** The

elimination of borders and the mobility of certain production factors have brought the era of independent national tax policies to an end. Tax policies have become interdependent, primarily because of their impact on trade and financial flows. Today, third countries can take advantage of tax hikes in neighbouring countries, which then lose the additional tax revenues expected from their measure. Right or wrong, many developed and developing countries are nowadays taking tax-related decisions **based on** external factors.

The well-known theory of the "prisoner's dilemma" permits two strategies. Either countries do not cooperate and play the game of "harmful tax competition" by lowering their taxes in order to attract foreign capital and multinationals. **Such Dutch-auction tactics reduce tax revenues.** Or countries cooperate in order to maintain homogeneous tax pressure, allowing them to preserve their public revenues. Tax cooperation can be strengthened by harmonising national tax policies or by creating common global taxes. Theoretically, the result is the same in both cases if countries adopt the same tax assessment bases and the same tax rates. This eliminates the practice of "free riders".

Within the context of market integration, cooperative tax policies are clearly difficult to implement, as witnessed by the European Union. One of the reasons for this is that multinationals, as part of their international tax optimisation strategies, push countries to compete with each other in order to lower the tax pressure upon their business. This tactic is particularly applied to foreign direct investment.

2) Taxation and mobility of factors

Production factors can be taxed all the more effectively when their mobility is low and their assessment basis does not respond elastically to changes in the tax rate. The removal of national borders in application of liberalisation policies has raised the mobility of certain production factors, primarily capital, whose main holders are industrial multinationals, banks and international investors. **The mobility of these players allows them to establish themselves in territories with lower tax pressure in order to optimise their tax strategy.** Businesses do not just want a state offering the best tax deal but also a state offering subsidies which allow them to cancel their tax burden or even to generate a negative tax burden. The profits of these major groups have become a moving and increasingly elusive target for the national tax authorities. **The net result is that the assessment basis of states has collapsed while multinationals have enlarged the space in which they can minimise their tax burden and maximise their profits.**

Multinational businesses use many techniques to avoid taxation. The most radical method is of course to base operations in all sorts of tax havens or free zones. Another solution is to use highly sophisticated window-dressing methods, of which the best known is to charge fictitious transfer prices between a parent company and its subsidiaries. In recent years we have seen particularly revealing examples of this tactic.

3) Globalisation and tax inequalities

Globalisation aggravates tax inequality between the different categories of holders of production factors, depending upon their degree of international mobility. On the one hand there are farmers and wage earners, who hold the land and labour and who represent almost all of humanity. **For most workers it is very difficult to move geographically due to obvious obstacles, such as cultural and language barriers and immigration laws.** As a result they are generally unable to shrug off their tax burden.

On the other hand we have senior managers who are at the top of the global income pyramid and who, because of their high mobility, have a very elastic assessment basis, i.e. they can move about to avoid taxation. **Globalisation has thus driven a new divide between wage earners, with on the one hand those who can relocate to take advantage of pay and tax spreads and on the other the overwhelming majority of wage earners who cannot do so.**

The available statistics clearly show the link between the **eroding tax base** and the mobility of production factors. **The gap between the tax rate for labour and for capital has increased steadily since the inception of the globalisation process.** In the EU Member States, the weight of capital taxes dropped significantly from 50% in 1980 to 35% of total tax revenue in 1994, while the fraction of labour taxes rose from 35% to 40% in order to preserve national tax revenue. **Inequalities can only be fought by readjusting the entire balance.**

4) Global taxes and common goods of humanity

Another basic reason to consider the creation of global taxes is the certainty that globalisation generates new needs and the necessity to appropriate new or existing needs requiring the use of an international tax instrument. The concept of common goods of humanity - generally referred to as global public goods (GPG) - was created to describe these needs, which are felt at a worldwide scale and cannot be satisfied by the markets because of their two key features: no one can be excluded from consumption of a public good (principle of non-exclusion) and the use of a public good by any individual may not deprive the other members of a community (principle of non-rivalry). **The aim of balanced global development can only be achieved if such public goods as health, education and security are covered by clearly defined policies financed at an international level from public resources, such as global taxes.**

At the present time, production of GPGs falls far short of what is required. This lack of investment results in particular in international financial instability, pandemics, financial crime, lack of dissemination of knowledge and internet access and environmental damage. Shaken by globalisation and lack of global public goods, the planet has become unstable, inequalitarian, polluted and unhealthy. There are several reasons why there is a lack of GPGs. First, there is the problem of evaluating

costs and returns, mostly because of their time horizon. Their results can only be measured in the long term. For instance, policies to fight financial instability and the destruction of biodiversity have a high cost and remote and uncertain returns, which may discourage initiatives by public players. Secondly, the current lack of GPGs is due to their sphere. Budgetary and tax policies are national in scope whereas the profits from these goods greatly benefit third countries. **We can only provide sufficient public resources if we develop and implement a global tax system operating across a larger area.**

5) Millennium Development Goals (MDG)

As pointed out by the President of the Republic, the MDGs are the result of a decision by the General Assembly of the United Nations and are therefore difficult to call into question.

The MDGs remain for the most part to be assessed. **One thing is certain: the needs are considerable and require additional resources and it is hard to see how these could be provided without taxation.**

Goal 1, target 2, for example, is to "halve, between 1990 and 2015, the proportion of people who suffer from hunger". This is really a very modest objective in an area such as this, which has a direct impact on growth. In its report for 2003, the FAO tells us that midway through the period under review the number of people suffering from hunger, which had decreased in the first half of the nineties, had risen again to nearly 800 million people. The report also explains that it is impossible to fight hunger if we do not also fight AIDS, which is covered by Goal 6.

II. Which international taxation?

An international tax system can only be effective and fair and perform its three key roles - reducing various nuisances, redistributing income (in other words, complying with the MDGs) and producing international revenue, particularly to finance GPGs – if it includes several different kinds of international financial contributions. The general report fully covers the factors to be taken into account when introducing an international tax system. We will therefore not repeat them here. **We merely want to stress the advisability of a diversified international tax system rather than a single tax, however relevant.**

1) Financial taxation

In our globalised economy there is a wide variety of easily identifiable flows. These generate income for the parties who originate them. It is therefore perfectly fair to use them as a **tax base** for a collective tax system. As some of these flows are known to be harmful for the world order, their taxation would also play a dissuasive role and so benefit the world at large. This tax could be incentive-based (basically the purpose of taxes on foreign exchange transactions and carbon dioxide emissions) but it could just as well be levied on financing operations (i.e. a tax on FDI).

A. Tax on foreign exchange and securities transactions

ATTAC will not come back to taxation of foreign exchange transactions, which has become a global symbol and is extensively discussed in the general report. All the same, we need to remember that international speculation is one of the scourges of financial globalisation with a potentially high economic and social cost, particularly for the countries in the southern hemisphere, as the last decade has shown.

The purpose of taxation is also to collect revenues. A securities trading tax of about 0.01% for all financial markets would be a major source of tax revenues.

Regardless of the application difficulties and the methods to avoid collection, it is hard to see why such a tax should not be proposed. Taxation is also a matter of morality! **In view of its principles, the European Union needs to show the way in this area.**

B. Measures against tax havens and banking secrecy

Taxes can only perform their function in a fair manner if the tax authority can verify their calculation and collection.

This basic principle is constantly undermined by the existence of tax havens and banking secrecy. **There is only one effective measure against tax havens: their elimination. No other regulation is genuinely productive in this area.**

The remedies against tax avoidance promoted by banking secrecy seem relatively easy to implement. Banks claim that they are morally obliged to preserve the secrecy of customer transactions. Fine! **Let them file anonymous returns and pay tax on these. Banks that refuse to do so could easily be subjected to a flat tax.**

C. Tax on foreign direct investment (FDI)

The two key objectives of such a tax align perfectly with the MDGs: opposing tax avoidance by dissuading the selection of countries with low taxes and preventing the deterioration of employee rights in the countries with the lowest wages and laxest labour laws.

We must not delude ourselves about the contribution made by FDIs to the economy of their host country. In 2000, the 10 largest beneficiaries accounted for 75% of global foreign direct investment. 9 of these were wealthy countries, the only exception being China (including Hong Kong). 90% of these FDIs were used for mergers & acquisitions. It is therefore hardly surprising that technology transfers tend to be limited and that few jobs are created. One particularly harmful consequence is that competition by local firms bought and restructured by foreign investors causes bankruptcies and layoffs at other local businesses. The net result is negative for employment. The balance is just as bad for wages, working conditions and social protection since multinationals stir competition between countries in the southern hemisphere and locate their activities in countries offering the most attractive terms. ATTAC supports the proposal of a 20% tax on all investments in host countries whose respect for basic rights is at the bottom of the scale. This tax could be

modulated and slide to 10% for countries with more respect for these rights or significant efforts in the right direction. Their "social rating" would be assigned by the International Labour Organization.

D. A unified corporate profit tax

The aim is to restore the capacity of states to tax corporate profits. **The states have granted multinational companies the power to apply pressure by permitting free movement of capital. It is hard to see how states can get out from under this pressure unless a global unified tax is levied.** In the current situation, multinationals systematically threaten to invest in another country or to relocate if their home state does not grant tax cuts. This practice, which is a form of blackmail, has triggered a tax war between states, which are showering businesses with tax gifts. The contribution of the business community to national tax revenue has dropped as a result. In the United States, corporate income tax accounted for only 17% of federal tax revenues in 1990, down from 27% in 1965. The principle - if not the application - of a unit tax is simple: regardless of the country or the region in the world where a multinational establishes itself, it is subjected to the same income tax rate. This would not only go far towards defusing the tax war, it would also curb tax avoidance and evasion possibilities. **Tax revenues are potentially high. In 2000, the thousand largest companies in terms of market capitalisation reported aggregate profits of USD 847 billion¹⁷. In 2000, UNCTAD estimated the sales of the hundred largest multinationals at USD 4,800 billion¹⁸, representing 4.3% of global GDP, up from 3.5% in 1990¹⁹.**

ATTAC is strongly in favour of this method of taxation, which would end the attrition of income tax from multinationals and is a vital step towards scaling back inequalities and achieving the MDGs.

This method of taxation is well documented in the general report.

E. Wealth tax

Although wealth is a stock rather than a flow, it can nevertheless be included in this report, since it is possible to tax the stock itself, according to the French model, or its income, according to the American model. A flat tax could be assessed, based upon the size of the fortune in question. We do not wish to give final figures here. We merely wish to point out that the assessment basis is relatively easy to establish using the figures published regularly by the UNDP. For instance, the report for 2003²⁰ states that "the richest 1% receive as much as the poorest 57%". Several valuations

17) including USD 436 billion for companies based in the United States, USD 55.5 billion in Japan, USD 43 billion in Germany and USD 39 billion in France. See the special issue of Business Week, May 2001.

¹⁸ World Investment Report, UNCTAD, 2002

¹⁹ World Investment Report, *op.cit.*, p. 91

²⁰ Human Development Report (Global Report) 2003, p. 39, UNPD

estimate the aggregate assets of the 200 wealthiest people on earth at USD 1,000 billion. **Assuming taxable assets are worth roughly USD 5,000 billion, a very low flat tax rate of 1% would nevertheless generate USD 50 billion.** In other words, without applying intolerable tax pressure on these fortunes, the revenue from this tax would be about as much as total ODA at the start of the new millennium.

2) Ecological taxation

This increasingly necessary taxation method is clearly intended to limit the negative externalities which jeopardise the future of our planet more and more seriously. **Only public regulation can bring this decline to a halt.** An international tax can become a strong **regulatory** instrument if its type and amount are judiciously chosen. The following list of five types of tax is not exhaustive and needs to be analysed more thoroughly. The public revenue from this tax could be used for the budget of a World Environment Organisation attached to the United Nations. The function of this WEO would be to oversee international rules to preserve the environment and to finance international programmes intended to promote research of alternative, renewable and pollution-free energies and of waste recycling techniques and to develop economical, pollution-free production techniques.

A. Carbon emission tax

The purpose of this report is not to discuss the many harmful externalities connected with activities producing carbon derivatives, particularly carbon dioxide²¹. **It is crucial to develop a tax which gives producers a strong incentive to reduce their emissions and makes them pay costs previously borne quite unfairly by the whole community.**

The tax rate will have to be chosen very carefully to create a strong incentive to reduce emissions. The projections are flexible. They reflect the lower end of the bracket. Some proposals for such a tax would generate revenue of USD 500 billion.

21 CO₂ emissions were estimated at 6.5 billion tonnes in 1995 and expected to rise to nearly 12 billion by 2035

B. Tax on nuclear waste with a very long life and very high activity

A compensative and dissuasive international energy tax designed to make the responsible parties pay for the negative externalities caused by carbon dioxide emission will only be taken seriously if it is accompanied by a nuclear waste tax. The purpose of this tax would be to reduce the production flows and even stocks of waste with a very long life and very high activity, particularly plutonium, minor actinides and other fission products.

The aim of this brief outline is not to discuss this vast issue, thoroughly analysed in the Charpin, Dessus, Pellat study²². We merely want to point out that it would be highly inadequate to limit energy taxation to carbon emissions.

We can dismiss the question whether plutonium and the minor actinides contained in irradiated nuclear fuel is an energy resource or a waste. In the current state of the art, these materials can only be stocked, not used. As long as they cannot be used for economic purposes as an energy source, they are negative externalities and need to be reduced. The externalities connected with plutonium in particular not only include very long term radioactivity, but also a considerable risk of proliferation of nuclear arms.

A tax is therefore not just a feasible option, it is indispensable.

The simplest and least controversial **tax base** would be the production of plutonium and minor actinides.

France's significant experience in this area would enable it to evaluate a possible tax. For instance, we know that France is willing to spend about EUR 150 million per tonne to reduce its plutonium and minor actinide production flows by about 20%. The authorities appear to have accepted a cost of up to EUR 300 million per tonne in order to magnify the decrease of these materials.

It seems therefore reasonable to contemplate a tax of EUR 200 million per tonne produced. With a worldwide flow of about 60 tonnes of plutonium and minor actinides a year, the tax revenue would be EUR 12 billion annually.

The question of a tax on stocks remains to be solved. If such stocks are considered negative externalities, they should also be taxed in order to give an incentive to scale them back. If so, civilian and military stocks are obviously equally harmful and must therefore be taxed the same way. We could imagine an annual tax equal to 10% of the tax on flows.

C. Air transport tax

The fact that air transport occupies an important position in today's economy and that airlines currently generate low profits does not make it any less relevant to tax kerosene consumption. How could we consider a tax on carbon emissions and not on air transport? The economy needs to be adapted to the needs of humanity, not the other way round. This raises the question of how high the tax should be and how it should be assessed. On first analysis, ATTAC considers a tax of about USD 4 per tonne of kerosene wholly feasible. This is definitely part of the fight against negative externalities, as witness the fact that the "average" Frenchman making a return flight

²² *Etude économique prospective de la filière électrique nucléaire française* [Prospective economic study of French nuclear power industry], La documentation française, 2000

to Miami is responsible for the same quantity of carbon dioxide as if he were travelling a whole year by car in France. This also shows the inequality of the situation.

D. Tax on arms sales

The externalities in this area are well known. Any tax proposal is therefore given sympathetic/[kind](#) consideration. This is probably why President Lula Da Silva wants such a tax to finance part of his proposed World Fund to fight Hunger. This said, [arms exports account](#) for only USD 50 billion of the global defence budget of USD 800 billion. Moreover, light weapons and mines represent only a very small part of these USD 50 billion despite their intensely destructive consequences for humanity.

E. Taxes intended to protect the countries of the southern hemisphere

The brain, muscle and asset drain of the countries in the southern hemisphere continues at a large scale. Without suitable taxation, multinationals will probably continue to exploit these goods without giving anything in return to those countries whose development we are trying to achieve.

We will not discuss North-South imbalances in this report. They are adequately documented. They are so large that a global tax seems an indispensable instrument to start closing the gap and to leverage the necessary transfers.

This type of tax deserves closer examination.

III. Conclusion

There is an objective basis for an international tax system. Such a system is likely to generate large resources and possibly even the figures given in the appendix, although these may not all be reached at the same time. The economic operation of our planet would not be jeopardised by such a system but helped.

This nevertheless leaves a basic political question: do the leaders of our nations, particularly those of the G8 countries, intend to shoulder this historic responsibility? Taxing the wealthiest to facilitate access by the poorest to minimum goods and services. The goal is not so much to achieve a moral victory, which is left to the discretion of each citizen, [but](#) to comply with a decision adopted in 2000 by the General Assembly of the United Nations agreeing the eight Millennium Development Goals, the MDGs referred to in this [report](#). This would moreover make it possible to reduce dangerous activities for humanity and for the planet.

The creation of a global tax system is therefore intended to give public policy renewed room to transform the existing globalisation process, which is exclusively dominated by market regulation. It would nevertheless be insufficient to consider global taxation merely an instrument to correct "market failures". This narrow notion

would not entirely factor in another rationale for globalisation than the prevailing idea, commonly known as the "Washington consensus". **The purpose of this alternative rationale is to achieve more sophisticated regulation of the world economy and an innovative understanding of taxation and public goods.**

ATTAC obviously does not consider taxation, even global taxation, adequate to transform the entire rationale of neoliberal globalisation. Other measures are required to regulate the activity of private actors and businesses in general in order to restore the power which the United Nations has lost in the wake of liberalisation. It is also necessary to define an international law system with strong international judicial institutions in the service of alternative globalisation, i.e. another scale of international values and standards.

The theoretical framework of this alternative approach, which focuses on the concept of global public goods or common goods of humanity, permits a new architecture for global governance. It must therefore be constructed around procedures designed to define and prioritise national and international public goods. This new architecture will have to include regulation and enforcement mechanisms as well as transnational official financing techniques. Global taxes would be the backbone of such new public regulation and finance mechanisms.

**APPENDIX: Estimated yield of a few global taxes
In USD billion**

Name of tax	Assumptions	Annual yield USD billion
Tax on foreign exchange transactions	Rate of 0.1%; 50% reduction of assessment basis ²³	110
Tax on portfolio investments	Average rate of 25%, lowering volumes by 33%	190
Tax on FDIs	Average rate of 15% on an average assessment basis of USD 800 bn	120
Tax on multinationals' profits	Rate of 25% on the profits of the 1,000 largest companies (basis: 2000)	200
Wealth tax	Fixed rate of 1% applied to USD 5,000 bn	50
Carbon emission tax	Levy of USD 21 per tonne of carbon contents	125
Tax on the production of plutonium and minor actinides	Tax of USD 240 bn per tonne produced	15
Air transport tax	- Tax of 1% on ticket and freight prices	2
	- Tax of USD 3.65 per tonne of kerosene	74
Bit tax	1 cent per 1,000 kilobytes (basis: 1996)	70
TOTAL		956

23 Does not factor in possible differentiated applications of such a tax

Contribution by Henri Rouillé d'Orfeuil – President – Coordination Sud

Mr President,

I would like to take advantage of the presentation of the report produced by our working group to send you a few comments on the report itself and on the perspectives which it opens up at a French and international level.

Allow me to make five comments:

- **First, I would like to thank you for inviting French international solidarity players**, represented by myself, **to participate in this working group**. We appreciate this invitation, particularly since the group's work and analyses reflect the focus of many of our concerns; **furthermore, the debates were fascinating thanks to an excellent leadership/moderation**. Once you have incorporated the report's proposals, or some of them, into a political message, we will make every effort to interest our partners in those considered promising **by the associations?**. While we cannot predict their decision we will make sure these issues are discussed at our meetings. We definitely intend to contribute to the public debate at our level, to launch awareness and information campaigns on the relevant issues and, together with our non-governmental partners throughout the world, to advocate these proposals at important international meetings.
- **We do not want the fight against poverty to obscure the fight against impoverishment**. Poverty is not a natural state but the result of sinister processes whose origins must be looked for at the very core of the economic mechanisms. For example, should common rules on trade liberalisation apply to everyone; should only 2 to 3% of the working population be required to feed the national community **and even burst** the world markets with enormous surpluses; should farms, to be internationally competitive, require at least a few dozens hectares or even have to adopt the model of the Brazilian fazenda. More than 2.9 billion people in the world will have to give up farming by 2015. A report by a major international organisation **states that we should** expect (hope?) 400 million peasants to abandon farming in India - of course under the worst conditions, i.e. ruined and debt-ridden after having exhausted the natural resources of the areas they are leaving. And we have not even begun to look at China and other regions of the world. This is not just an isolated example but the projected fate of half of mankind and probably many more considering that these future masses of sub-proletarians will make it impossible to build an international labour market worthy of such a name. This leads to two conclusions. First, there is no "stock" of poor people to dissolve; there are only flows which can be expected to swell to considerable proportions, particularly incoming flows of poverty, and it is **unrealistic** to think that problems can be treated in any other way than at their source and as a whole. **The second conclusion, which concerns the choices you will be making, is that the proposals in this report, which deals with social issues (new financing solutions for the MDGs), need to be balanced by**

economic proposals. For example, in view of the above reasoning it would only be fair to make proposals both to raise and to stabilise agricultural prices, which alone can stop **massive flows** of ruined peasants into the economic void.

- **Nor do we want the search for a few billion euros in new contributions to conceal the erosion of public finance and the impoverishment of public services.** Our efforts would be wasted if, while we work out new international financial mechanisms, tax evasion or more simply harmful tax competition or even more simply adjustment policies were to reduce national capacity to collect taxes in order to finance development and to achieve the MDGs. In our opinion, international taxation proposals are politically meaningless unless the fight against the erosion of national public finances and the impoverishment of public services is stepped up.

- **We do not want to give the impression that efforts to achieve the MDGs must be limited to the adoption of international social policies.** Our country earmarks 44% of GNP to public spending, i.e. the production of public goods and redistribution transfers. At world level, only 0.22% of the GNP of the OECD countries is used to produce global public goods and to make international redistribution transfers, i.e. 180 times less to solve infinitely larger problems! Granted, we need to do much more than we **currently** are doing but we will nevertheless remain far below what is needed if we limit our reasoning to compensative social policies. We have already discussed one of the MDGs, the reduction of poverty. **In fact, we need to work out** a separate approach for each MDG. In a report on access to drinking water, Mr. Camdessus mentions an annual financing requirement of USD 200 billion. For each MDG we need to see how much official development assistance is necessary to leverage other resources, including local resources, and which type of partnership is required to deal successfully with these complex issues. As said before, we also need to find the right balance between economic measures and social (or environmental) measures. The weight of public resources must be higher for education and health than for food, water or the fight against poverty. This leads to several conclusions: **we need to treat the MDGs separately, we need to affirm the need for a partnership involving a broad sample of players, we need to determine the exact function of official/public funding, particularly their capacity to act as an incentive and as a lever to rally other resources, and we therefore need to reform radically the instruments used to implement official development assistance** whose credibility is already low. The idea of finding ways to collect new resources merely to fund these instruments is unlikely to convince either our fellow citizens or our partners, who do not make a cult out of public services, as we do, often rightly so.

- **We want everything to be done to ensure that new resources will be used to support initiatives by the "victims of the millennium", those who are hurt by violation of their basic economic and social rights and who disappear in the anonymous statistics presented in international debates on MDGs.** The 1.3 billion poor and the 800 million hungry must be prominent players in the fight to achieve the MDGs. We must therefore look very closely at the capacity of ODA

instruments to reach these frontline fighters and to support their crisis management strategies. We must also see whether intermediation facilitates relations or on the contrary interferes with the individuals and entities who contribute and the beneficiaries who fight in the field. **While intermediation is necessary, we must have the capacity to eliminate excessive and useless expenses incurred on the way. We must also be in a position to compare the costs and advantages of various national and international, governmental and non-governmental, and economic (loans) and social (grants) channels.** In our opinion, it is less important to prioritise channels and instruments than to improve the evaluation of comparative advantages in order to forge more effective instrument-driven partnerships. In any event, we believe that the typical balance of the existing cooperation system, i.e. 99% of public cooperation and 1% non-government cooperation, is wholly outdated.

- **We consider it important choose our battles with several possible horizons and not to dismiss proposals which seem unrealistic in the short term.** Indeed, most if not all proposals are unrealistic in the short term. The actual process needs to be given a horizon of at least five years. Each proposal needs to be promoted by government and/or non-governmental organisations and be advocated as a topical issue in the public arena and in international negotiations. It will take time to forge such alliances, particularly in the non-governmental sector. **We are members or originators of international coalitions** which could conduct their own campaigns and participate in the overall movement to **obtain the basic decisions required to implement new international financial mechanisms** and to reform public and private assistance.

These general comments explain what, in my opinion, is needed to turn approved proposals into levers to reform official development **assistance and to create a new scale of ODA.** As choices are made and the relevant promotion and negotiation strategies are developed we will work out the specific contribution we can make to the collective effort or, I imagine more rarely, explain why we believe that we must decline to participate.

Respectfully yours,

Henri Rouillé d'Orfeuil
Chairman, Coordination
SUD

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