The Imperatives of Innovative Sources of Development Finance: Evidence from Nigeria

Ajayi Oziomobo Dada¹*, Md Shamimul Azim², Mir Salim Ullah²
1. Department of Banking and Finance, Waziri Umaru Federal polytechnic, Nigeria
2. OYA Graduate School of Business, University Utara Malaysia, Malaysia
*E- Mail of Corresponding Author: oziajayi@yahoo.com

Abstract
Innovative source of development finance (ISDF) connotes a net additional resource to the total resources involving the application of nontraditional mechanisms for sourcing funds capable of catalyzing and supporting fund raising through new sources. The objectives of ISDF is to complement the dwindling financial resources for the millennium development goals (MDGs) which was conceived as a complementary financing efforts to drastically reduce poverty level; with its attendant consequences of socio ills like hunger, illiteracy, shelter, HIV/aids, social strife among others by the year 2015. This work is design to shore up support for the good intention of the programme. In the case of Nigeria of which despite the enormous resources endowments, above average of her population are still wallowing in poverty with the visible consequences of these set of the population being subjugated to subhuman live. Wanton corruption had being the bane of meaningful development in the country. Looting of public treas ury and misappropriation of funds are widely acknowledging worldwide. Essentially, if the suggested changes in modalities as appertaining to Nigeria are embraced, the programme will go a long way in improving the wellbeing of the average Nigerian populace as envisaged in MDGs.

Keywords - Millennium Development Goals (MDG), Innovative sources of development finance, Public bad, carbon tax, Special drawing rights (SDR)

1. Introduction
At the Millennium Development Goals (MDGs) summit in September 2000, it was affirmed by 189 states of the United Nations to commit to sustained development and drastically eradicate poverty. It was targeted at halving by the year 2015, the proportion of people living in extreme poverty, and the proportion of hunger, achieving universal access to safe drinking water, universal primary education, and gender equality in education, reducing by three-fourth maternal mortality, and reversing the spread of HIV/Aids among others.

In case of Nigeria and other low income countries, achieving these noble objectives means increasing the per capita income of half of their population. In order to reach a minimum per capita income of US$1 per day and the economies of these countries must grow at 8% per annum over the period. However, Zedillo Panel (UN 2001) conservatively estimated that an additional US$50 billion will be required to achieve these international development goals.

The need for innovation in finding newer sources of finance becomes imperative in order to provide the additional US$50 billion needed to achieve the targeted MDGs. This called for donor nations to comply with a UN recommendation of 0.7% of their GNP be set aside for assistance to developing countries. This Official development assistance (ODA) has not been forthcoming since only 0.33% was provided for development assistance by 2001. The gap between the ODA inadequate budget and traditional sources of development funding call for alternative sources of development finance (Helmout, 2003). The original plan was to cover the following areas:

- Tax for currency flows
- Global environmental tax (Carbon-used tax)
- Creation of new special drawing rights (SDR)
- Increase private donation
- International finance facilities
- An increase in remittance from immigrant workers.

At a world summit in New York (2002), 79 countries’ heads of state and government agreed to join the ongoing international efforts and endorsed the declaration on innovative source of financing for development. Reghbenda (2002) opined that innovative finance will accelerate economic growth. It will complement the conventional revenue and help plug the gap in official donations so as to make state income and expenditure in congruence with millennium development goals.

2. Meaning of Innovative Sources Development Finance
Atkinson (2003) viewed innovative sources of development finance as a net additional resource to the total
development resources. It becomes obvious that additional resources are required to meet development target. Also, Elizabeth et al (2009), put forward that innovative financing should involve application of non-traditional mechanisms that catalyze and support fund raising by tapping new sources. It should also employ investors to participate as partners and stakeholders in development more than merely as investors so as to deliver financial solution to development problems on the ground. The project has been designed on the platform of public finance as income redistribution to complement the budget in low income countries. Its purpose is to co-finance MDGs. (UN 2012) define it as a mechanism for raising funds for development which are complementary to official development assistance that are predictable, stable, and closely linked to the idea of public goods. However, there is no one definition. It is linked to the process of globalization by taxing sectors which are considered to have gained most from globalization. These include financial sectors and global public “bad” i.e. sectors like those responsible for carbon emission. Developing countries seek not only more financial aid. They seek donors and private sectors that can bring innovative finance into main stream of development practice. Innovative sources of development finance was brought to the fore in the 2002 Monterrey conference and reaffirmed by 2008 Doha declaration on financing for development. These offer a platform for providing sources of finances towards the achievement of millennium development goals 2015 by mobilizing financial resources through innovative mechanisms.

3. Evolvement of Innovative Financing
In the quest for meeting the MDG by 2015, it becomes obvious that an estimated additional US$50 billion per year is required to meet the MDGs. The choice before the international community is either to double the ODA or to find alternative sources of finance to complement the existing resources. The conference on sharing global prosperity held in Singapore 2003 shifted focus to innovative sources of development finance as an assured source of funding to address global development goals. This calls for political discussion to implement the envisaged sources. Cognizance must be taken of the fact that official development assistance remains vital for financing development of low income countries with low level of domestic savings, limited access to private capital flows and increasing fiscal pressure from official donor countries. Though ODA has reached a level of US$133 billion in 2011 it has yet to double in order to meet UN target of 0.7% of donor countries’ GNI. Also, John and Dilip et al (2012) are of the opinions that relying on official aid alone will not fund the efforts geared to accelerating economic growth and poverty alleviation in Africa. The private sector has to be the engine of growth and employment generation; official efforts must be mustered to catalyze innovative financing solutions for the private sector. It is pertinent to note that the financial crisis of 2008 - 2009 caused fiscal squeeze on many donor countries and led to the reduction in ODA. It is worthy of note also that promises of financial support for climate change mitigation and adaptation have increased to renew interest in innovative development finance in areas like financial transaction tasks (FIT) and carbon taxes.

The UN conference on the world finance and economic crisis, and its impact on development (New York 2009) reaffirmed the efficacy of innovative financing for development in addressing the global development problems. It is a national and pragmatic response to inability of most donors to devote sufficient funds towards international development. Therefore various major programs are designed to promote aid transfers to developing countries. The budget constraint faced by UN, and occasioned largely by the US had led to the current paradigm shift in financing development in low income countries.

4. Mechanism for Innovative Financing
UN (2012) observe that it has become apparent that foremost priority for the developing communities is to find a new platform to augment aggregate official flows through the expansion of solidarity mechanisms and simultaneous improvement of their effectiveness to scale up world development funding. Dilip et al. (2008) and European Commission (2010) were of the opinion that official development assistance (ODA) alone will not be adequate for funding efforts to accelerate economic growth, poverty alleviation and meeting other MDGs. Official aid continues to be the dominant source of external financing for low income countries. However, several suggestions for global charges and fees have been made and since the Monterrey, Mexico (2002) conference. International development has seen significant diversification in the methods considered to be innovative sources of finance. UN (2002) opined that the concept of innovations has now extended and involves many more instruments. These include thematic global trust funds, public guaranties and insurance mechanism, corporate international fiscal mechanisms, equity investment growth, indexed bonds, counter-cyclical loans, distributive system for global environmental service, micro, meso and macro-finance etc. These have been mobilized to meet these specific needs and vulnerabilities of developing countries. Much progress has been achieved on international mobilization since the inception of international sources for development finance. The suggestions for global charges and fees can be categorize into the main areas which are discussed below.

4.1 Carbon Taxes
Carbon tax falls under the context of indirect tax on carbon content of oil, coal, and natural gas on a global level.
This is quite distinct from carbon taxes imposed in a local area by some countries. Reghbenda (2002) estimated that a tax amounting to $21 per ton of carbon at a rate of 4.8% of volume of gasoline will yield $125 billion annually. This is likely to reduce carbon emission up to 5 billion tons by 2020. Despite the divergent stand on this issue, it is envisaged that response to the tax may become higher as newer technologies become financially viable. The carbon tax has been growing since 1992 when the international attention was drawn to environmental damage as a result of excessive use of fossil fuels worldwide. The collection of this tax will be carried outline value-added tax or sale tax. Moreover, the carbon tax problem is not a technical but a political issue as a number of powerful global industries is opposed to it. Countries like France, Ireland, Finland, Denmark, Germany, Norway, Sweden and host of others have started levying energy/carbon taxes and national as well as global political blocks are in the offing to overcome opposition to the tax.

4.2 Currency Transaction Cost

It is one of the prominent measures to augment resource transfer to developing countries. It is also known as Tobin Tax named after James Tobin, the proponent of the measure in 1972, though it can also be traced to Keynes. It was originally proposed to discourage excessive speculation on foreign exchange market. That will give greater room to a central bank to pursue constant domestic policy in a world of flexible exchange rates. It was originally proposed to tax all foreign exchange transactions in currency but was later levied also on spot, forward, future, swaps and other derivatives for which investors would otherwise have escaped tax payment. The average value of foreign exchange dealings ruled from $15 billion per day to $1.49 trillion in 1978. A tax of 0.2% with a hypothetical 15% reduction in transactions will result in annual revenue of about $300 billion. Atkinson (2002), thought CTT measure would turn out to increase global financial market and churn out substantial revenue for development aid.

4.3 Aviation Taxes

Basically this is one of the taxes based on goods generating environmental damage with specific references to the use of hydrocarbon fuels and measured according to the carbon content. Several versions of this tax fall in the following areas; a surcharge on aviation fuel, surcharge on air travel added to the cost of ticket, a fee for airport use and charge base on emissions. It is envisaged that aviation fuel consumption will fall annually by 1% to 2% on account of technological improvements, though demand for airport transport will grow by 2% to 4% per annum. Air plane travel currently accounts for about 30% of global carbon emission. It is estimated that it would amount to 15% by 2015. Fuel cost in 1978 was estimated to be $50 billion per year and estimated revenue to $20 to 430 billion during 1999 to 2000 and a 5% tax will be $1 to $1.5 billion. Many countries may be unwilling to disclose the details of arm sales for security reasons.

4.4 Email/Internet Tax (the BIT tax)

The basis of this tax is the amount of data being sent through the Internet. That is, a person sending 100 emails per day with a 10 KB document will pay a tax of just 1 cent. It was proposed that the tax proceeds would be used to bridge the digital divide between rich and poor nations which will help the growth of internet.

4.5 Tax on World Trade

The tax is based on exports plus imports and was advocated by world trade organization, estimated to yield $58.9 billion in revenue in the year 2000. Moreover, the tax will be progressive given the concentration of international trade in OECD countries.

4.6 Tax on Arms Sales

The base of this tax is the value of all international arm sales. For instance, the international arms trade worth $20 to 430 billion during 1999 to 2000 and a 5% tax will be $1 to $1.5 billion. Many countries may be unwilling to disclose the details of arm sales for security reasons.

4.7 Fees for Using the Global Commons

Several UN agencies and environmental groups have agreed to this proposal to tax global common resources like the oceans, the atmosphere and geostationary orbit for parking of satellites. Ship owners will have to pay for the use of wharfs and docks, harbor and associated infrastructures. John (2011) proposed levying heavy tonnage and pollution charges which would reduce pollution by ships. As at 2001 more than fifty five thousand two hundred and thirty three seafaring vessels with an average of 988 tons, engine power of 18000 KW and with an estimated annual revenue generating power of $769 million, ply the seas.

4.8 Creation of new Special Drawing Right (SDRs)

Arev et al (2003) proposed the creation of special drawing rights (SDRs) for development purposes, with donor countries making their SDR allocation available to fund development. Also Reghbenda (2002) observed that distributing fresh issue of SDR in large part to the poorest among developing countries will help to accelerate development in these countries.

4.9 Increase Private Donations for Development

Charitable donations by private individual and firms are some of the measure designed to encourage private funding for development through tax incentive. Examples of individual donors are Bill Gate, Bill Clinton, Ford and others.
4.10 Increased Remittances from Immigrants
This involves financial institutions encouraging repatriation and the use of citizenship rather than residence as basis for taxation.

4.11 Financial Transaction Tax (FTT)
John (2012) observed that FTT has been used in many countries over a long period in developed and developing countries. This tax is viewed as progressive as only the wealthy high-net-bracket earners make such transactions. It was observed that a tax of a basis point, 0.005% of the value of trade in dollar, euro, yen, and pound sterling would yield $40 billion a year. Though, political will had hamstrung the full utilization of this mechanism. As at 2000 to date $2 billion was raised with the aim of scaling of macroeconomic, increase long term interest rate and risk stabilization for the recipient countries.

4.12 Recouping Loss Revenue
This relates to the issue of recouping revenue lost to tax authorities through tax evasion due to the funds held in tax havens. It had denied government due taxes leading to widening in equalities of opportunities in the world economy between northern and southern countries.

According to Suhas and Dilip (2009), it becomes apparent that a gap exists between MDGs and ODA as well as between Poverty alleviation program and actual achievement as the deadline of 2015 draws closer. The developing countries require additional cross border capital channels to private sector particularly in sub-Saharan Africa whose risky credit history give investors a low opinion of their credit worthiness. Hence, they need innovative financing mechanism to stabilize financial flows to the developing countries.

5. Value Added Potential of Innovative Sources of Development Finance
The conceptual framework for innovative finance was based on scaling up development funds from innovative sources of financing, not through unitary world but a platform of world states, to bridge the development fund gap. Atkinson (2004) held that it was designed to contribute in meeting the financial requirements of national development and global goals, such as health and climate change mitigation and adaptation. Its specific purpose is to stimulate world economy to reduce unemployment and optimum use of productive capacity. The aim of this funding is for sustainable development and technological transfer, but a strategy has to be carefully chosen so that it will not fail to achieve the aim. It should not be primarily focused on larger developing countries like India and China but on low income countries especially in Sub-Saharan Africa (Jim and Tao, 2008).

6. The Case of Nigeria
Despite the plausible advantages accruing to ODA, harnessing of innovative sources of financing in Nigeria setting will go a long way to accelerate poverty reduction and economic development in line with MDGs. Recently the five oil producing communities protested to the General Assembly alleging illegal $372.7 billion petroleum bunkering. The discovery of petroleum subsidies misappropriation. In 2005 the World Bank signs an agreement with Nigeria and the Swiss government to repatriate $458 million of the total of $505 million of looted public funds that had been sent to Switzerland. Of these, $50 million was repatriated in 1999. Moreover, trails of looted public fund span several banks around the world. The World Bank, Swiss government, and other governments, and Nigerian Civil Society are advocating that these funds should be used for development projects and should not line the pockets of the corrupt civil services.

Also, investigating tax avoidance and evasion for specific projects will go a long way in addressing development challenges in Nigeria. Tax avoidance is deemed illegal, and it deprived the country of huge sums of money. Tax evasion is immoral and illegal and constitutes a criminal act. The consequences of these acts are enormous for developmental efforts of a nation. In Nigeria, the prevalence of these acts has reached an unbearable proportion. The country is denied on regular bases substantial sums of money by individuals and corporate perpetrators. According to Mathew (2012) at the Nigerian stock exchange, 85% of corporate tax revenue from 196 listed companies stands outstanding. This has been a menace and has bedeviled the developmental efforts of the government for quite a long time.

For instance, ABZ Integrated Ltd., a tax consultant to Economic and Financial crime commission (EFCC) accused Chevron Nigeria Ltd. of $108 billion tax evasion between 2003 and 2004 through over bloated assets. The company admitted to US$2.7 billion in tax evasion. A paltry sum of $651.6 million was eventually refunded to the federal government. Alex (2005) observed that domestic mobilization of revenue constitutes a key to sustainable development and that only self-sufficiency will allow a fully functioning state to flourish.

It is important that revenue derived from repatriation of stolen public funds, tax avoidance and evasion should be set aside from federation accounts and be deployed for a specific development project.

7. Findings
Innovative sources of finance is an application of nontraditional mechanism of raising funds by ways of new sources with the view of enhancing public finance for income redistribution to complement the state budget in
line with MDGs. Though, the aim is to scale up development funds not through unitary state but by the World states at large for sustainable economic development and technology transfer for ultimate stimulation of the World economy so as to reduce unemployment and boost productive capacity. However, Nigeria with high records of public financial leakages through misappropriation and rampant corruption resulting in ever widening development gap and challenges call for collaboration of international agency like Official Development Committee (ODC) to forestall recirculation of recovered looted funds into individual pocket via lodgments into federation account (for allocation to all tiers of governments). With dwindling contributions from ODA due to the recent World economic crisis and escalating socio strife in Nigeria aptly from economic hardship call for streamlining the innovative sources of development finance to key into the Nigerian’s loose public financial management.

8. Conclusion
The use of innovative sources of finance for development is a new concept. It encapsulates official sector involvement and cross border transfer of financial resources. It uses innovative features like type and manner by which they are collected. These funds are used to finance, over and above ODA. UN (2012) view it as a paradigm shift that involve all mechanisms for raising funds for development which are complementary to ODA, predictable, stable and closely linked to the idea of public goods and by taxing global public “bad”. As at 2002 $5.8 billion was expended on health and $2.6 billion on environmental protection programs under this aegis. ODA increased to $133 billion in 2011, the highest ever since the adaption of millennium development goals. It was estimated that developing countries will receive $160 to $270 billion annually, made available to their international reserve currency for development purposes (UNDP, 2012). In the context of Nigeria the World Bank and in collaboration with the government should intensify efforts on repatriation of stolen public funds scattered in various banks abroad. The issue of tax avoidance and evasion should be handled in conjunction with international agencies and the money realized should be designated to accounts that are separate from federation account. They should be maintained overseas with official development committee (ODC) of the UN and managed in the spirit of innovative sources of finance for developmental purposes in each of the local government areas of Nigeria essentially in the areas of health, education, agriculture, provision of water, small and medium scale enterprises development among others.

References
The IISTE is a pioneer in the Open-Access hosting service and academic event management. The aim of the firm is Accelerating Global Knowledge Sharing.

More information about the firm can be found on the homepage: http://www.iiste.org

**CALL FOR JOURNAL PAPERS**

There are more than 30 peer-reviewed academic journals hosted under the hosting platform.

Prospective authors of journals can find the submission instruction on the following page: http://www.iiste.org/journals/ All the journals articles are available online to the readers all over the world without financial, legal, or technical barriers other than those inseparable from gaining access to the internet itself. Paper version of the journals is also available upon request of readers and authors.

**MORE RESOURCES**

Book publication information: http://www.iiste.org/book/

**IISTE Knowledge Sharing Partners**

EBSCO, Index Copernicus, Ulrich's Periodicals Directory, JournalTOCS, PKP Open Archives Harvester, Bielefeld Academic Search Engine, Elektronische Zeitschriftenbibliothek EZB, Open J-Gate, OCLC WorldCat, Universe Digtial Library, NewJour, Google Scholar