

## **Promoting innovative sources of financing for development: What role for parliaments?**



A panel discussion with members of parliament organized by the Inter-Parliamentary Union (IPU) in cooperation with the United Nations Department for Economic and Social Affairs (Financing for Development Office)

United Nations, New York — Friday, 10 June 2005

### **Background**

The panel aimed at providing the United Nations with a first direct impression of the political support that currently exists at the parliamentary level or that may be mobilized in future for innovative sources of development financing. It took place in the wake of a resolution that the IPU adopted at its 112th Assembly in Manila last April, which concluded inter alia with an expression of support for “further work on proposals for international financing mechanisms as a creative and at the same time realistic way of providing additional resources for development”. The panel was also meant to provide an additional contribution on this very specific issue to the High-level Dialogue on Financing for Development, scheduled to take place on 27 and 28 June 2005.

The panel’s composition was evenly balanced between developing and developed countries, and consisted of seven parliamentarians, respectively from Australia, Brazil, Canada, Gabon, Mexico, Thailand, and the United Kingdom (see Annex for complete list of participants).

### **Discussion**

The case for innovative sources of financing stems not only from the need to support the Millennium Development Goals (MDGs) where countries are falling behind, but also to help reduce growing inequalities virtually everywhere in the developing world.

Parliaments have a critical role to play with respect to many of the innovative proposals under consideration, because of their unique legislative and budgetary authority. In fact, most proposed new sources of financing will eventually require a legislative framework either to regulate existing financing mechanisms or to create brand new ones. In the case of new taxes, the principle of “no taxation without representation” means that parliaments must have the ultimate decision-making authority.

Most important, the role of parliaments is essential to mobilize the required political support for the various innovative mechanisms on the table. Political support must be based on realistic assessments of what is practically feasible, as well as what constituents (especially in donor countries) are prepared to contribute. Parliamentarians

must be careful not to invest political capital in unrealistic proposals; at the same time, they should not hesitate to be bold when a real opportunity for action presents itself.

Typically, institutional donors (both multilateral and bilateral) fail to consult with recipient countries' parliaments with respect to development plans and their financing. To this day, for example, poverty reduction strategy papers (PRSPs) are not brought up for debate in a systematic fashion in the parliaments involved. Lack of parliamentary consultation on development questions has led to a variety of problems, such as misallocation of resources, excessive indebtedness and poor accountability all around. The parliamentarians on the panel all felt that greater involvement in development decisions was required in future, and that innovative financing offered an opportunity to ensure that such involvement would take place.

The accounts of the panellists further corroborate the view that the institutional capacities of parliaments differ greatly between developing and developed countries. It is in the latter that United Nations reports and other important inputs from the international development community are more likely to be discussed, if only at the committee level.

With respect to the specific topic of innovative sources of financing, anecdotal evidence suggests that at least in the African and Asian regions there has been very little parliamentary debate. In developed countries, such debates have mostly revolved around the proposed International Finance Facility (IFF) and remittances. The seven parliamentarians on the panel agreed that no single innovative proposal alone would suffice to fill the financing gap left open by traditional sources (estimated between 50 and 100 billion dollars a year). It was important therefore that a number of proposals be advanced at the same time. Among these, the IFF was likely to be a favourite because it did not require universality, could mobilize considerable sums, created a more predictable and stable flow, and could easily be scrutinized by contributing countries' parliaments. Because the IFF can be implemented in the short term, it constitutes the most rapid response to the urgent funding needs of those countries that are currently off course in meeting the MDGs. The first IFF, to raise \$4billion for immunisation, will be launched this year.

On remittances, the impression of the panel was that it should not be too difficult to find some creative solution to reduce the average 20 per cent transaction fee, and thus increase the overall flow. A more intractable problem, however, has to do with facilitating money transfers for illegal migrants who fear exposure to the authorities. The situation has become particularly difficult in the United States, the largest remittance-sending country, following the tightening of security measures since the September 11th attacks. The importance of remittances for countries like Brazil and Mexico cannot be stressed enough; it is currently at the centre of intense political debates in those jurisdictions. It was also noted that a significant portion of total remittances comes from groups and associations based in developed countries, and aims at supporting community projects, as opposed to consumption. On the other hand, it was noted several times that remittances are not always reliable, and may go down at times of greatest need for poor countries.

When it comes to discussions about international taxation, some of the parliamentarians on the panel felt strongly that this would for several years to come be a political non-starter in too many legislatures (although the Canadian House of Commons did adopt a motion on an international currency transaction tax that expressed support for such a tax “in concert with the international community”). The reasons adduced for this negative assessment were the classic ones: international taxes can distort investment and trade flows, can undermine national sovereignty, may be impossible to universalize, and may even tamper with a country’s defence capacities (in the case of taxes on arms sales). An alternative to taxation may be provided by voluntary contributions which, as the recent tsunami disaster shows, may be generated once people are confronted with the reality of deprivation and suffering in much of the developing world. However, voluntary contributions are always relatively small compared to official development assistance

For other panellists, however, at least some new fiscal levies could be instituted without seeking a universal consensus. The best example of this is given by flight departure taxes; these can be implemented at the country level and can generate a fairly predictable and rich stream. For two panellists, some version or another of an international tax may be more appropriately explored as a possible backup to the IFF in the post-2015 period (when total development assistance is projected to be lower). One panellist recalled that cross-border capital flows of a speculative nature were greatly destabilizing to national economies and called for greater international regulation. Another panellist stressed that more than an international tax, what was needed was a way to curb international tax evasion.

The parliamentarians from the developing countries in particular stressed that the whole issue of innovative sources of financing must be dealt with relative to the all-important issues of debt and trade. As long as the cost of debt repayments and servicing remains vastly unaffordable to the economies of poor countries, there is little use in experimenting with new financing mechanisms. The latter can only complement, and not replace, traditional sources. And it simply does not make sense to provide additional financing with one hand while taking resources away with the other. Debt swaps for development constitute a good mechanism, and should be utilized more.

Opening markets to developing countries’ products, especially in agriculture, remains one of the surest way to induce economic growth in those countries and generate the resources they need to meet the MDGs. This approach is ultimately the only one that promotes true self-reliance and must be given top priority. On the other hand, innovative sources of financing can be of great assistance to those countries lacking infrastructure and other trade-related capacities, and that are required to bring their goods to the global marketplace.

## **Conclusions**

Among parliaments, political support for innovative source of development financing seems to revolve mainly around two or three innovative proposals. This may be in part because the full spectrum of proposals has yet to be debated in many parliaments, but it

may also be the result of weak outreach from the international community to parliaments.

Either way, the panel's focus on the IFF and remittances shows that at least these two proposals are likely to garner the required political support at the legislative level in time to make a difference in the attainment of the MDGs.

All in all, it appears that developing countries' priorities remain focused more on traditional sources of financing for development, with debt and trade foremost among them. The issue of innovative sources is better known and has more traction in the parliaments of donor countries. This group, however, remains internally divided among the various innovative proposals.

Parliamentarians need to cooperate more internationally to make governments and intergovernmental bodies more accountable and to generate international support for viable initiatives that are clearly in everyone's best interest.

Ultimately, the role of parliaments is to help generate the required political will to move forward on those innovative proposals that are clearly feasible. The IPU offers the ideal forum for these proposals to be shared among parliaments in both developed and developing countries.

ANNEX

**Parliamentary panel on innovative sources of financing for development**

10 June 2005  
United Nations, New York

List of participants

Anders B. Johnsson, IPU Secretary General (moderator)

José Antonio Ocampo, United Nations Under-Secretary-General for Economic and Social Affairs

Oscar De Rojas, Director, United Nations Financing for Development Office

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Bob McMullan, MP, former Minister for Trade (Australia)

Senator Hélio Costa, External Relations and Economic Affairs Committees (Brazil)

Senator Donald Oliver, National Finance and Banking Committees (Canada)

Félix Onkeya, MP, International Cooperation and Development Committees (Gabon)

Senator Carlos Rojas, Regional Development Committee (Mexico)

Tharapong Seelavongse, MP, Finance, Banking and Financial Institutions Committees (Thailand)

Hugh Bayley, MP, former Social Security and Pension Minister (United Kingdom)

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Representatives of permanent missions, civil society, and business sector organizations