

In light of the First Workshop on Long-term Finance, July 9-12, 2012, ActionAid USA and Friends of the Earth US request that parties consider our views on the following topics:

- A. Private Finance and the \$100 billion dollar question
- B. Sources of long-term finance: Addressing tax avoidance and evasion in developed countries

**A. Private finance and the \$100 billion dollar question**

ActionAid USA and Friends of the Earth US propose that:

- Developed countries should meet their obligation to annually provide \$100 billion in climate finance (by 2020) through funds originating from public sources in developed countries, including assessed budgetary contributions and public sources of innovative finance like financial transaction taxes and special drawing rights.
- For loans, guarantees, or other non-grant financial instruments through which public funds may be channeled as part of the \$100 billion commitment, only the grant equivalent of public funds from developed countries – whether invested in the public or private sector in developing countries – should count toward the \$100 billion.
- Any private financial flows that may be mobilized/leveraged by public funds should not be considered as meeting developed countries’ \$100 billion commitment.

Explanation

It is widely recognized that \$100 billion in public funds is well below developing countries’ needs to adapt to and mitigate climate change. Developing countries bear relatively little responsibility for creating the climate crisis, yet climate impacts will hit the poorest first and hardest. Developed countries are morally and legally obligated to provide climate finance for developing countries. Additionally, it is difficult to track and measure private flows of climate finance, and even more difficult to attribute these flows to public action. Defining and accounting for private sector “leverage, mobilization, and/or additionality” are hotly debated, complex topics.

**B. Sources of long-term finance: Addressing tax avoidance and evasion in developed countries**

ActionAid USA and Friends of the Earth US propose that:

- New revenue generated in developed countries as a result of addressing tax avoidance and evasion in developed countries should be considered as a source of long-term climate finance. A portion of the newly available tax revenue in developed countries should be obligated to the provision of international climate finance.
- Tax revenues recovered in developing countries must *not* count towards developed countries’ \$100 billion commitment – and, indeed, might not be used for climate finance at all, depending on the budgetary priorities of individual developing countries.

## Explanation

Corporate tax dodging occurs through both illegal means (i.e. tax evasion) and ethically questionable legal means (i.e. tax avoidance). Multinational corporations engaging in these practices keep trillions of dollars in offshore tax havens – also known as secrecy jurisdictions – where they pay little-to-no taxes. These secrecy jurisdictions allow corporations to hide their money or manipulate prices paid to their subsidiaries for goods and services, a practice known as transfer mispricing or abusive transfer pricing.<sup>1</sup> A variety of policies to close tax loopholes, enforce existing laws and regulations, and create a global approach to corporate taxation could create meaningful new flows of revenue to both developed and developing country governments. These policies might include stricter enforcement of current laws, new requirements for country-by-country reporting of multinational company accounts, changing rules to crack down on transfer mispricing practices, and creating global or regional agreements to reduce tax breaks and incentives that countries give to multinational corporations in competition for investment.

Given the world's slow recovery from the current economic downturn, even as corporate profits continue increasing, it is more important than ever that rational and effective policies are created and implemented to tax multinational corporations. Requiring these corporations to pay their fair share of taxes through the elimination of tax loopholes could, by itself, generate hundreds of billions of dollars annually. For developing countries, the amount of new tax revenue created could total more than the all the foreign aid those countries are currently receiving. Tax revenue is the most sustainable source of finance for development, and addressing tax dodging practices would be an important step to reducing aid dependency. ActionAid UK released a report<sup>2</sup> in 2009 finding that a single multinational corporation, brewing giant SABMiller, dodged as much as \$30 million in taxes owed to African governments – all through legal but unethical tax avoidance practices.

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<sup>1</sup> By manipulating these prices, corporations move money around within a group of companies they own with the end goal of claiming large profits in offshore tax havens. They can then claim no profits — and therefore not pay any taxes — in the countries where their activities actually take place, whether in developing or developed countries.

<sup>2</sup> ActionAid, 2010, "Calling Time: Why SABMiller Should Stop Dodging Taxes in Africa," [http://www.actionaid.org.uk/doc lib/calling\\_time\\_on\\_tax\\_avoidance.pdf](http://www.actionaid.org.uk/doc lib/calling_time_on_tax_avoidance.pdf).