MEETING THE MILLENNIUM PROMISE

Executive summary of the All Party Parliamentary Group for Debt, Aid and Trade report into the requirement for additional development financing

House of Commons

ALL PARTY PARLIAMENTARY GROUP FOR DEBT, AID & TRADE

If 30,000 children died needlessly and avoidably every day in America or Britain we would call it an emergency… it's time to call it what it is: a development emergency which needs emergency action.

The Prime Minister Gordon Brown addressing the United Nations in July 2007

The UK is a world leader in working towards the elimination of poverty. In 2005 we announced a timetable for Official Development Assistance (ODA) to reach 0.7% of Gross National Income (GNI) and, through our presidency of the G8, persuaded all European countries to do the same. The UK is renowned as a pioneer on debt relief and untying aid. However, as the Prime Minister's words above acknowledge, far more needs to be done if we are to live up to our compact with the world's poorest people to deliver the Millennium Development Goals (MDGs) by 2015. The UK needs to show leadership for a renewed effort to increase development resources. Without additional finance, meeting the MDGs can be no more than an empty promise.

Before the 2005 G8 summit, Oxfam warned that if current trends continued and the world failed to meet the MDGs, by 2015:

- 45 million more children will have died;
- 53 million more people in Sub-Saharan Africa will not have access to proper sanitation; and
- 247 million more people will still be living on less than $1 a day

than would have been the case, had the targets been achieved.

More funding is desperately needed but budgets are already over-stretched and demands upon them continue to grow. Innovative solutions must be found. The world cannot meet the Millennium Development Goals without additional, long-term and predictable sources of finance to supplement current planned aid spending.

There is a growing political consensus about the need for innovative financial instruments to complement existing official aid budgets. The UK-led International Finance Facility for Immunisation (IFFIm) and the French-led UNITAID have recently been launched, generating $1.3 billion between them for vaccinations and HIV/AIDS, TB and malaria treatments. These initiatives are a vital start and set an important precedent, but each has limits that indicate a need for a new set of funding instruments.

A number of different possible financing streams were suggested to this Inquiry. Given the urgency of meeting the MDGs, this Report focuses on the Sterling Stamp Duty (SSD) – a proposal that appears well researched, technically sound and has the potential to raise considerable funds in addition to the UK's ODA commitments almost immediately. Furthermore, owing to the UK's established leadership role in this field, there is a real possibility of encouraging like-minded nations to follow suit, increasing dramatically the potential revenue that could be generated.

Based on the evidence put before this Inquiry by some of the world's leading experts in this field, the All Party Parliamentary Group makes the following key recommendations.

That the UK Government:

- **Undertake rigorous research in an open and transparent manner into the implementation of a 0.005% stamp duty on all sterling foreign exchange transactions to provide additional revenue to help bridge the significant funding gap required to meet the Millennium Development Goals.**
- **Ensure that the UK and any other countries that implement currency transaction development levies adhere to the principle that this finance is additional to aid already committed to reach the 0.7% target of GNI for ODA.**
- **Work with other like-minded countries to research, develop and urgently implement other new sources of development finance.**

At this low rate, the sterling stamp duty is an entirely feasible proposal.

Joseph Stiglitz, University Professor of Economics at Columbia University and Nobel Laureate

I am now convinced that a sterling stamp duty would be simple for the UK to adopt, would be difficult for any bank to evade and would be possible for most countries to imitate.

Professor Avinash Persaud, former head of currency research at JP Morgan, UBS Phillips and Drew and State Street Bank, President of Intelligence Capital and former Visiting Scholar at the IMF

1. Our compact with the world's poor requires action not words

In the year 2000, in an atmosphere of hope for a new century and a new millennium, all UN member countries signed up to eight Millennium Development Goals to be achieved by 2015. Half way to that date progress has been painfully slow. Without a significant increase in aid volume, this compact with the world's poorest people will go unfulfilled.

If we do not do more than we are doing at the moment, we will miss crucial targets like halving the number of people who suffer from hunger and reducing the spread of HIV/AIDS. These human disasters will occur during a period of unparalleled prosperity for the inhabitants of the world's richest nations.

Evidence shows that aid does work. It saves lives, addresses injustice and creates opportunity. Because of aid and debt relief, 34 countries are now on track to meet the infant mortality goal, 44 countries are now on track to meet the poverty goal and the number of children out of school has fallen from 100 million to 77 million. Yet to honour our compact and meet the MDGs, we need to do more.

2. Beyond traditional aid assistance

While wealthy nation governments have made marked progress in cancelling debts for the poorest countries they are considerably off track to meet their commitment to spend 0.7% of their gross national income on official development assistance. This failure to meet the 0.7% target agreed in 1970, and instead only very gradually increase aid volume, has cost countless lives and livelihoods. Despite a commitment from the UK to finally reach this target by 2013, without new and additional money it looks increasingly unlikely that the MDGs can be met by 2015.

The world's richest nations must deliver fully on longstanding commitments to achieve 0.7% GNI – in particular, the G8 industrialised nations must live up to their 2005 pledge to double aid to Africa by 2010 and European Union member states must deliver the promised allocations of 0.7% of GNI as ODA by 2015.

However, even the most optimistic forecasts for the levels of aid which will be reached through traditional ODA by 2015 indicate a significant funding gap for meeting the MDGs. On HIV/AIDS there remains an $8.1bn funding gap for 2007 alone.

The problem is exacerbated by the fact that even the money that is provided does not always advance the MDGs since aid payments are highly volatile, budgets are often set to meet short-term domestic political priorities rather than long-term development, some aid comes with economic conditions attached and donors continue to provide poor quality information to recipient countries.

I continue to strongly support the exploration of innovative mechanisms for financing for development… the funding gap we are facing reminds us all of the crucial need for additional flows of development finance. Closing this gap is essential if we are to alleviate extreme poverty, fight diseases and achieve the other development targets.

Ban Ki-moon, UN Secretary General

3. Innovative finance – a new way forward

With the overseas aid budget stretched to its limit in meeting the 0.7% target and with ever-increasing demands on its resources, from fighting terrorism to post-war construction activity, it is clear that the extra long-term funds required to pay for the MDGs must be sourced from elsewhere. New sources of finance can supplement development budgets and enhance the possibility of meeting the MDGs. Innovative financing of development is not only a means of generating much-needed money, it is also a way of addressing quantity, quality and predictability issues simultaneously. Within a few years it has moved from the fringe to the mainstream with politicians both in poor nations and in wealthy countries recognising its potential.

Recently two innovative schemes have been introduced – the International Finance Facility for Immunisation (IFFIm) and UNITAID, the international drug purchase facility, principally funded by aviation solidarity levies. These two initiatives have produced $1.3 billion between them and are making a significant contribution to global health. However, each has its own particular limitations and further complementary schemes need to be introduced at the earliest possible time.

4. New money

The proposal examined by this Inquiry is for the introduction of a 0.005% stamp duty on all sterling foreign exchange transactions worldwide to be ring-fenced as additional revenue for international development. It would be implemented in the usual way by announcement in a budget and enactment through a finance bill.

The foreign exchange market is one of the last untaxed areas of business in the world. It trades globally around the clock with more than $3 trillion changing hands every day. The fact that these massive trades are not subject to any tax stands in stark contrast to the volume of wealth netted by market participants such as banks, hedge funds, traders and brokers. Moreover, profits in the banking sector itself continue to rise with a 21.9% increase in profits for 2006 amounting to, for the top 1,000 banks, a pre-tax total of $786.3bn.

The Sterling Stamp Duty (SSD) proposal for a 0.005% levy is 100 times smaller than the UK's existing stamp duty on shares. The proposed 0.005% rate has been explicitly set at a level that would not cause any disruptions to the market. Evidence suggests that this 0.005% rate would raise $4.98bn (or £2.44bn) in its first year, if implemented now, with the potential for greater income year on year. The market is growing at an exponential rate. Recent figures from the Bank for International Settlements show a 71% increase over the last three years. The projected revenue from the SSD would equate to an increase of approximately 30–40% on ODA, or up to 50% if debt relief is excluded. It appears that a co-ordinated transaction tax levied on the four major world currencies – dollar, euro, yen and sterling – would yield revenue of $33.41bn (£16.36bn) annually.

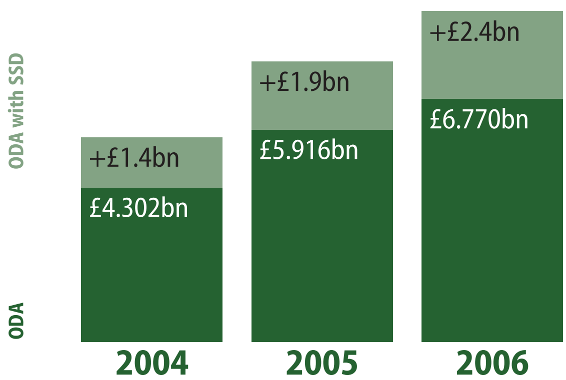
5. The duty would be easy to implement

Strong evidence has been put forward to indicate that the levy would be relatively simple to implement, thanks to a combination of the extensive computerisation of the foreign exchange industry and the regulatory systems put in place to ensure financial stability. The technology and institutions now in place make it possible to identify and tax gross foreign exchange payments, whichever financial instrument is used to define the trade, wherever the parties to the trade are located, and wherever the payments are made. One small foreign exchange brokerage, INTL Global Currencies, ran a week-long SSD pilot scheme in May 2007. It imposed a 0.005% levy on all currency transactions, raising several thousand pounds and encountering no technical issues.

> *Our business is totally electronic and automated. I'm not sure where the idea of this being technically complicated has come from. To collect the revenue we literally pressed a button – it was that simple.*
>
> Philip Smith, Director of INTL Global Currencies

Estimates of value added by SSD to UK ODA

The SSD revenue generated has been calculated using the methodology employed by Professor Rodney Schmidt in *The Currency Transaction Tax: Rate and Revenue Estimates*, September 2007.



6. Objections can be overcome

The City of London and foreign exchange industry will resist the proposal. This is not surprising. For self-interested but wholly understandable reasons bankers, fund managers and lobbyists for the financial services industry will argue vociferously against any new tax laid at their door. Detailed academic research submitted to this Inquiry suggests that many, if not all, of their objections can be met and that:

- London will continue to thrive as a leading financial centre as its status depends on its skills base and invisible networks, which would not be threatened by the introduction of a very small transaction charge on one area of its many diverse activities.
- The tax cannot be avoided by moving the trade outside of the UK since the stamp duty applies to all sterling transactions wherever they are traded in the world, not to all currencies traded in the UK.
- Foreign exchange houses will absorb or pass on the duty as a small extra element to existing transaction costs.
- Computerisation and an automated electronic market make it difficult and costly to disguise trades.
- Sterling transactions will be identifiable and taxable even if they are in the form of derivatives or options.
- Banks and other institutions have a strong record of adapting to regulations and taxes imposed on them and a duty of this size would not impede or distort financial markets.
- Share dealing in the City has expanded despite a 0.5% stamp duty on stock transactions.

> *It is highly implausible that a very small tax of 0.005% will make a dent in London's status as the world's financial centre.*

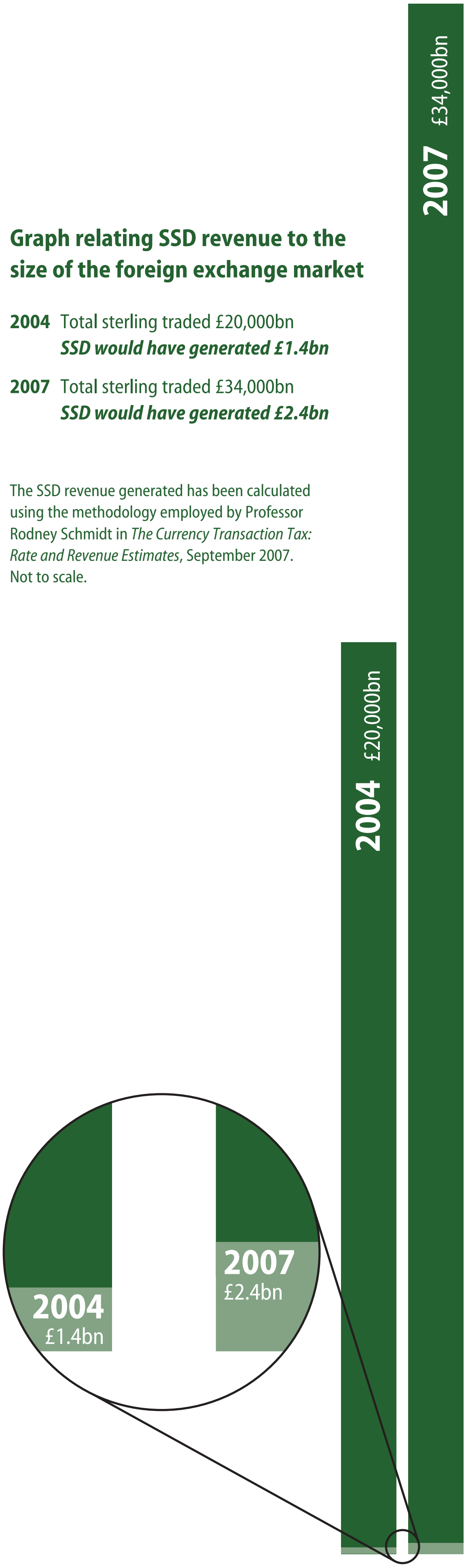
Ha-Joon Chang, Reader in the Political Economy of Development, Cambridge University

Graph relating SSD revenue to the size of the foreign exchange market

2004 Total sterling traded £20,000bn
SSD would have generated £1.4bn

2007 Total sterling traded £34,000bn
SSD would have generated £2.4bn

The SSD revenue generated has been calculated using the methodology employed by Professor Rodney Schmidt in *The Currency Transaction Tax: Rate and Revenue Estimates*, September 2007. Not to scale.



The UK is without doubt a substantial leader on development policy, not only in the EU but worldwide, so the implementation of such a tax by the UK would be very closely observed.

Susan McAdams, Multilateral and Innovative Financing Director, World Bank

CONCLUSION

The evidence collected by this Inquiry suggests that a Sterling Stamp Duty, set at the appropriate level, could provide considerable sums, at little cost, towards meeting the Millennium Development Goals. Since the proposed levy depends on currency trading for revenues, it also provides an opportunity for the City of London to show that in the wake of record profits, huge bonuses and concerns over the negative impacts of globalisation, it is making a direct quantifiable contribution to international aid and poverty relief.

The Government should undertake open and careful research into the Sterling Stamp Duty as an innovative means of meeting its MDG commitments. It should carefully avoid 'in principle' objections to new taxation instruments to increase development revenue and give particular attention to the experiences of other countries that have implemented similar levies. The potential for leadership by the UK in this area is considerable. But imagination and strength of purpose will be essential if we are to make the most of our privilege and fulfil our promises to the poorest inhabitants of our shared planet.

RECOMMENDATIONS

In light of the conclusions reached by this Inquiry and presented in this Report, the All Party Parliamentary Group on Debt, Aid and Trade recommend that the UK Government:

1. **Undertake rigorous research in an open and transparent manner into the implementation of a 0.005% stamp duty on all sterling foreign exchange transactions, to provide additional revenue to help bridge the significant funding gap required to meet the Millennium Development Goals.**
2. **Encourage other OECD nations, particularly European countries, to strongly consider implementing a similar levy on their own currencies with the aim of multiplying and internationalising the effort to create a new, predictable, long-term stream of finance to help meet the Millennium Development Goals.**
3. **Work with other like-minded countries to research, develop and urgently implement other new sources of development finance.**
4. **Ensure that the UK and any other countries that implement currency transaction development levies adhere to the principle that this finance is *additional* to aid already committed to reach the 0.7 per cent target of GNI for ODA.**
5. **Participate in the International Taskforce for the investigation of a Currency Transaction Development Levy agreed at the Leading Group Conferences in Oslo and Seoul.**
6. **Play a more active role within the Leading Group on Solidarity Levies to Fund Development and seriously consider hosting a forthcoming conference of the Leading Group.**

Finally, we urge Ministers to encourage HMT to give serious consideration to the Sterling Stamp Duty proposal, especially since it is now so widely accepted by finance experts as entirely feasible.