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Alternative Financing for the United Nations:

An Idea Whose Time Has Finally Come?

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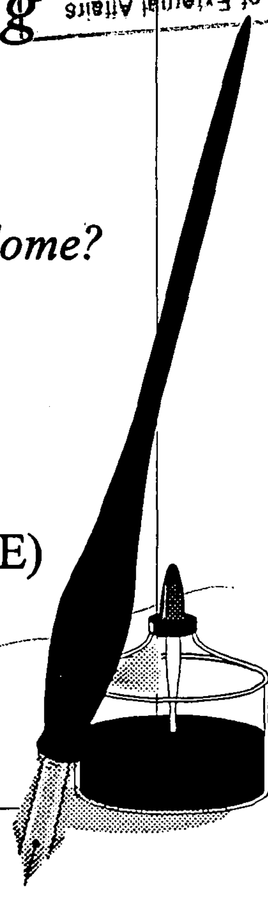

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Alternative Financing for the United Nations: An Idea Whose Time Has Finally Come?

Canadian Foreign Minister André Ouellet recently stated that "the Organization's financial crisis is crippling its effectiveness and its credibility." UK Foreign Secretary Malcom Rifkind has said that "the UN is on the verge of collapse." UN Secretary General Boutros Boutros-Ghali has been warning of the crisis in United Nations' financing for several years. Yet little has been done. During this year's proceedings of the United Nations General Assembly 50th session, some fifteen heads of state made reference to the need for more serious study of alternative financing schemes for the United Nations. Numerous scholarly works published concurrently with UNGA50 have argued for the same. This Commentary reviews the financing issue and addresses whether the time has come for the UN to move beyond the matter of laggardly contributions by certain members and look at autonomous funding schemes.

The Financial Context

The Secretary General amongst others has argued that the UN faces a crippling financial crisis primarily due to members' negligence in meeting their obligations. Boutros Boutros-Ghali has said that, while the technical questions surrounding the appropriation and "fairness" of the current scale of assessments must be addressed, the United Nations could function effectively if all nation-states paid their dues in full and on time. As Foreign Affairs Minister Ouellet has noted, Canada has always been prominent in calling for all members to meet their obligations on time, as we have consistently done. As of September 30, 1995, total outstanding UN contributions were US$3.3 billion, of which some $2.5 billion is outstanding towards the peacekeeping budget. The question of arrears to the regular budget is also vexing, as sixty percent of the $810 million due is owed by the United States, with most of the remainder falling on states of the Former Soviet Union.[1]

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UN Contributions outstanding as of 30 September 1995, $million

	Regular	Peacekeeping	Total
United States	527.2	907.2	1,434.4
Russia	20.5	571.0	591.7
Ukraine	52.6	185.0	237.6
Japan	0.0	197.6	197.6
South Africa	61.1	57.6	118.6
France	0.0	101.4	101.4
Italy	0.0	92.6	92.6
Britain	0.0	85.1	85.1
Belarus	10.4	48.0	58.4
Others	138.3	274.9	413.0
Total	810.1	2,520.3	3,330.4

The UN regular budget is approximately US $1.3 billion annually. In 1995, the overall peacekeeping budget accounts for approximately another $3.5 billion. It is hoped that in the next few years total peacekeeping expenditures will fall dramatically with the conclusion of several high-profile, expensive missions. The UN's various development and relief agencies, funds and programs mean that total expenditure from the UN system exceeds $12 billion. In comparative terms, total official development assistance by OECD countries this year is approximately $55 billion.

The UN is currently in perilous financial circumstances. It has been so in the past and has always found a compromise solution. But this time, the Secretary General in June 1995 suspended reimbursements to troop-contributing countries on the grounds that cash balances for the Secretariat would be down to US $200 million by year's end. The suspension will raise this amount to $300 million, which still makes cash management difficult (but probably not impossible) for the UN. Late payment is a chronic feature of UN membership. The Secretariat has responded by over-budgeting nearly every form of activity, and itself pays bills late and juggles actual staffing and consultant contracts relative to authorized staffing and consulting levels.

The collective response of member states so far has been less than impressive: a High Level Working Group of the Whole, chaired by Austria and Trinidad, after eight months of debate (January-July 1995), has yet to formulate substantive recommendations. (It has focused mainly on incentives and disincentives for prompt payment and on modifications to the scale of assessments and is expected to resume in January 1996.) The issue of the scale of assessments was again raised at UNGA50, with more recommendations for further study. Therefore, although member states bemoan the terrible state of UN finances at UNGA, little political will has been mustered to do anything institutionally to redress the problem.

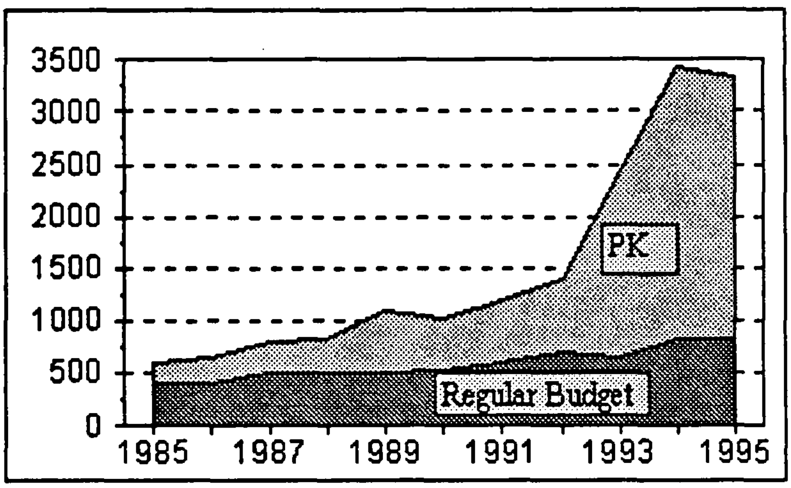

Figure 1 Unpaid Assessed Contributions - regular budget and peacekeeping activities combined (all balances at 30 Sept. $m)

At UNGA50, however, late payers, and the U.S. in particular were pushed by their colleagues publicly to make up the gap. French Foreign Minister de Charette told the General Assembly: "It is not acceptable for member states to show such scant respect to the organization by dismissing the legal obligations they have freely accepted". But with the U.S. Congress and Adminstration locked in a domestic political battle over financing and deficit control, it seems unlikely that the UN will be the beneficiary of U.S. largesse in the coming months. Indeed, Congress' firm position is to limit funding to 25 percent of the total peacekeeping budget for the next year (although the U.S. is now assessed 31.15%). As a result, while the UN's financial quandary is a real (and familiar) problem, it is not likely to improve over the coming years. It may not be "critical" in a life or death sense, but the illness is chronic, arguably with too much creative energy and political credibility wasted on an on-going basis. There already exists a body of literature on alternative financing. Think tanks and "high-level" commissions are increasing their advocacy for such proposals. Slowly but surely, some member countries will begin to examine alternative financing for the United Nations as a way of resolving the incessant wrangling over members' arrears.

Financial Issues and Alternative Financing

Financial crisis within the UN system or not, the issue of independent sources of revenue for the United Nations is not particularly new.

> *Rather than trying to pump life back into the worn-out policy of year to year decisions by individual governments on how much to appropriate and to whom it should go, what is needed is a flow of funds for development which are generated automatically under international control ... The idea of international taxation (on ships for the use of international waters, on international travel, on passports, on international telecommunications, on ocean fisheries) is a hardy perennial, but we believe it should be treated as an idea whose time has come.*[2]

Of necessity, non-traditional fund-raising for the UN would have to come from activities which are not presently an important source of revenue for member states and which would not have an adverse effect on living standards or rights of those nation states. One of the conclusions from a recent workshop on unconventional approaches to UN financing was: "The key is to find spheres of activity where revenue might be generated and *where states have not already staked out their*

[2] Aspen Institute Report, "The Planetary Bargain", 1975.

claims."[3] If extremely narrowly interpreted, Article 17 of the UN Charter (providing that the expenses of the Organization shall be borne by the members as apportioned by the General Assembly) may also provide a legal basis for challenging those advocating alternative financing. In addition, many of the areas identified as potential sources of funding overlap with, or are the province of specialized agencies within the UN system or may even fall outside the system all together. Detailed study of these legal aspects should be a first item of business.

These initial caveats aside, alternative financing schemes fall into three broad categories. The first is the so-called "Tobin tax" on international foreign exchange transactions. The second are taxes or levies on travel, transport, communications or other international transactions. The third category is a tax on the use of a part of the Global Commons, such as seabed rights or pollution taxes. Several of these approaches are reviewed below.

The Tobin Tax on Foreign Exchange Transactions

Any system requires identification of a tax base that is politically acceptable. One such proposal is the Tobin tax - which is designed to improve the efficiency of the largest global market - the foreign exchange market. Tobin in his 1978 address[4] argued that a tax on foreign exchange transactions would dampen speculative activity (which is of no intrinsic benefit in terms of economic efficiency), facilitate trade, investment and employment and raise potentially large revenues. It might also allow governments to pursue more independent monetary policies by allowing greater disparity of short-term interest rates.

However, serious practical problems exist in implementing the tax, especially the decentralized, unregulated, electronically mediated nature of foreign exchange markets in most industrialized countries and the incentive to move money to tax havens. Apart from economic efficiency arguments, as presented below, a simple yet fundamental question remains. How does one ensure the compliance of all nations to this proposed convention?

In an earlier Staff Commentary, James McCormack argues that "despite its intuitive appeal, the Tobin tax would not have the desired effects. It is meant to

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[3] "Workshop on Unconventional Approaches to United Nations Financing: An Interim Report", Jane Boulden, Canadian Centre for Global Security, Ottawa, November 1995.

[4] James Tobin, "A Proposal for International Monetary Reform", Presidential Address to the Eastern Economic Association, published in Eastern Economic Journal, 4, 1978. For further reading on the topic, see David Felix, "The Tobin Tax Proposal", Futures, Vol. 27, No. 2, March 1995.

address dealers who trade currencies (and other assets) speculatively through a series of very short term transactions, where profit is made in the form of small percentages on large volumes. However even a small tax on each transaction (the idea is often associated with a 0.5% tax) [but more recently as low as 0.003% - the Walker tax proposal] could be sufficient to **reduce** liquidity in financial markets and actually lead to an **increase** in volatility, because less liquid markets are considered more volatile since large gaps can open between bid and ask prices resulting in potentially large price movements. In addition, since it would be impossible for tax administrators to target speculators specifically, all market participants would be subject to the tax, including those trying to hedge legitimate business exposures. It is conceivable that the tax, no matter how small, could price hedging instruments beyond the reach of some businesses, and ultimately reduce economic activity. Further, the Tobin tax would need to be introduced globally and at the same rate, or transactions would move offshore to tax-free or lower tax jurisdictions. From a practical perspective, the coordination and cooperation required for the introduction of a global tax would present innumerable, likely insuperable difficulties".[5]

Yet the tax continues to have its supporters. Most recently, the Office of Development Studies of the UNDP sponsored a conference on "New and Innovative Financing for Development Cooperation" in New York in October 1995. The conclusions of the Conference were that <u>if</u> major trading centres applied it, the tax would be feasible and could be implemented by each national government. Finally, the Conference Report argued that depending on the optimal rate at which the tax would be levied, and depending on which foreign transactions would be targeted, "a consequent revenue estimate of 55 to 220 billion dollars a year (allowing for tax exemptions, tax evasion, and the reduction of the tax base as a result of its imposition)"[6] was possible. While considerably more upbeat than previous studies, the Conference Report fails to address the question of accountability (of both the UN and member states) as well as glossing over the free-rider problem of "rogue states". Without the adherence of almost all states to an international convention, and without an adequate penalty system to deal with non-signatories, the transfer of funds to international tax havens (or legitimate financial centres which are not part of the system) would occur. The report also does not adequately refute McCormack's arguments on liquidity and volatility in financial markets. The UNDP Office will publish a position paper in the spring of 1996 which will address the issues raised above. Consultations with member states about the viability of such a proposal could occur

[5] James McCormack, "Traders in Tennis Shoes: Derivatives, Volatility, Risk and Supervisory Issues", Policy Staff Commentary No. 11, May 1995, p.4.

[6] Conference Report on "New and Innovative Financing for Development Cooperation", Office of Development Studies, UNDP, New York, 10 October 1995.

within the year.

The Tobin tax has also been criticised for problems associated with its implementation. Specifically, should it be collected by central banks, the UN itself, the IMF or even quotation agencies. A recent variant of the Tobin proposal envisages a computer-based network of foreign currency exchanges to yield a stream of income for the operating agency through user charges - "a tax on the electronic global commons". This would avoid the need to track individual transactions and leads naturally to a discussion of other global commons issues.

Global Commons Charges and Other Innovative Ideas

Charges on the global commons could have broad appeal on grounds of conservation and economic efficiency as well as for political and revenue reasons. Taken together, these proposals have innate appeal to some observers despite difficult monitoring and control issues. A review of the literature shows virtually every aspect of the global commons has been the target for a specific revenue-raising proposition:

- a surcharge on airline tickets for use of congested flight lanes, with collection of a small charge for every international flight;
- a charge on ocean maritime transport, reflecting the need for ocean pollution control and for keeping sea-lanes open to all legitimate users, with special fees (or auctions of licences) for maritime dumping of waste where the level of toxicity does not require outright prohibition;
- user fees for ocean, non-coastal fishing (or auctions of quotas), reflecting the pressures on many stocks and the costs of research and surveillance;
- special user fees for activities in Antarctica, such as fishing, so as to fund conservation on the basis that the continent is part of the common heritage of humanity;
- revenue from the International Seabed Authority related to the exploitation of resources to go to the UN;
- payments for the international transfer of genetic resources;
- parking fees (or auction revenue) for geostationary satellites; and
- charges for user rights of the electromagnetic spectrum.

Other ideas, such as a carbon tax, introduced across a large number of countries, or a system of traded permits for carbon emissions would yield very large revenues, while also acting as a disincentive to pollution (like tobacco and alcohol taxes). Nonetheless, a detailed study is needed of the practical problems of implementing such a scheme, including the logistical nightmare of assessing and collecting payment. This idea, like many others mentioned in this section, is best categorized in the "medium term, global governance" scenario, much-loved by futurists. For the present, even more concrete financial schemes will be difficult to sell to member states.

Are SDRs the Answer?

On a completely separate tack, it has been suggested by a former Pakistani Prime Minister (and co-chair of the Yale Group) that the IMF could create a new allocation of SDRs of about $2 billion which would be made available to member countries according to their quotas[7]. The board of the IMF would make the decision and could state that some portion of the allocation by country would have to be earmarked for payment to the UN. This financial transfer could be to pay off the country's UN assessment or to make a voluntary donation to the UN. The money could be set aside to create a fund for the UN. The Yale Report suggests that the creation of SDRs in this manner would be similar in effect to a levy on the commons. They recommend that an expert group should review and examine the administrative, legal and economic feasibility of the options.

Other studies have suggested a link between development (or peacekeeping) funding to the creation of SDRs by the IMF. There are several problems with this approach. As SDRs are meant to be a device for maintaining monetary stability, they should be created at irregular intervals, at moments when more international liquidity is needed. Only two increased allocations of SDRs have taken place since 1969. In fact, international development could be impaired when world liquidity does not justify the creation of more international money. Such an increase in capital liquidity could have a global inflationary impact. What the Yale Report and other proponents of the proposal also omit is the question of political will to support such a scheme. Inevitably, the SDR replenishment would have to be financed almost exclusively by OECD countries...the timing and likely unfruitful conclusions of such an approach are obvious.

The Best of the Rest

Other creative proposals found in the literature include:

- a tax on international arms sales and transfers (through the recently established UN Arms Register);
- using the seized proceeds from international crime (especially from illicit drugs) to finance, for example, international courts;
- an international UN lottery (see below);

[7] "The United Nations in its Second Half-Century", A Report of the Independent Working Group on the Future of the United Nations, Ford Foundation, Yale University, 1994.

- an active campaign to encourage private individuals and corporations to make financial donations to the UN (donations would have to be without strings);
- earmarking a small portion of the anticipated decline in world military expenditures;
- a stamp tax on international travel and travel documents as recommended by the UN Secretary General in his Agenda for Development;
- issuing of UN bonds - i.e., development bonds, environment bonds, etc. (this approach would require Charter amendment); or even
- the establishment of an United Nations Security Agency to provide contributors (nation-states preferring not to sustain their own significant military expenditures on an on-going basis) with physical security protection against unanticipated threats from their neighbours.

The Experts Disagree: "Our Global Neighbourhood" and the Volcker-Ogata Report

The conclusions of two widely anticipated and much-heralded experts' studies illustrate the difficulties in advancing the alternative financing agenda for any national government. The 1994 Report of The Commission on Global Governance argues that there is a widening gap between the financial requirements of programmes widely supported in principle and the money actually made available through traditional channels, a point echoed in the UN Secretary General's Agenda for Development. The non-financing of agreed peacekeeping operations is one of the more glaring examples. A start should be made in establishing practical, if initially small-scale, schemes of global financing to support specific UN operations. The Report recommends that broad principles should be established which would:

- make it appropriate to charge for the use of some common global resources on straight economic grounds, using market instruments;

- ensure that the whole burden should not fall on a small number of industrial countries but should be spread more widely, albeit with an element of progressivity;

- demand that new revenues should not substitute for domestic taxes or charges but represent additional sources; and

- focus on user charges, levies, taxes and global revenue-receiving arrangements that would be agreed globally and implemented by a treaty or convention. Proposals could be initiated in the UN system and negotiated and approved by the UNGA before being embodied in an international agreement to be approved and ratified.

"Our Global Neighbourhood" also recommends that taxing power should not be located anywhere in the UN system, to avoid the unnecessary and likely inefficiencies associated with an international organization acting as a tax collector.

The strength of this Commission's advocacy for independent revenue sources for the UN is matched only by the completely opposite conclusions of an even more eminent body. Dismissed by some in the development field as the recommendations of "the old men of international finance", Financing an Effective United Nations, the report of the Independent Advisory Group on UN Financing chaired by Ogata and Volcker in 1993, comes forward quite strongly against alternative financing:

> *current proposals for additional, nongovernmental sources of financing are neither practical nor desirable. For now, the system of assessed and voluntary contributions provides the most logical and appropriate means of financing the UN, as it permits and encourages member governments to maintain proper control over the UN's budget and its agenda.*

The study concluded that, as confidence in the effectiveness and efficiency of the UN grows, and the UN becomes more deeply involved in sustainable development issues, governments might start to look more favourably on alternative financing. For now, however, the future needs of the organization can be met without resort to new and inevitably controversial initiatives.

One of the strongest arguments for the Volcker-Ogata approach is the need for stringent arrangements for allocation of global revenues and accountability for their disbursement and issue. To date, the United Nations has not proven itself in this regard. As the World Federalists of Canada agree in their position paper, "An Agenda for Reform of the United Nations":

> *Independent revenue sources would also enhance the autonomy of the United Nations system, making it less vulnerable to the shifting priorities of national governments. Of course, with these added resources and autonomy come increased responsibilities for improved UN management practices and improved mechanisms for policy coordination.*[8]

The experience of the World Intellectual Property Organization (WIPO) is instructive. It has an independent revenue collection capability based on fees coming from private owners of industrial property rights using the services of the International Bureau of WIPO (about half of its budget derives from national contributions). Many countries have complained about the level of independence of the Director General

[8] "An Agenda for Reform of the United Nations", World Federalists of Canada, Ottawa, 1995, p.5.

and of their lack of control over WIPO's agenda. These types of problems will undoubtedly be one of the largest stumbling blocks for any collective action to be taken on alternative financing, for the governance structure is weighted against those countries whose citizens (in the case of WIPO) contribute the greatest amount. Do member states actually want United Nations bureaucrats to have more independent decision-making ability? One would expect that G7 countries (the most likely principal payers in a variety of schemes) would not be particularly interested in ceding more control to the Secretariat (which frequently has a G77 agenda). Former Canadian Ambassador to the UN and President of the Security Council, William H. Barton, makes several telling points about UN financing:

> *The idea that the UN should have an independent source of revenue has a superficial attraction. But governments would not want the UN to be completely independent of their power to exercise control by way of the power of the purse...But to the extent that such a levy did exist, I am afraid that all that would happen is that governments would reduce their contributions accordingly.*[9]

Are the Possibilities for Action Endless?

The options which present themselves under the broad heading of alterative financing are indeed varied. If member states believe that the UN is an institution worth saving and can accept the difficult philosophical challenge that alternative financing represents, then action may be possible. What is required at the present time, if any initiative is to be effective (i.e., boost UN finances), supportable (meet with approval from member states and the Secretariat) and workable (a concrete program with a fixed term for implementation), is to focus on a small number of programs.

From the discussion above, it is apparent that there are obvious problems with the Tobin tax or any of its derivatives on both theoretical and economic efficiency grounds. However, there will be considerable attention given to the proposals resulting from the UNDP Policy Centre's forthcoming paper. If enough political will is mustered, and member states can be convinced that the UN needs its own source of financing, then this venerable idea may still have some staying power.

From a political perspective, both at the UN and in member states, there is probably more mileage in assessing the various proposals for taxing the global

[9] "Commentary on Recommendations to the Commission on Global Governance", in United Nations Reform: Looking Ahead After Fifty Years, Eric Fawcett and Hanna Newcombe Eds., Science for Peace, Toronto, 1995.

commons. Unfortunately, many of the more discrete, smaller scale propositions (Seabed Authority, satellite licensing, Antarctica) would raise almost no income in the medium term, although they may be important sources for the United Nations of our grandchildren. Similarly, straight "environmental levies" such as carbon taxes or "peace dividend" levies such as on arms transfers suffer from the free-rider problem outlined earlier, not to mention powerful opponents within the UN system. On the larger income possibilities, such as airline travel or a stamp tax on passports, there would be intense opposition from many member states (most notably the United States) on almost any proposal for "global taxation" which flies in the face of the global trend toward deregulated markets.

From a Canadian perspective, perhaps the most attractive of the global commons propositions is for a high level independent commission to be created to study the possibility of assessing user fees or to auction quotas for deep-seas ocean fishing. A preliminary look at the figures shows that in 1993 some five million metric tons of fish were caught in "non-adjacent fishing areas", that is outside national two hundred mile limits. On an average price per catch basis, this amounted to approximately $4-5 billion. The major players in this industry were Japan, Spain, Russia, Korea, "other Asians", Poland, Ukraine, France and the U.S..

A proposal to initiate a study on high seas fishing rights would be consistent with the Canadian conservation position on fisheries (that is, total quotas for each species in the relevant areas would be set by the FAO scientific council); it could raise substantial funds (either through a quota auction or on an assessed basis); it is concrete and relatively small-scale. Potential problems can be foreseen, however, involving enforcement and surveillance as per the NAFO experience. Getting all UN member states to sign on to a new treaty, unfortunately, could well be prohibitive. These issues would be the subject of the expert study.

On a totally different tack, the creation of an independent working group to study the viability of a "UN 50 Global Lottery" could be initiated. The review group could include heads of national lottery corporations from a broadly representative group of countries. Like the Los Angeles Olympics in 1984, the UN Lottery Corporation could even be financed from major corporate sponsors, who would provide the original funding for prizes. Such a global lottery, complete with advertisements from the major corporate sponsors and self-promoting UN videos detailing where the revenue will go, could be enticing for member states and their citizens.

There would certainly be concern over national jurisdictions (not to mention varying degrees of religious and cultural opposition), but the experience in Canada, Britain and the United States shows that new lotteries do not necessarily cut into profits from existing ones. This scheme has the added advantages of improving the public profile of the United Nations and permitting direct identification with a "good cause" by individual citizens through the purchase of lottery tickets. This suggestion does not require much in the way of start-up costs (existing networks could be used) and would then be self-financing on a monthly or other regular basis. It has the added advantage of not requiring unanimity from member states. Indeed, a limited number of like-minded countries could kick-start the process just in their own jurisdictions. Questions remain, however, about the regressive income-distributive nature of such a proposition as well as the more fundamental question concerning the UN's independence of action once it possessed a steady revenue base outside contributions by member state governments (although governments would of course retain the ultimate legal authority to cancel the lottery).

Options for Canada: Recommendations and Conclusions

- Canada should encourage the informal consultation process within the Ginger Group of good global citizens to put pressure on late payers. It is clear, however, that the bulk of the problem does not hinge on late payments of small payers. Further low-key lobbying in Washington would definitely help. The Ginger Group could also helpfully focus on certain other laggards who should be doing better.

- Canada should continue to call for the United Nations to implement the recommendations of the 1993 Volcker/Ogata study on financial reform with respect to arrears and late payments[10]; and support the work of the Ad Hoc Working Group. If the process seems moribund, Canada could call for the creation of a Volcker/Ogata II Commission under our chairmanship.

- <u>If</u> Canada believes that a more efficient, tightly-run United Nations could benefit from an external and independent source of financing, Canada could sound out with other "like-mindeds" the relevant merits of, for example, the fishing rights levy and the UN lottery proposal as discussed above.

[10] In brief, Volcker/Ogata agrees on the need to revise assessments but also calls for all members to pay their dues on time, in four quarterly instalments. The UN would be given the authority to charge interest on late payments. The Working Capital Fund (WCF) would be increased and replenishment could be aided by crediting budgetary surpluses owed to member states with arrears to the WCF.