

Input for Elements Paper on Financing for Development

October 2024

Prepared by the Secretariat of the Global Solidarity Levies Task Force in response to the call for inputs for an Elements Paper on Financing for Development (26 July 2024).

Input

2. Action areas

a. Domestic public resources

- In the context of a significant gap between current levels of international finance and requirements to meet the climate and development goals of developing countries, **there is an urgent need to mobilize new, additional, predictable, and adequate financial resources which do not exacerbate existing debt burdens.**
- In this regard, new global solidarity levies can play a fundamental role. There is extensive existing research which has shown the **significant potential revenue streams that could in principle be raised from establishing levies** on various sectors. Allocating whole or a portion of these revenues as grant finance to support climate and development goals would contribute significantly to closing the climate and development investment gap.
- **Global levies can also play a role in terms of reducing global inequalities more broadly.** Many sectors of the economy are highly polluting yet largely under-taxed (e.g. aviation, shipping, fossil fuel industry). Raising levies in such sectors would not only ensure that these sectors contribute their fair share to public finances, but in some cases, it would also incentivise their decarbonisation and help foster broader backing for a just transition.
- **This reflects the fact that tax justice is paramount to the achievement of the Sustainable Development Goals.** Creating a fair, effective and progressive tax system that strengthens developing country public finances and supports the polluter pays principle is a key fundamental structural reform that is needed as part of wider systems transformations to address the root causes of global inequalities.
- **The Global Solidarity Levies Task Force has identified significant potential around enhanced international coordination and implementation of global solidarity levies** which, if scaled and the revenues (either in whole or partly) allocated to climate and development finance, would be able to significantly contribute to closing the financing gap for climate and development. The Task Force is examining proposals including:

- **A maritime shipping levy** – as currently under negotiation at the International Maritime Organisation in terms of a GHG pricing mechanism (accompanied with a GHG fuel standard) which could allocate revenues both in and out of sector. *It is estimated that a levy of \$150 per tonne of CO2 would raise up to \$80bn a year (IDDRI, 2023).*
- **An aviation levy** – such as a coordinated levy on kerosene or on airline tickets (whether via increasing the revenue and number of participating countries or through encouraging implementation of frequent flying levies). *It is estimated that an aviation levy could raise up to \$150 bn per year on a global scale (CAN-Europe, 2023).*
- **A fossil fuel levy** – at point of extraction, import or consumption, or alternatively a mechanism for levies on windfall profits of fossil fuel and energy companies. *It is estimated that a levy on fossil fuel extraction of \$5 per tonne of CO2 could raise \$210bn a year (Stamp Out Poverty, 2023)*
- **A financial transaction tax** – through efforts to establish a global levy or increase the adoption of such levies in more countries. *It is estimated that a levy of 0.1% globally on trading stocks and bonds could raise up to \$418bn a year (WIFO, 2019).*
- **Carbon pricing** – such as by an international carbon price floor (as proposed by the International Monetary Fund) implemented nationally through a carbon tax or an emissions trading system.
- **These levies are all based on some degree of existing practices.** For example, at least 83 jurisdictions have carbon pricing measures, at least 30 countries currently implement a financial transaction tax, at least 29 levy aviation fuels and at least 21 have raised levies on airline tickets.
- **There is significant political momentum behind the use of levies for climate and development finance**, as reflected in outcome documents from the V20 Accra-Marrakech Agenda, the Nairobi Declaration, the Paris Pact for People and Planet, the Bridgetown Initiative and the Global Stocktake decision at COP28.
- **The Outcome Document of FfD4 can build on this progress with clear calls to:**
 - Recognise the contribution of levies to close the climate and development financing gap while addressing root causes of global inequalities
 - Accelerate efforts to establish levies on polluting and under-taxed sectors of the economy to allocate revenue for climate and development goals
 - Strengthen global coordination on solidarity levies to reach international agreements on their implementation, through existing processes including the Global Solidarity Levies Task Force whilst in support of the development of a UN Framework Convention on International Tax Cooperation.