<u>NGO Committee on Financing for Development submission to the 2022 IATF Report</u>

At the invitation of the UN Financing for Sustainable Development Office (FSDO), the NGO Committee on Financing for Development, a substantive committee of the Conference of NGOs in Consultative Relationship with the UN (CoNGO), has prepared this stakeholder contribution to the preparation of the 2022 Financing for Sustainable Development Report of the Inter-Agency Task Force (IATF) on Financing for Development. As a substantive committee of CoNGO, the NGO Committee on FfD does not negotiate agreed positions. The views presented here were prepared by the Committee's thematic working groups on social protection, financial and digital inclusion, and climate finance.

Our contribution, prepared in response to the draft outline of the IATF Report dated October 21, 2021, is divided into the following three sections:

1. Social protection systems including floors, as an input to section 3 (Inequality implications of the changing fiscal system1/ Social protection, incl. its coverage of informal workers) of Chapter III.A. Domestic public resources
2. Financial and digital inclusion, as an input to:
    - Subsections 4.1, (Financial inclusion and local banking sector), and 4.2 (Access to finance for SMEs) under section 4 of Chapter III.B. Domestic and international private business and finance
    - Subsections 2.1 (Acceleration of digital trends [development opportunities (including e-commerce section) digital divides and unintended consequences]), 2.2 (Digital financial services [trends; reference to financial inclusion discussion in private sector]), and 2.3 (Investing in a just and inclusive digital transition) of Section 2 of Chapter III.G. Science, technology, innovation, and capacity building, and

3. Climate Finance, as an input to:
    a. Chapter III. B. Domestic and international private business and finance
    b. Chapter III. G Science, technology, innovation, and capacity building
    c. Chapter III. F Addressing systemic issues

Section 1. Social protection systems including floors, as an input to section 3 (Inequality implications of the changing fiscal system1/ Social protection, incl. its coverage of informal workers) of Chapter III.A. Domestic public resources

The Addis Ababa Action Agenda while "establishing a strong foundation to support the implementation of the 2030 Agenda for Sustainable Development and providing a new global framework for financing sustainable development by aligning all financing flows and policies with economic, social and environmental priorities"[1] strongly underlines "a commitment to deliver social protection systems and measures for all, including floors; and a package of essential social services."[2] Despite significant progress made in the past, large gaps in coverage and financing in social protection still exist today. IATF itself acknowledges that "only 45 percent of the global population are effectively covered by at least one social protection cash benefit".[3]

Given this reality, a greater commitment to secure social protection for all, especially the most disadvantaged can never be over-emphasized. To quote Ms. Martha Newton, Deputy Director-General for Policy of the ILO speaking at the conclusions of the 2021 Session of the International Labour Conference "in the absence of social protection, societies would be left vulnerable and entirely deprived of access to health care and income security. Those countries which had effectively responded to the consequences of the pandemic were those with universal social protection systems." And therefore, financing for development that does not support social protection can only be disastrous for any nation.

Members of NGO Committee on Financing for Development work at the grassroots with the most disadvantaged and have seen from close quarters how social protection measures, when effectively implemented, give them some measure of security and dignity and the lack of it has been devastating for not just the most vulnerable but society at large. The Committee's recent study Special-Project-Report_Grassroots-Around-the-Globe-Examining-community-access-to-Social-Protection-Financial-and-Digital-Inclusion-and-Climate-Finance-Pre-and-Post-Pandemic.pdf in 7 countries proves this point.

As ILO further noted, "Access to universal social protection is (then) essential for social justice, decent work, and inclusive and sustainable growth and development. As a human right, social protection aims to ensure that every human being enjoys a life with health and dignity. Rights-based social protection systems, encompassing social protection floors and higher levels of protection, guarantee that social protection-related rights and obligations of all parties concerned – workers, employers, governments, State institutions – are anchored in law and are duly observed."[4]

The NGO Committee on Financing for Development welcomed the 9th April 2020 statement of International Monetary Fund (IMF) Managing Director Kristalina Georgieva, "These are the times for which the IMF was created—we are here to deploy the strength of the global community, so we can help shield the most vulnerable people and revitalize the economy" and committed the IMF to a four-point "all hands on deck" approach to the crisis that would

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1 https://www.un.org/esa/ffd/publications/aaaa-outcome.html
2 https://developmentfinance.un.org/delivering-social-protection-and-essential-public-services
3 https://developmentfinance.un.org/delivering-social-protection-and-essential-public-services
4 https://www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meetingdocument/wcms_806099.pdf

focus on supporting health systems, protecting vulnerable firms and people, containing financial panic, and mounting a recovery. [5]

However, after expanding government spending and borrowing to address the pandemic, worsening sovereign debt fragility in many developing countries, calls are being made to adopt "austerity measures' – often translated into cutting down social protection provisions as the "go-to" solution, as the poor who are the main beneficiaries are the least effective lobbyists for their needs. Not only is this approach to government spending immoral and a violation of government human rights obligations, but it is also ineffective in the face of the continuing economic crisis. These austerity measures are expected to include "pension and social security reforms; cutting or capping the public sector wage bill; labor flexibilization reforms; reducing or eliminating subsidies that benefit the poor; increasing regressive consumption taxes; strengthening public-private partnerships (PPPs); and privatising public assets, all of which exacerbate inequalities."[6]

Significantly, these cuts are false economies. Social spending has been proven to add to the productivity of the workforce as well as limit reductions in private consumption. An examination of changes in social investments following the 2007-2009 Financial Crisis found that for every 1 percent increase in social spending increased GDP by 0.1 percentage points. "Given the share of social spending as a percent of GDP, corresponds to a positive multiplier of 0.6."[7] Imposing such cuts at this time could inflict economic harm that would feed on itself in subsequent years.

The initial response of the IMF to the COVID-19 pandemic has been a departure from its usual call to austerity, cutting down on health and social protection measures, instead, backing aggressively investing in these areas, albeit with limited international cooperation on vaccines and little non-debt creating international support. While the IMF has most recently underlined the inadequate international response to debt vulnerability in low-income countries,[8] there is again the danger of it reverting to its well-beaten track of suggesting austerity measures. Absent the necessary financing, there is little alternative to cutting back somewhere in government budgets. This lack of financing for development strategy must be resisted.

The launch of the ILO's Global Flagship Programme on Building Social Protection Floors for All, at its annual Development Partners Meeting on 7 October, highlighted the need for more adaptive and inclusive social protection systems, especially in the context of successive crises. This would require addressing the issue of debt – so as not to leave governments to choose between servicing their people and servicing their debt.[9][10]

For a resilient economic recovery, financing for development social protection strategies should first meet their human rights obligation to provide social protection floors, including basic income security for persons in active age who are unable to earn sufficient income, in particular in cases of sickness, unemployment, maternity and disability, basic income security for older persons, widows, single mothers, basic income security for children, providing access to nutrition, to include education, care, and any other necessary goods and services and access to essential health care for all.

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[5] https://www.brookings.edu/blog/future-development/2020/10/13/why-the-imf-needs-to-build-on-its-covid-19-record-not-backtrack/

[6] https://www.brettonwoodsproject.org/2019/12/imf-and-world-bank-complicit-in-austerity-as-new-normal-despite-availability-of-alternatives/

[7] Furceri, Davide and Aleksandra Zdzienicka, "The Effects of Social Spending on Economic Activity: Empirical Evidence from a Panel of OECD Countries", *Fiscal Studies*, Vol. 33, No. 1 (March 2012), pp. 129-152)

[8] https://blogs.imf.org/2021/12/02/the-g20-common-framework-for-debt-treatments-must-be-stepped-up/

[9] https://www.ilo.org/secsoc/technical-cooperation-projects/building-social-protection-floors-for-all/lang--en/index.htm

[10] https://www.ilo.org/secsoc/press-and-media-centre/news/WCMS_822161/lang--en/index.htm

With 1.2 billion children out of school in 2020[11] and globally more than 24 million children[12] at risk of dropping out of school, a generational inequality looms on the horizon. The governments engaged in the Financing for Development processes cannot shrink away from investing in education as an imperative for development. So too, investing in creating employment is a must.

"Even before the pandemic, young people were three times more likely to be unemployed than older workers. When COVID-19 hit, impacts on employment were more than twice as bad for the young.[13] A recent study conducted in 112 countries among 12,000 youth finds the pandemic impact on young people to be systematic, deep, and disproportionate, impacting especially young women, and younger youth in developed and lower-income countries[14]. The proportion of young people not in employment, education, or training remained stubbornly high over the past 15 years and now stands at 30 percent for young women and 13 percent for young men worldwide. There are presently seventy-one million young people unemployed, and many millions more are in precarious or informal work" [15](World Youth Report: Youth and 2030 Agenda for Sustainable Development).

"Recent estimates suggest that 600 million jobs would have to be created over the next 15 years to meet youth employment needs. Finding decent work can be especially difficult for this demographic." (Youth Social Entrepreneurship and 2030 Agenda - 2020 report)[16] Societal failure to address the labour market, youth vulnerabilities, and lack of jobs for youth have the potential to have significant negative effects on health, emotional well-being, happiness, crime levels, and socio-political stability.

"Strengthening social protection is a key component of our global human capital strategy because these programs benefit not just children, but also entire families, offering the world's most vulnerable people protection throughout their life cycle," said Annette Dixon, World Bank Vice President for Human Development. "Social protection systems create the foundations for more just, equitable, and inclusive societies, helping ensure the prosperity and stability of nations."[17].

Finally, there is a need to look critically at the models of development that have continued to widen the gap between the rich and the poor. Years of pursuing a neo-liberal economy have only led to unpardonable inequalities. While granting development financing to Low-Income Countries, donors/grantors must consult with the recipient government which in turn should solicit inputs from its citizens to assess which sector they see as bringing the best return on investment. For instance, if the recipient government is aware that most of its population is engaged in agricultural activity and investing in this sector would reap the best benefits for the economy as a whole, then the donor/grantor insisting on directing the funds to private sector enhancement may not be the best strategy to promote inclusive development. So, a strategy that in the first place allows the accumulation of capital in the hands of a few and then reaching to those same few to fund the development of those being left behind (PPP model) is not just unethical but flawed logic as well. It is time to banish the TINA (There Is No Alternative) syndrome if indeed the Agenda 2030 is to be achieved. We must create alternatives!

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[11] https://news.un.org/en/story/2020/06/1065672
[12] https://en.unesco.org/news/secretary-general-warns-education-catastrophe-pointing-unesco-estimate-24-million-learners-risk
[13] https://www.un.org/sites/un2.un.org/files/unf_our_future_agenda_en.pdf
[14] https://www.ilo.org/wcmsp5/groups/public/---ed_emp/documents/publication/wcms_753026.pdf
[15] https://www.un.org/development/desa/youth/wp-content/uploads/sites/21/2018/12/Executive-Summary_World-Youth-Report_07.12.18-1.pdf
[16] https://www.un.org/development/desa/youth/wp-content/uploads/sites/21/2020/07/2020-World-Youth-Report-Exec-Summary-FINAL.pdf page 2
[17] https://www.worldbank.org/en/news/immersive-story/2019/07/29/build-employ-and-protect-using-social-protection-to-invest-in-people-in-a-changing-world

Section 2: Subsections 4.1, (Financial inclusion and local banking sector), 4.2 (Access to finance for SMEs) and 4.3 (Reducing the cost of remittance transfers) under section 4 of Chapter III.B. Domestic and international private business and finance

Subsection 4.1 (Financial inclusion and local banking sector)

In 2020 alone, 3342 bank branches have closed in the United States.[18][19] Most of these closures took place in rural and low-income urban areas, where there were few branches, to begin with, creating "branch deserts" and forcing consumers to seek alternate financing such as payday lending and check cashing services. Such closures are taking place globally, especially since the onset of the COVID-19 pandemic. The IMF's 2021 Financial Access Survey Trends and Developments[20] speaks to the global trend of bank branches and Automated Teller Machines (ATMs) closures. In reality, while it makes financial sense for banks to close their branches in rural communities when they are not generating profit, closing the only banking institution in a rural community without preparing the community for alternate means of managing their finances can set back the financial inclusion gains made in the last decade. As the fallout from the pandemic continues to disrupt supply chains, and the lives and livelihood of people, local banks can play a unique and crucial role to stabilize the local economy by keeping small businesses afloat and providing support to those people who are struggling with lost income.

The advantage of local banks is that they are physically present in the communities, understand the pulse of the communities they serve, and the financing needs of the micro, small, and medium enterprises (MSMEs) in the communities. As trusted institutions in their communities, local banks can continue to play a crucial role to advance financial inclusion as the majority of those financially excluded are based in rural and isolated communities. On a global level, approximately 1.7 billion people are financially excluded of which 55% are women[21]. According to an analysis published by UN Women[22], the pandemic has put forty-seven million women into poverty and estimated that in 2021 there will be 435 million women living on less than $1.90 (ca. €1.60) a day. The proportion of financially excluded at a regional level comprise 50% of the population in the Middle East and Africa, 38% in South and Central America, 33% in Eastern Europe and the former Soviet republics, 24% in Asia Pacific's share, 6% in Western and Central Europe, and 21% in North America—a figure that closely mirrors a 2019 report by the Federal Reserve showing that 22% of adults in the United States (or 63 million) were underbanked (16%) or fully unbanked (6%)[23].

A major challenge for the local banks, unlike the urban banks, is that they are faced with a lack of capital to invest for product development, to streamline their operations by improving their product delivery mechanisms and digital capacity and infrastructure. Challenges arising from the low-interest chargeable environments they operate in, increased rural-urban migration, and the changing market space resulting from fintech growth hamper their ability to generate profit. However, local banks provide a unique service to marginalized and remote communities and instead of opting for mass shutdowns, measures to streamline their activities, strengthening their capacity to operate effectively and efficiently must be explored.

The pandemic revealed that financial technology (Fintech) firms were much better prepared and more efficient in serving their customers than the traditional banking sector, speaking further to the already growing perception that

[18] https://www.npr.org/2021/03/26/979284513/what-are-we-going-to-do-towns-reel-as-banks-close-branches-at-record-pace
[19] https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/us-banks-shutter-record-number-of-branches-in-2020-62083337
[20] https://data.imf.org/?sk=E5DCAB7E-A5CA-4892-A6EA-598B5463A34C
[21] https://www.weforum.org/agenda/2021/01/women-banking-digital-divide/
[22] https://www.unwomen.org/sites/default/files/Headquarters/Attachments/Sections/Library/Publications/2020/Gender-equality-in-the-wake-of-COVID-19-en.pdf
[23] https://www.gfmag.com/global-data/economic-data/worlds-most-unbanked-countries

the fintech sector would eventually replace the traditional banking sector. The World Fintech Report's finding that already 50.2% of the global banking customers are using fintech products or services points us in that direction. However, it needs to be kept in perspective that while many people can bank digitally, globally millions of people, especially in rural communities, are not yet equipped to do so and may still need to depend on local banks for their essential banking services. As the Bank of Spain stated in its latest annual report, "Although the closure of branches in rural areas can be justified by the search for profitability and a decline in demand, this reduction affects the population, especially concerning access to cash, which cannot be covered, like other banking services, through electronic banking." [24]

The inequalities resulting from financial and digital exclusion came to light with the onset of COVID-19. As banked consumers shifted to online digitized services, the unbanked cash consumers faced difficulties even with purchasing basic provisions. As countries develop their post-COVID-19 recovery strategies, lessons learned from the pandemic should not be forgotten. Financial inclusion is crucial to addressing inequalities, and measures must be put in place and resources allocated to ensure everyone, regardless of their location, gender, or net worth have equitable access to traditional financial services or digital financial services, as the case may be, and to financial products that help them manage their finances and MSMEs effectively.

Policy recommendations:

1. While Fintech tools play a vital role in a modern banking landscape, they may not be as effective for taking care of the needs of rural communities. As the fintech sector is growing predominantly in the urban sector, the rural and community banks, which understand the needs of their communities and benefit from customer trust and loyalty, can continue to serve this niche role by partnering with Fintech firms to bring the unique features offered by a fintech company to local communities. Such partnerships could also help:
    a. improve the banks' financial performance, operations, and client service delivery e.g., "to set a mobile ATM which has voice recognition, speaks to clients in a local dialect and travels around on various market days in the bank's catchment area" [25]
    b. to help generate new sources of revenues beyond the non-interest income for the bank with products tailored to the needs of the community members, niche industries, and MSMEs.
2. National and local governments must create a conducive regulatory environment promoting partnerships between local banks and fintech firms creating a more extensive reach for the branch and touchpoints.

Subsection 4.2 (Access to finance for SMEs)

MSMEs comprise a major share of total private sector entities in both developed and developing countries and make critical contributions to broader socio-economic objectives including job creation. (Those with less than 1-9 employees are defined as micro-enterprises with 10-49 employees are defined as small enterprises and those with 50-249 employees are defined as enterprises)[26]. "In emerging markets, 4 out of 5 new positions in

[24] https://www.nasdaq.com/articles/focus-europes-banks-turn-to-fees-to-kick-customers-branch-habit-2021-11-15
[25] https://www.graphic.com.gh/features/features/is-fintech-a-threat-or-an-opportunity-for-community-banks.html
[26] https://sdgs.un.org/sites/default/files/2020-07/MSMEs_and_SDGs.pdf

the formal sector were created by MSMEs, which is about 90 percent of total employment."[27] SMEs represent 90% of businesses globally and 50% of employment worldwide.[28]

Based on McKinsey's Global Banking Annual Review 2021: The great divergence[29], MSME's will continue to face challenges to secure formal financing, The review states that while SMEs represent one-fifth (about $850 billion) of annual global banking revenues, a figure that is expected to grow by 7 to 10 percent annually over the next five years, many banks have not prioritized them as the profits in the segment vary significantly partly due to the highly varied credit quality in the portfolio. MSMEs account for 70% of employment globally and 50% GDP[30], yet 131 million firms, or 41% of formal MSMEs in developing countries, have an unmet financing need of $5 trillion every year, which is equivalent to 1.3 times the current level of the global MSME lending. Of this 23% comprise women-owned businesses and account for 32% of the MSME finance gap.[31] Therefore, if banks are already challenged with financing formal SMEs, to meet the financing gaps for those businesses both in the formal and informal sector, urgent measures must be taken to develop innovative financing solutions to ensure an equitable and inclusive recovery from the fallout of the pandemic for the sectors and the communities they serve.

According to the IMF, "Policies to enhance financial inclusion by promoting expanded access to formal (or bank-based) financial services can help lower informality. Lack of access to finance is a key constraint for informal firms and entrepreneurs, stifling productivity and the growth of their businesses. Countries that facilitate greater access to finance for its population, tend to grow faster, have more sustainable growth, and have lower income inequality."[32]

Policy recommendations

1. Develop financing strategies paying attention to the varying needs of MSMEs as they go through the phases of development from a fledgling operation to a formal entity.
2. Facilitate an enabling environment for access to reliable, affordable, and timely credit to invest in machinery and equipment, purchase production inputs in bulk and at competitive prices by easing restrictions, offering loans at reduced interest rates, not giving undue weight to collateral requirements, establishing, and facilitating access to grants in the preliminary stages of development, and connecting them to trustworthy credit sources. Partner with fintech companies to use data-driven models to calibrate credit risk.
3. Develop financial products tailored to the needs of MSMEs and ensure that banks and investors have dedicated staff with the expertise to help guide MSMEs with their financing needs. Most importantly, banks need to reduce their dependence on collateral loans and develop competencies to evaluate the real risks for the business customer. Products such as contract lending and other forms of supply chain financing that reduce risks for both borrower and lender can increase access to finance for MSMEs without government subsidies.

[27] https://sdgs.un.org/sites/default/files/2020-07/MSMEs_and_SDGs.pdf , p.10
[28] World Bank SME Finance: Development news, research, data | World Bank
[29] https://www.mckinsey.com/industries/financial-services/our-insights/global-banking-annual-review
[30] https://www.ilo.org/empent/whatsnew/WCMS_749275/lang--en/index.htm
[31] https://www.smefinanceforum.org/data-sites/msme-finance-gap
[32]Delechat, Corinne and Leandro Medina, "What is the Informal Economy," *Finance & Development*, December 2020, p. 55 https://www.imf.org/external/pubs/ft/fandd/2020/12/pdf/what-is-the-informal-economy-basics.pdf.

4. The economic downturn following the pandemic has hit SMEs hard, inducing them to turn to fintech lenders. It is estimated that the assets of fintech banks and nonbanks have increased by 18 percent and 7 percent, respectively, over 2019–20, in comparison to the asset growth of traditional lenders.[33] However, fintech companies borrow at higher interest rates, and the excessive costs get translated to MSMEs. For example, in India, fintech firms borrow at a 14-15 percent interest rate, which eventually translates into over 20 percent interest rate paid by MSMEs[34]. By facilitating an enabling environment for fintech's to thrive, public sector banks also could benefit by expanding their reach and enhancing their capability for digital credit assessment which in turn could contribute to the long-term sustainability of MSMEs.
5. If the local banks were assisted to thrive and also provided the conducive regulatory framework to partner with fintech firms, it would bring the best of both worlds to those who are most impacted and marginalized.

Section 2: Subsections 2.1 (Acceleration of digital trends [development opportunities (including e-commerce section), and 2.3 (Investing in a just and inclusive digital transition) of Section 2 of Chapter III.G. Science, technology, innovation, and capacity building

Subsection 2.1 (Acceleration of digital trends [development opportunities (including e-commerce section)

Technology and innovation offer the opportunity to increase access to finance and build capacity and create careers. Unfortunately, the United Nations has not yet achieved its goal of providing affordable broadband access to Least Developed Countries (LDCs) by 2020.[35] [36][37]

LDCs and Low-Income Countries (LICs) do not have the same level of direct access to the internet as developed nations. According to the Submarine Cable Map[38], many of the LDC countries lack direct cable access to powerful terminal data centers, and Land Locked Developing Countries (LLDC) tend to face barriers in getting access to fiber optic cables.[39]

Policy Recommendations

To accelerate LDC, LIC, Land LLDC access to digital trends, international communities must:

1. Incentivize their access to affordable fiber optic cables, both on land and submarine cables.
2. Sign peace treaties prohibiting country conflict from impacting access to the internet, which has become a fundamental need in society. Such treaties should be enforced with fines and sanctions for countries intentionally preventing land-locked countries from accessing the internet due to existing country conflicts.

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[33] Global Financial Stability Report, October 2021 (imf.org), p.36

[34] https://www.financialexpress.com/industry/sme/cafe-sme/msme-fin-how-fintechs-banks-govt-can-reduce-lending-cost-to-msmes-enhance-credit-accessibility/2369086/

[35] https://www.un.org/ohrlls/news/world%E2%80%99s-least-developed-countries-target-achieve-universal-and-affordable-internet-2020

[36] Connecting for Inclusion: Broadband Access for All (worldbank.org)

[37] https://www.un.org/ohrlls/news/connectivity-least-developed-countries-status-report-21

[38] https://www.submarinecablemap.com/

[39] Internet Crossing Borders: Boosting the Internet in Landlocked Developing Countries - Internet Society

3. Increasing the availability of technical subject matter expertise to international organizations, for the public, and LDC, LIC, and LLDC countries in the submarine cable network, terminal databases, telecommunication companies, and other key participants in the infrastructure of the internet.
4. Ensure that people have the resources to utilize internet connectivity effectively through the provision of affordable Internet-enabled devices and taking measures to enhance digital skills and raise awareness.

Subsection 2.3 (Investing in a just and inclusive digital transition)

Going forward, digital technology will be playing a defining role in transforming the social, economic, environmental, and political spheres of a society/country. Digital technology can play a decisive role in mitigating the existing inequalities or in worsening the social and economic inequalities. The COVID-19 pandemic has shown the critical role digital technology plays in every sphere. Inclusive digital transition requires investing in digital technologies and infrastructure development for high-speed broadband connectivity for all. The Secretary-General's "Road map for digital cooperation," states that although 93% of the world's population live within physical reach of mobile broadband or internet services, only 53.6% of the world's population now use the internet, leaving around 3.6 billion people offline. The LDCs are being left behind with only 19% of their people connected to the internet. Where is the promise to "leave no one behind?" All those who are offline and being left behind, increasing not only the digital divide but also the social, economic, and political divide.

Ageism is a barrier to digital inclusion as it limits the ability of older people to learn new technology and skills and thereby excludes them from the benefits of digitalization. As more people around the world are living longer (727 million persons aged 65 years or older) and the world is becoming digital, it is essential to make digital services and communication technologies accessible and available to this group by designing inclusive technology to provide digital literacy, connectivity, relevant technology, low-cost internet, and devices along with privacy, for their effective participation in social, economic, and political spheres.

Investing in affordable and accessible digital technologies is necessary for the implementation of Sustainable Development Goals and better management of all resources for a green transition. During the COVID-19 pandemic, Digital Public Infrastructure (DPI) was used to deliver shared public and private services. UNDP has joined the Digital Public Goods Alliance to bring together governments and organizations who see the potential of DPI to accelerate digital transformation globally. DPI should design for inclusion, with people at the center, especially those excluded from the digital revolution to enable them to enjoy the benefits of the digital world. Some governments have been able to use DPI solutions to improve the lives of people. Some examples are digital identification platforms such as Aadhaar in India, data exchange streams such as X-road in Estonia, or digital payment systems such as UPI in India and Raast in Pakistan.[40]

Portugal is showcasing how to lead in digital transition – it has published its 'Action Plan for the Digital Transition' in April 2020. Their plan centers on the 'digital empowerment of people, the digital transformation of companies and the digitization of the state.' Critical elements of their plan are people and skills; helping everyone to benefit from the rewards of technology through teaching basic digital skills, especially training for older generations. Portugal is attempting to reach 10% (one million) of its population. According to Pedro Siza Vieira, Minister of State for the

[40] https://www.weforum.org/agenda/2021/08/4-reasons-you-should-care-about-digital-public-infrastructure

Economy and Digital Transition of Portugal, “We cannot have a digital economy if we do not have the people at large being able to use those technologies.”

<u>Policy recommendations</u>:

1. Transform the education, training, and skills development systems for building lifelong learning systems and skills to create new competencies to use digital technology as a tool for just transition.
2. Developed countries need to deliver on their promise of technology, best practices, and skills transfers through investing in developing countries for infrastructure, high-speed broadband connectivity, big data management, and labour force.
3. Develop financial products and schemes with the needs of older persons in mind. According to the World Report on Ageism: Older people and financial inclusion: ‘many credit and loan schemes, particularly in low-and-middle-income countries, have been found to discriminate against older persons, often making it impossible for them to join the schemes. Older women are particularly disadvantaged as many do not have an independent income or control over fixed assets, such as land, which could act as collateral as well as have limited exposure to business and the formal employment sector.

Subsection 5.1 Harnessing digital finance [issues of competition, cybersecurity, financial stability] of Chapter III.F Addressing systemic issues

Digital finance is the application of new technologies to the financial services industry and economy. New technologies include platforms, the internet, computers, processes, applications, business models, and products that affect financial services and the economy. Digital finance provides an opportunity to spread access to financial services and become more inclusive.

Traditionally, the financial services industry served as an intermediary for transactions between parties, increasing the cost to transact in traditional economies. A number of digital finance solutions attempt to limit either the presence of intermediaries or limit the cost of intermediaries, which then result in reduced costs and barriers to entry.

One example of digital finance is the Internet Computer blockchain. Historically, financial transactions required a trusted party to be completed. Trusted third parties play an important role in today's economy because these trusted third parties allow for strangers to transact around the world. An example of trusted third parties includes electronic payment networks or digital payments companies, such as American Express, Visa, and Mastercard. Another example of a trusted third party is a clearinghouse. Clearinghouses facilitate an exchange, or clear, transactions such as payments, securities, or derivatives. Both of these examples of trusted third parties have benefits, by bringing trust to transactions conducted by parties. However, trusted third parties have experienced data security breaches, which are outside the scope of these recommendations, nevertheless relevant. Further, trusted third parties increase the cost of transacting and create barriers for the underbanked and unbanked people, as well as low-income countries.

At the institutional level, these intermediaries, as well as issuing institutions and issuing entities, profit at the expense of LDCs LICs. Financial intermediaries, issuing institutions, and issuing entities profit from fees. For example, the IMF lends money to low-income countries in the form of concessional lending facilities. IMF financing terms for a standby credit facility include a 0.15% availability fee being charged to the borrowing low-income country[41]. For a

[41] https://www.imf.org/en/About/Factsheets/Sheets/2016/08/02/21/10/Standby-Credit-Facility

country where a majority of the population is in poverty, a 0.15% fee in addition to a multi-million dollar or multi-million-dollar loan directs money away from serving the low-income country's needy population.

Further, a number of LDCs and LICs have been disproportionately affected by compensated emancipation[42][43] and bilateral and multilateral investment treaties with contrary interests. History brings to light the fact that several LDCs and LICs have experienced systematic injustice, which affects their current day economic outlook. International organizations must recognize and affirm these facts when developing monetary policy in the spirit of marching towards the equitable treatment of all countries.

Policy Recommendations

In order to address systemic issues of financial inclusivity and financing for development by harnessing digital finance, the international community must consider taking actions that move the world closer to equitable treatment of all countries, digital inclusivity, and financial inclusivity. The IMF can execute the following strategies to promote an inclusive, equitable global financial landscape.

1. Reducing the presence of financial intermediaries, especially for transactions serving people and countries of limited means and increasing the presence of no or low-cost transaction digital solutions.
2. Incentivize decentralized, direct transactions by funding platforms, projects, non-governmental organizations (NGOs), and private-sector companies innovating direct transactions.
3. Mandate repayment of debt to countries where people and countries were systemically impacted by compensated emancipation or had to pay for the recognition of independence.
4. Eliminate lending fees for LDCs and LICs.
5. Increasing the availability of technical subject matter expertise in innovative mediums, such as the Internet Computer blockchain, the metaverse, Web 3.0, Semantic Web, and more.

[42] https://www.forbes.com/sites/realspin/2017/12/06/in-1825-haiti-gained-independence-from-france-for-21-billion-its-time-for-france-to-pay-it-back/?sh=49a2e2f2312b

[43] https://www.nbcnews.com/news/nbcblk/calls-reparations-are-old-emancipation-will-global-powers-finally-list-rcna9800

Climate Finance as input to Chapter III. B. Domestic and international private business and finance, Chapter III. G Science, technology, innovation and capacity building and Chapter III. F Addressing systemic issues

As the COVID-19 pandemic continues to adversely affect the delivery of climate finance, we reaffirm Secretary-General Antonio Guterres' assertion that "COVID recovery and our planet's repair must be the two sides of the same coin."[44] In his address presenting "Our Common Agenda," to the UN General Assembly, Mr. Guterres reiterated a call to action by all people on the planet to forge a new social contract, to do their part in creating a swift paradigm shift toward a holistic and greener path to post-pandemic recovery.[45]

The Secretary-General calls the International Panel on Climate Change Working Group 1 Sixth Assessment Report a "code red for humanity," calling national leaders to commit to the decarbonization of the economy to keep the increase of temperature to below 1.5 degrees Celsius. At COP26, 197 countries agreed that "Climate change is a common concern for humankind and recognized that when taking action to address climate change, respect, promote and consider their respective obligations on human rights, the right to health, the rights of indigenous peoples, local communities, migrants, children, persons with disabilities and people in vulnerable situations and the right to development, as well as gender equality, empowerment of women and intergenerational equity". [Climate Glasgow Pact, 2021. Decision-/CP.26]

However, Glasgow fell short of its ambition to deliver the promises made in Paris. To name a few positive outcomes in COP26: 1) developing countries will get double of adaptation finance; 2) keep the USD100 billion goal on the agenda after 2027, and 3) establish an ad hoc work programme to discuss the new finance goal.

Adaptation Finance Gap

New estimates in the 2021 Adaptation Gap Report (AGR) point to more costs of five to ten times greater than current public adaptation finance. According to the AGR2016 estimate, the annual costs of adaptation in developing countries could be between USD 140 billion and USD 300 billion by 2030. And with increasing levels of climate impact on lives and the economy, the annual cost projection will reach between USD 280 billion and USD 500 billion by 2050.[46]

COP26 delivered on its adaptation goal, which included developed countries' pledge to double funding for adaptation in the developing countries by 2025. This pledge gathered around USD40 billion. Over USD 450 million was announced for "locally-led adaptation approaches", and the Adaptation Fund raised a record USD 356 million in new pledges. COP26 saw donors pledge USD 413 million to the Least Developed Countries Fund, which, hosted by the Global Environment Facility, is the "only climate resilience fund that exclusively targets least developed countries."

Building Back Better is Building Back Greener and Sustainable

"Nature needs a bailout," argued UN Secretary-General Antonio Guterres in his recent State of the Planet address. Mr. Guterres stated that humans have waged war with nature, therefore, "making peace with nature is the urgent task of the 21st Century."

[44] https://www.un.org/press/en/2020/sgsm20467.doc.htm
[45] https://www.un.org/en/content/common-agenda-report/
[46] https://www.unep.org/resources/adaptation-gap-report-2021

Nature-based Solutions (NbS)/ecosystem-based adaptation are actions to protect, sustainably manage, and restore natural or modified ecosystems, which address societal challenges effectively and adaptively, simultaneously providing human well-being and biodiversity benefits.[47]

In building-up nature as a form of climate adaptation and mitigation, we must recognize the contributions of the indigenous peoples and their traditional knowledge in the preservation of these ecosystems. Indigenous peoples and farmers must be compensated for their work in conservation and preservation to benefit climate mitigation and adaptation through payments for ecosystem services (PES). One example of successful PES implementation in Costa Rica, which aims for carbon neutrality by 2021.

Article 6 of the Paris Agreement: Carbon Market

Article 6 of the Paris Agreement aims at promoting integrated, holistic, and balanced approaches that will assist governments in implementing their National Determined Contributions (NDCs) through voluntary international cooperation. In particular, Article 6 could also establish a policy foundation for an emissions trading system, which could help lead to a global price on carbon.

Loss and Damage

From 2008 to 2014, Internally Displacement Monitoring Center (IDMC) data showed that some 185 million people were displaced in 173 countries, or an average of 26.4 million annually. Of these data, 86 percent are displaced by weather-related hazards such as floods and storms [Atlas of Environmental Migration]. Lack of comprehensive financing facility to help most climate-vulnerable countries to cope with the increasing occurrence of climate disasters will increasingly hamper their delivery of sustainable development goals. Furthermore, it will sink them into unsustainable debt and poverty.

According to ECO, a newsletter published by Non-Governmental Environmental Groups and produced by Climate Action Network, Loss and Damage is the litmus test for COP26. There is no doubt, the newsletter says that "*Globally, we have entered the era of Loss and Damage.*" Unfortunately, the efforts of civil society and developing countries to secure loss and damage financing mechanisms were contended by emitter countries.

Conclusion

Science has made it clear; we need to put a stop to carbon emissions now. There is a need to shift from the current global economic system to a holistic one that protects the ecosystem that sustains life on the planet and protects the well-being of people. Continued use of fossil fuels is a death sentence to the planet and humankind.

We have solutions but we need to act now. Nature-based/ Ecosystem-based Adaptation offer win-win solutions to cut emissions that are natural and beneficial to the planet, its biodiversity, and the people. Climate finance gaps on adaptation and mitigation must be addressed and prioritized in every national action plan (NAP) and funded publicly and by internationally agreed climate financing mechanisms such as the Green Climate Fund and other emerging facilities.

COP26 did not deliver a financial mechanism on Loss and Damage and operationalizing the Santiago Network. Loss and Damage must be on top of the agenda for COP27.

[47] https://www.iucn.org/commissions/commission-ecosystem-management/our-work/nature-based-solutions#:~:text=Nature%2Dbased%20Solutions%20(NbS),%2Dbeing%20and%20biodiversity%20benefits%E2%80%9D.

Policy Recommendations

Chapter III. B. Domestic and international private business and finance

1. **Value people and the planet over profit and corporate greed**
International financial systems must be restricted when they lead to the depredation of the environment and drive greater income inequality. Profit motive must become subordinate to the well-being of people and the planet. All economic systems need to centralize around the value of natural capital by redirecting financial flows into regenerative planning and shifting resource management to foremost prioritize conservation. Policy frameworks that facilitate the financial system and tools need to be redesigned to restore and optimize natural capital instead of rewarding exploitation and externalization and subsidization of this destruction. Innovation and technology related to the creation of financial systems should be founded on the principle of sharing of the commons, facilitating equality, and balancing transparency with privacy/security.

Chapter III. C. International development cooperation

2. **Stop subsidizing fossil fuels**
Governments must stop subsidizing fossil fuels - immediately, not a decade or a year from now, with no exceptions. We raise the transport industry as one example - research from the Bank Information Center published in October 2021 shows that despite touting climate commitments, MDB finance continues to favor fossil fuel-dependent vehicles. Such examples of greenwashing are pervasive in every industry, and we cannot afford it. The Bank Information Center report states, "The decarbonization of transport, which currently represents about a quarter of global CO2 emissions, must be a priority for [Multilateral Development Banks]. As some leading markets have seen governments recently vow to halt all support for investments that promote the use of fossil fuels, the [World Bank Group] and [the Inter-American Development Bank] continue to finance fossil fuel-related projects and have yet failed to develop consistent criteria for the selection and evaluation of projects, which are necessary to fulfill their role as catalyzers for a global transformation. The climate crisis demands the WBG and IDB to reevaluate their policies and set clear time-bound goals for transport decarbonization."

3. **Invest in carbon sequestration and rebuilding carbon sinks**
Nations would benefit from creating a methodic system for validating nature-based carbon sequestration in their lands and waters. The loss and the value of these ecosystems should be quantifiable so that financial remuneration can be focused on preventing further loss, restoring carbon capacity, and increasing the capacity of nature-based solutions. To this end, mitigation through carbon sequestration on water and land needs to be funded by high-emissions countries. We know that investing in carbon sinks by means of reforestation is effective. Costa Rica, for example, doubled its forest cover in the past 30 years by compensating landowners for reforestation with payments funded by nationwide taxes and international donations. China and Canada have also achieved success through similar means and by expanding on existing replanting programs. We specifically recommend multilateral investment in "blue carbon[48]," reforestation, green bonds, coral reef, and seed nurseries, and silviculture.

[48] Oceans are not only the world's largest long-term carbon sinks, but they also capture and cycle 93% of the earth's CO2. However, oversaturation of CO2 and other forms of manmade pollution is rapidly inhibiting their ability to perform this vital function. The world's most crucial, climate-combating

4. **Operationalize the Santiago Network**
   Prioritize swift operationalization of the Santiago Network, with developed countries committing to the implementation of a loss and damage mechanism based on historical emissions. Operationalizing the Santiago Network was discussed at COP25 and must be central to the COP27 agenda.[49]

5. **Local and global governance by the primary stakeholders**
   Stakeholder groups should be expanded alongside the Major Groups to include local leaders, scientists, Indigenous peoples, and monitoring and data-gathering organizations to provide the most practical input for crafting cost-effective solutions. These groups should be part of the fund allocation prioritization process. Besides helping to address the pervasive harm of corporate capture and capitalist greed, inclusive, science-based governance will better establish local communities as the rightful main beneficiaries of redesigned global and local economic systems. Such inclusion further incentivizes and serves to educate local groups to become better implementers of these solutions, better stewards of the earth.

Chapter III. G Science, technology, innovation, and capacity building

6. **Facilitate circular economic approaches alongside green innovation**
   We support the implementation of more circular economic approaches over linear approaches based on profit motives. Circular, green economic approaches will provide jobs that are more long-lasting, safer, and more rewarding, which will, in turn, create stability for communities and governments to function more efficiently. To this end, new technologies for gathering, monitoring, and analyzing data must be utilized in ways that promote people, the planet, and partnership. We believe emerging financial tools like blockchain, cryptocurrencies, big data sets, machine learning, and AI can help facilitate the upgrade of existing infrastructure to promote the implementation of nature-based solutions/ecosystem-based adaptations. Managed equitably, such new technologies could optimize local and global sustainable use of natural capital and increase the fair distribution of benefits, thus allowing human beings and our fellow species the dignity and necessities to sustain life.

Chapter III. F Addressing systemic issues

7. **Close the Adaptation Gap**
   Climate finance dedicated to adaptation remains woefully inadequate, as highlighted at COP26. We know programming and implementation costs of adaptation are significant - for international climate finance, the costs of design (including safeguards) and implementation (capacity building, project management, reporting, monitoring and evaluation, and oversight) typically range between 10 and 20 percent of the total costs. These factors must be included in adaptation cost estimates to reflect the realistic costs of delivering adaptation [Adapted from Adaptation Gap Report 2018 recommendation]. Further to this end, governments must strengthen the role of ecosystem-based solutions in their NDCs via targeted financing toward implementing such solutions, in urban environments as well as forest and marine ecosystems. Climate finance facilities, such as Green Climate Fund, must ensure that adaptation funds go directly to developing

"blue carbon" sinks, including wetland ecosystems like mangroves, saltmarshes, reefs, and seagrass beds are continually destroyed by for-profit industry.

[49] https://unfccc.int/santiago-network/about

nations who are most vulnerable to both gradual and sudden impacts of climate chaos. Demanding that carbon markets incorporate ecosystem-based solutions into their financing schemas will also help achieve this goal.

8. **Center governance around Indigenous voices and solutions**
   Indigenous peoples must be recruited and actively welcomed into authoritative leadership positions in every sector, especially governance. To avoid extinction, besides continued loss, and damage, we must learn from and adopt not only their respectful, stewardship-based relationships with the earth but also their specific agricultural and aquacultural techniques of food production. Indigenous peoples should be at the center of financial and policy development discussions and must be recognized and compensated accordingly for their crucial roles in ecosystem conservation.

9. **Adopt and operationalize the Enhanced Lima Work Programme**
   Alongside Indigenous leadership, we call for prioritization of gender mainstreaming in leadership positions on all national and subnational climate adaptation plans and sustainable-use policy governance. Without that, we cannot authentically "Build Back Better." We can achieve this by prioritizing functional operationalization of the Enhanced Lima Work Programme on Gender, adopted at the 25th meeting of the Conference of Parties, and by funding the implementation of the 5-year Gender Action Plan (2020-2025). We reiterate that implementation of these gender-related mandates must include clearly articulated, time-conscious goals, targets, and budgeting, to be rigorously monitored and transparently reported by all parties.

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Additional Resources:

1. The NGO Committee on FfD submission to the 2021 IATF outline can be accessed here
2. The NGO Committee on FfD submission to the 2020 IATF outline - can be accessed here