Overview

The G20 has a key role to play in reaching political agreement among major economies on how to scale up financing for developing countries to address global issues such as climate change, biodiversity loss and poverty reduction. Such an agreement can also provide a useful input to negotiations under the UNFCCC. While a range of financing channels and types will be important in scaling up total financial flows to the level of several hundred billion per year required, public finance will continue to play a crucial catalytic role in financing actions and leveraging private sector investments. Governments must ensure sufficient financing starting in 2013, when the "fast-start finance" period ends, scaling up from the $10 billion in public finance per year to $100 billion per year. Given the challenges of scaling up finance from traditional government budget sources, especially in the context of the global economic crisis, innovative sources of funding need to be quickly globally agreed and operationalized.

WWF urges the G20 to:

1. **Send positive signals towards the adoption of a COP decision at the UNFCCC summit in Durban to set up innovative finance mechanisms, ensuring "not net incidence" on the economies of developing countries.**
2. **Set up the auctioning of allowances or levy on emissions from the international maritime and aviation transport sectors (so called "bunkers").**
3. **Adopt a stepwise approach towards a global financial transaction tax.**

Background

1. Making substantive progress on innovative sources of finance ahead of the UNFCCC conference in Durban

The G20 summit can help build up a political momentum towards a successful conclusion to COP 17 in Durban, South Africa in December 2011. In Cancun at CoP 16, developed countries reaffirmed their commitment to deliver $100billion a year in new and additional finance for climate change actions and adaptation in developing countries by 2020 and there is now a window of opportunity to make significant progress on innovative sources of finance.

While development objectives include resilient and low carbon development, the additional burdens created by climate change should be recognised and the necessary finance must be **new and additional** to existing financing commitments for development.

Global financing arrangements to meet the objectives of the UNFCCC must conform to the principles of the Convention, including that of **Common but Differentiated Responsibilities and Respective Capabilities (CBDR).** The $100 billion mentioned above should come specifically from developed countries, and funds from innovative sources should also reflect this principal. However there can be advantages to implement innovative finance mechanisms on a global basis. Such mechanisms, if applied to a narrow set of countries or regions, could lead to trade distortions or leakage. This does not mean, however that the mechanism would then be in violation of the CBDR principal. **The AGF endorsed the concept of "no net incidence" on developing countries, as a way to ensure that for such**

global mechanisms it is only the revenue attributed to economic activities in developed countries that is used as international climate finance. Any revenue attributed to developing countries would be returned to those countries in the form of a rebate, or be targeted to their own sustainable development priorities.

- **The G20 should reaffirm its commitments to make significant progress on innovative sources of finance to get a positive outcome at the UNFCCC COP in Durban.** The newly agreed mechanisms should be quickly operationalized on a global basis to avoid competitive distortion and leakage and respect the principles of the UNFCCC. The G20 should ensure the principle of **"no net incidence"** to demonstrate to developing countries that these new mechanisms will not harm but benefit their economies, and that developed countries will meet the financing commitments they made.

2. Financing from measures to address emissions from shipping and aviation

Targetting emissions from international shipping and aviation, by putting a price on aviation and shipping carbon emissions, either through an Emissions Trading Scheme (both sectors) or a fuel levy (for shipping), **could both reduce greenhouse emissions and raise substantial revenues.** Shipping fuels are currently tax exempt. These measures are under active discussion at IMO. An air passenger levy (ticket tax) would target emissions less directly, but would still raise significant revenue. Money raised by such measure could then be used to support climate change adaptation and mitigation in developing countries.

The UN Secretary General's High-Level Advisory Group on Climate Finance (AGF) examined the possible revenues from the sectors, and found that **up to $18 billion could be raised overall from shipping and up to $6 billion from aviation**, at a carbon price of $25/tCO2.

Net incidence on developing countries from pricing emissions from international transport can be avoided by **compensating developing countries**, directly, separately from and prior to any financial flows **through rebates to offset the cost to their economies**. Provisions can be made for developing countries with high incomes and capabilities to voluntarily forego their rebates and count this as South-South cooperation. The aviation and the maritime sectors should be considered separately in order to find the most appropriate solution for each.

- **The G20 countries should indicate their support for a COP decision in Durban that will provide guidance to the IMO and ICAO to: (1) Reduce emissions from aviation and shipping by implementing an emissions levy or allowance auctioning in both sectors; (2) Use the revenue raised from such a system towards climate change finance in developing countries; and (3) Design the system such that there is no net incidence or burden on developing countries.**

3. Financial Transaction Taxes

Other sources of finance are needed to reach the US 100 billion dollars a year promised in Copenhagen, and a Financial Transaction Tax (FTT) is a necessary complementary mechanism to meet this challenge. Financial transaction taxes (FTTs) are also one of the few sources that can provide significant funding to address global issues such as food, water and energy insecurity and biodiversity loss. FTTs may also help prevent future crises, by reducing incentives for financial speculation that provides no social benefits.

According to the Austrian Institute for Economic Research, a global transaction tax of 0.1% could yield between US$410 billion and US$1060 billion a year. The North-South Institute estimates that a levy of 0.005% on currency transactions on all major currencies in dealer markets would yield US$33 billion a year. A tax of 0.005% on the Euro and British pound would yield US$16.52 billion annually and the same rate of tax on the US dollar alone would yield US$28.38 billion every year.

A financial transaction tax (FTT) could be levied on all financial market transactions involving stocks, bonds, foreign exchange and derivatives (futures and options). By keeping the level of taxation low, long term investments would not be affected but the tax would impact on those that buy and sell a lot of financial products on a frequent basis. Ordinary consumer transactions such as payments for goods, paychecks and ATM withdrawals would not be subject to the FTT. Individual remittances that go from developed to developing countries could also be exempt from this tax. Such a tax ideally needs to be agreed and coordinated globally to create a predictable and sizeable source of finance and to close potential loopholes for tax evasion. If a global comprehensive FTT is not possible in the short term, countries and regional blocs can take a stepwise approach and adopt a tax on currency exchanges in the first instance, extending to a broader global FTT later.

A global FTT can be set up in conformity with the principal of common but differentiated responsibility and respective capabilities, by ensuring that the FTT is revenue neutral for developing countries with no responsibility to pay. The revenue collected from financial transactions attributed to those countries can stay in those countries or be returned to the countries directly, and only revenue attributed to the economies of developed countries will be used for global public goods like climate change action and meeting the Millennium Development Goals (MDG).

Recent studies, including by the IMF, show that an FTT is technically feasible and affordable. Money would be collected through a simple and efficient electronic tag on existing electronic settlement systems automatically transferring the tax to the relevant tax offices, and making tax avoidance difficult. Some forms of FTT already exist in many countries. Different kinds of FTTs have already implemented in many countries, either to raise revenue or to curb speculative financial flows. The UK has successfully levied a 'stamp duty' of 0.5% on national stock transactions, which raised £4.2 billion in 2008 without harming the attractiveness of the London Stock Exchange. Furthermore the cost of collecting this tax is small - around 0.21 pence per pound collected in contrast to 1.24 pence for income tax and 0.76 pence for corporation tax.

The G20 should adopt a stepwise approach towards a global financial transaction tax. Countries and regional blocs can take the lead and implement an FTT at the national level and a tax on currency exchanges at the regional level. On the longer term, a global transaction tax fixed at a low level of taxation (around 0.05% or below) would raise significant revenues without any undue impact on the economy. The Brief was prepared by the Hot House, WWF Int. For further information, please email hothouse@wwfint.org

•