NGO Committee on Financing for Development submission to the 2023 IATF Report

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 2023 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-on positions. The views presented here are prepared by the Committee's thematic working groups on social protection, financial and digital inclusion, and climate finance. The section on Illicit Financial Flows is prepared by the Committee with inputs from the NGO Committee to Stop Trafficking in Persons.

Our contribution is prepared in response to the draft outline of the IATF Report dated October 20, 2022.

II. Thematic Chapter: What will it take? Financing a sustainable and inclusive industrial transformation

2. Why now? A sustainable and inclusive industrial transformation as the key to achieving climate objectives and the SDGs

- **Conceptual introduction: structural transformations and industrial policies in support of sustainable development and the SDGs.**

Structural transformation and industrial development have been watchwords for development planning and policies for three quarters of a century. We welcome the renewed interest shown by the FSDR thematic chapter. However, we cannot tell from the October outline if the report will address some concerns we have and that we believe are widely shared in civil society, especially in developing countries, as the industrial policy has had unfortunate as well as beneficial consequences. In particular, structural transformation and industrial policies have not prevented inequality from growing even in developed economies, but more evidently so in developing countries, including the least developed ones. We believe in the need to interrogate seriously the models of development proffered by the international community of international development institutions and major bilateral donor agencies. There is an important and critical conversation to have in light of efforts to promote Universal Social Protection, as in USP2030 and ILO Recommendation 202 on social protection floors. If the structural transformation and industrial policies now in vogue had addressed social and equity concerns, we would not even be speaking about the need for increased social protection.

While we join those who argue that growth is essential for increased numbers of decent jobs, we also see growth happening without many new jobs in many developed and developing countries. Growth in several countries has also come at the expense of labor safeguards and has increased job insecurity. Mitigating regulatory barriers that hamper investment and constrain business decision-making are laudable policies but should not be achieved at the expense of hard-fought labor rights. The call to move more and more of the informal sector into the formal sector is also laudable in the abstract, but we have seen it used to garner public revenue through additional taxation of the informal sector without concomitant improved access to social services and opportunities for secure and decent employment, which inevitably inflict greater harm to those already economically and socially disadvantaged.

In Special Economic Zones (SEZs) that have been set up to encourage investment and industrial growth, the first casualty – in many instances – has been labor laws safeguarding the rights of the workers and ensuring their social protection and job security. Watering down of environmental laws and impunity from prosecution for violations provided by some governments have also been serious concerns.

- **Sustainable and Inclusive transformation in a challenging global context**
  - **Longer term trends: global value chains and digitalization, financialization, lack of policy space**

The COVID-19 pandemic and geopolitical fracturing exposed the fragility of Global Supply Chains. As firms stress agility and resilience in their supply chains, two outcomes can be expected:

1. Multiple sourcing - refers to a diversification of the supply base, to reduce vulnerabilities with single-source dependencies, and will impact industries relevant to LDCs like agrifood and low-tech manufacturing.
2. Proximity sourcing refers to reshoring and nearshoring where supply chains become shorter and regional.

As global firms aim for resilience and agility in their supply chains through multiple sourcing and proximity sourcing, low-income countries that have participated in global value chains (GVCs) for decades can expect considerable risks emanating from the transformation of international investment and production. Global production networks (GPNs)/ GVCs account for more than 80% of global trade, involving a range of firm and non-firm actors engaged in the production of goods and services from raw materials to final consumption[1]. According to the World Development Report 2020 (World Bank, 2020), the share of inputs that had been imported in the world's total exports increased from approximately 37% in 1970 to 50% in 2008 and remained steady since then.

In the past decades, lower labor, transportation, communication, and coordination costs have allowed transnational corporations in industrialized economies to develop distributed GPNs/GVCs that maximized the benefits from different countries' competitive advantages. While consumers have benefited through lower prices, GVCs have also stymied technological advances in labor-intensive (i.e., low-income) countries, which, in turn, has increased income inequalities between advanced and developing countries. An extended period of historically low-interest rates further accelerated these disparities by artificially lowering the relative costs of capital to labour, leading to increasingly technically sophisticated production methods for which developing economies lacked both the supporting infrastructure and technical training capacities needed to retool their workforces. [2]

The global pandemic exposed the many vulnerabilities of distributed supply chains, especially single-point dependencies, such as Apple's total dependence on Foxconn for iPhone production[3]. Manufacturers have responded in two radically different ways:

- The first is growing "economic nationalism," an attempt to reduce exposure to anticipated shortages that could undermine future post-pandemic recoveries by becoming more self-sufficient through on-shoring and near-shoring production. National governments have developed policies to subsidize such transitions such as the Creating Helpful Incentives to Produce Semiconductors and Science Act

[1] https://www.gdi.manchester.ac.uk/research/groups/gpn-trade-labour/

[2] Redefining Global Strategy: Crossing Borders in a World Where Differences Still Matter. Pankaj Ghemawat, Harvard Business Review Press, 2009

[3] https://edition.cnn.com/2023/01/03/tech/foxconn-china-iphone-factory-production-hnk-intl/index.html

(CHIPS Act) in the U.S. Such responses, however, can only be achieved by sustained higher domestic inflation that offshoring helped to avoid in the first place. Indeed, a recent Brookings Institute study cautioned, “shifting gears from ‘just-in-time’ GVCs to ‘just-in-case’ are not necessarily less vulnerable to shocks.” While reshoring can be risky for the originating country, for the developing markets, and for the supplier country that has lost a significant part of its industrial base, it can be disastrous and increase the possibility of sovereign debt defaults.

- The second response is to diversify supply chains even further into new locations. While this has caused temporary supply disruptions, this diversification also opens up new economic opportunities for other countries. Those countries that have made the necessary investments in digitalization and labor force flexibility that supports resilient supply chains will be better positioned to benefit from the diversification strategies.

LDC exports routed through supply chains represent around 40 percent of international trade. LDC firms currently perform low value-added and labor-intensive tasks in supply chains in primary industries (extractive and agro-based), low-tech industries (textiles and apparel), and processing industries (food and distribution)[4]. While digitalization supports resilient GVCs, it fundamentally impacts the local labor markets due to the changing production technologies. While automation is seen more as a complement rather than a substitute for labor, it fundamentally changes the kinds of skills needed. Automation favors more highly educated workers with greater literacy and numeracy competencies. Reorganized industrial organizations also change the kinds of soft skills workers must possess. Skill-biased technological change could thus erode the LDC’s comparative advantages and exacerbate the value-added gap between countries without efforts to help local workforces to develop the skills and education needed to stay competitive. In this scenario, the Global Action for jobs and social protection for a just transition offers a roadmap for addressing the gaps.

We recommend the following:

1. The United Nations and the international development banks should discourage re-shoring policies, which, by turning back the clock on globalization only revive the very problems GVCs were created to solve.
2. Encourage greater coordination in addressing the transportation bottleneck that played a role in creating the shortages that have led to reshoring practices and undermined developing markets’ competitiveness.
3. Redouble efforts by the UN’s World Intellectual Property Organisation (WIPO) to promote greater intellectual property rights protections in developing markets to ensure safe transfers of new technologies and methods.
4. Create funding from both public and private sources to retrain the domestic workforce to obtain the new technical competencies and soft skills required by new production methods.
5. Create trade adjustment assistance programs to help those who leave these industries to move into other sectors and occupations.
6. Create trade-based apprenticeships to attract youth to technical skill-based jobs through better coordination and collaboration between industry and educational institutions.
7. Ensure universal access to primary and secondary education by removing barriers to education for women, migrants, and other marginalized groups.

[4] Business supply chains are evolving, can poor countries benefit?

- **Fintech companies and their role in trade finance in global supply chains**

  There is a trillion-dollar deficit in trade financing[5]. According to the Bank of International Settlements, there are more than $65 trillion in currency-related debts that has little transparency and is growing quickly. As supply chain financing (SCF) grows, there will be a need for a wider pool of investors[6] that requires complex financing structures as well as more bank and public institution-mediated financing. In this scenario, transparency is even more critical as SCF becomes a haven for nonbanks and fintech companies looking to disrupt the field by leveraging the latest technologies, such as artificial intelligence, blockchain, and tokenization—or serving a niche, such as Small and Medium Enterprises (SMEs) that large global trade banks typically overlook.

- **The role of Micro Small Medium Enterprises (MSME) in the GVCs and the impact of digitalization and financialization on them.**

  MSMEs form the core of national economies, comprising 90% of businesses worldwide and contributing 70% of global employment and 50-60% of GDP.[7] They are also critical to the financial viability of GVCs and play a vital role in the global economy by generating revenue and employment, particularly in emerging economies. Micro- and small businesses in particular play outsized roles as incubators of innovation; creating new products, services, and practices essential to a country's competitiveness and long-term economic growth. Somewhere among today's micro-enterprises are tomorrow's Microsofts. Unfortunately, their potential is too often undermined and even squandered by policies designed to protect existing large employers at the expense of fostering the next ones.

  In addition, lending practices in developing markets that are overly dependent on collateral rather than on risk assessment deny start-ups and micro-enterprises the access to capital needed to bring innovative ideas to fruition. Integration of SMEs into GVCs not only supports economic growth but is also crucial for post-pandemic recoveries. GVCs enable firms to participate in international markets collaboratively to contribute components of an overall supply chain rather than a product in its entirety. In this regard, manufacturing MSMEs can use lower cost, and flexibility to evaluate advanced technologies in a pilot mode to their advantage. However, without a conducive environment for e-commerce penetration through digitization, MSMEs are at a disadvantage.

  E-Commerce also adds to a region's economic resilience. A report by Alibaba.com in partnership with Ali research found that the survival rate of MSMEs is 7 percentage points higher in the regions with the highest e-commerce penetration than in those with the lowest and that the economic downturn was less severe in regions with higher e-commerce penetration rates.

  While many MSMEs that are not part of GVCs took to digital platforms to sell their products with the onset of COVID, which helped revive their sales and business and gain traction for their products beyond their local borders, issues such as technological obsolescence, poor infrastructure, the prohibitive cost of credit, skill shortages put MSMEs at a disadvantage. In addition, recently high shipping costs, capacity, and technological constraints are impacting their ability to reinvest in their business. Shipping container shortages are causing a delay in payment resulting in undue financial burden on the MSMEs. Unlike large corporations that have the financial resources to manage short-term cash flow problems, MSMEs, already struggling to obtain capital prior

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[5] SCF is no longer a luxury that only the largest suppliers can afford.

[6] https://www.gfmag.com/magazine/february-2022/worlds-best-supply-chain-finance-providers-2022#:~:text=As%20SCF%20grows%20and%20looks%20to%20attract%20a,a%2060-%2C%2090-%20or%20120-day%20wait%20for%20payment.

[7] MSME Access to Finance the Role of Digital Payments_160622.pdf (unescap.org), page 1

to COVID, are disproportionately impacted and continue to face financial challenges.

Integration of MSMEs into GVCs depends heavily on access to finance. However, despite its importance and potential for advancing the economy as a whole, the sector is plagued by a lack of working capital affecting day-to-day operations. Implementing digital payment systems will assist MSMEs' to improve cash flow and reduce their operation cost while reducing their reliance on informal sources of finance and predatory lending practices.

We recommend the following:

1. Reform banking practices that call for collateral for access to loans.
2. Reform women's property rights to expand their access to finance and bank accounts.
3. Ensure informed and data-driven decision-making capabilities based on performance analytics as well as continued government support for embracing technological solutions such as Artificial Intelligence-led real-time visibility into disparate data sources and applications.
4. Facilitate digitalization of MSMEs to help them expand their online customer base and for faster receipt of payments.
5. Provide training and generate more awareness among MSMEs about the digitalization of banking systems and their operational dynamics to make the digital transformation smoother.
6. Reform labor markets, and trade infrastructure, and improve the overall business environment to facilitate vertical GVC linkages between domestic MSMEs and larger domestic and foreign firms.

3. What will it take – national and international financing policies in support of sustainable and inclusive industrial transformation?

• Pre-conditions and cross-cutting priorities: state capacities; policy space and supportive global rules.

The transitions come with a large potential for job creation and social and economic gains, but proactive measures are needed to ensure that these transitions leave no one behind and that they do not come at the expense of known risks and negative effects that fall disproportionately on the most vulnerable.

There is a "serious disconnect between those that continue to support the fossil fuel economy and those that are most affected by the impacts of climate change".[8] Governments subsidizing fossil fuels and financing extractive mining are exhibiting the same type of behavior as a person with a tree nut allergy who goes out of their way to buy an overpriced, stale pecan pie when there is a free, delicious blueberry pie sitting right in front of them. Subsidizing fossil fuels must stop – immediately, not a decade or a year from now, with no exceptions. Every industry means every industry, including transport, defense, chemicals, and electronics. This proposal is part of the same common sense policy solution that has been put forth for years by a range of independent research groups, NGOs, youth advocates, and climate scientists. Stop paying companies to destroy the land and sustainable livelihoods.

Just as the public's perception of smoking changed only after the health effects of secondhand smoke became widely known, governments must educate the public as to the cost to them of supporting fossil fuel consumption, e.g., the loss of competitiveness in a growing post-carbon economy. A $1 million investment in energy conservation creates around eight full-time jobs, nearly three times as many as an investment in fossil

[8] Special Rapporteur on the promotion and protection of human rights in the context of climate change https://documents-dds-ny.un.org/doc/UNDOC/GEN/N22/438/51/PDF/N2243851.pdf?OpenElement

fuels.[9] Of course, in the short term, the elimination of fossil fuel subsidies will cause their prices to rise, placing disproportionate pressure on low-income countries lacking the capital to transition their industries to renewable alternatives. Adjustment assistance funds will be needed to help these economies to switch to alternative fuels and production methods.

We recommend the following:

1. Invest in circular economic systems alongside green job innovation. The term "circular economy" is meant to represent the concept wherein money and resources would continually flow in a circle, reaching everyone and being hoarded nowhere. It is a universally popular model. And yet, the world's people are forced to participate in more linear, vertical economic systems where money and resources generally move in one direction – from "down," lower classes or castes, poorer people being forced to pass their money and resources "up" to the 1% of the world's wealthiest individuals. This 1% are the only people benefitting from the status quo. It is possible to insist on long-term circular, green economic models over short-term profit motives, especially considering what is at stake. A just transition will provide jobs that are more long-lasting, safer, and more rewarding, which will in turn create stability and security for individuals and governments alike.

2. Identity and monitor supply chains contributing to environmental degradation and facilitate opportunities for the creation of circular economies. Multi-entity designs must be put into place to reduce carbon intensity and reduction of pollutants. When providing finance to private entities through tax incentives and direct investments, guardrails must be put into place that does not allow for misuse of these funds to enrich and create financial inequity such as stock buyback, excessive use pays for executive and management roles, and use for other purposes.

III.A. Domestic Public Resources

- **Key messages and recommendations**

The FSDR outline says that [enhancing] "state capacity" will be a key theme of the chapter. This suggests a somehow technocratic approach when what actually happens in every country is highly political. We would add something to the discussion of helping countries strengthen their technical capacity to raise revenue appropriately and efficiently and to spend the funds wisely and also efficiently. We call for "national ownership" of public policy, which presumes a political process of budgeting, involving engagement with relevant stakeholders, most obviously a well-informed legislature, but also public consideration of policy options through a free press and among civil society and business stakeholders. While such political processes can make inevitable "horse trading" politically acceptable, as everything cannot be done at once, it also helps bring outrage to the surface when public intent is undermined by corruption or incompetence.

A tried-and-true mechanism to encourage a sense of national ownership of public policy is "social dialogue." Social dialogue should involve discussion among representatives of governments, workers and employers, and other civil society and social actors, including representatives from women, youth, and persons with disabilities, to help to construct a strong social consensus that acts as a driver for sustainable, inclusive, fair, and rapid transformation. Among other consequences, we find that social dialogue tends to give political emphasis to the social protection obligations of governments, which may otherwise not be in the minds of budget authorities in finance ministries. A strong practice of social dialogue can help achieve consensus on the "why" of social policy,

[9] Focusing the recovery on green infrastructure could create millions of jobs

which can then encourage legislative and regulatory reforms of the "how" and their enforcement.

- **Expenditure and budgeting for the SDGs**

  The call "to leave no one behind" demands that governments take steps to end poverty and hunger, provide quality education and healthcare; water and sanitation; affordable energy, and decent jobs 'to reach the furthest behind first.' In many countries, these basic services are provided by the government through state-owned enterprises. Most of the services provided to the vulnerable are sub-standard or non-existent due to corruption at all levels and a lack of accountability and transparency. The vulnerable are forced to bribe the institutions funded by their taxes, to receive services that are rightfully theirs. Lack of and often denial of access to basic services, justice, and participation in governance leads to the widening of inequalities.

- **Revenue and expenditure**

  We note that the FSDR outline has a section on revenue mobilization with a sub-section on budgeting for the SDGs. We would organize the discussion differently, starting with a discussion of budgeting, including the need for sustainably financing the budget.

  We would then observe that conceptually and often in literal practice, budgets have two components: current expenditure and investment. The former needs to be normally financed out of tax revenues, reserving borrowing for tough times for counter-cyclical economic purposes and to maintain or increase social protection expenditures, like cash transfers, food aid, emergency housing, maintaining teacher salaries, etc. during challenging times and emergencies. A key part of budget debates should be on expenditure priorities, wherein social obligations have to contend with calls to boost military spending and other parts of government. There are currently some 70-armed conflicts around the world, and many countries in or fearing conflict are re-prioritizing military spending.

  Regarding the investment budget, we advocate for including among other priorities, such as infrastructure and energy transition, making adequate provision for developing social protection systems, including public health systems, not only to provide essential services in normal times but also to meet emergency needs, as we saw the consequences of not having such capacity during the pandemic. There are times when a country should decide less of one use of investment funds and more of another. Our view is only that these competitions should be fought out in the open, in parliaments, in public discourse, and in listening to the arguments of affected citizens.

  The investment budget can be financed both with current revenues and with public debt, the latter on the argument that the beneficiaries of the investment will be spread over time, and they should share the cost of building the public asset that the investment creates by making interest and principal payments over time. In the realm of infrastructure, many projects can become self-financing by collecting their own funds through user charges, such as tolls for highways, charges for water or electricity, etc. We would discourage financing public investment through public-private partnerships, whose funding is often hidden from the budget process and whose need to generate a profit can require pricing of services outside what most people can afford and/or require ongoing subsidies from the public purse.

5. International tax cooperation

- **The role of tax in contributing to state capacity and industrialization**

a. Progress on tax transparency and exchange of information for tax purposes

Negotiate a Global Tax Treaty / Convene a UN Tax Convention. Resolution A/C.2/77/L.11/REV.1, presented by the African group and subsequently adopted at the 77th Session of the General Assembly in

November 2022, marks an important step towards establishing a global tax body and reforming the currently broken systems in place. However, the longer it takes the United Nations to commence negotiations on a global tax treaty, the smaller our window becomes to achieve the SDGs and avoid the worst-case outcomes of climate disaster.

b. international tax norms

i. Taxation of the digital economy

Because of the important roles MSMEs play both in fostering innovation and job creation, the impact of taxation on them should be given due consideration. Even with the surge in business that MSMEs experienced as they moved into the digital world, many hesitate to transition online owing to the cumbersome online taxation policies and compliance requirements. Tax reforms and schemes to encourage trading and ease of business – including on e-commerce platforms -- are complicated processes and can potentially discourage some MSMEs from exploring the online markets.

Policymakers should develop policies that would ensure a more even playing field for MSMEs that enter online marketplaces, rather than levying taxes that increase the compliance burden.

6. Illicit financial flows

- IFF is a global priority for Addis Ababa Action Agenda, which calls on countries to redouble their efforts to reduce IFF and eventually eliminate them. IFF undermine state institutions, reward corruption, and undermine rule of law, they erode the tax base and hamper structural transformation, economic growth, and sustainable growth, UNCTAD's Economic Development in Africa Report 2020 finds that in African countries with high IFF, governments spend on average 25 percent less on health and 58 percent less on education.
- The 2030 agenda target 16.4 states, "by 2030 significantly reduce illicit financial flows and arms flows, strengthen the recovery and return of stolen assets and combat all forms of organized crime." This target is critical to financing the SDGs. UNCTAD and UNODC are custodians of SDG indicator 16.4.1 on IFFS. UNCTAD and UNODC have created a common definition of IFFs for statistics – member states endorsed it in March 2022 at the Statistical Commission.[10] The definition is based on typologies since country laws on crimes differ.
- Institutional behaviors that perpetuate illicit outflow of resources curtailing a government's ability to meet the needs of its most vulnerable population must change. Unless and until the structures in which accountability and transparency are governed are changed, it would be foolhardy to believe that the institutions will reform themselves voluntarily. The current structures where one finds the highest incidences of corruption and opacity are those in which the government maintains monopolistic control over regulatory processes.
- Global IFF-related activities, encompassing trafficking in drugs, weapons, humans, and wildlife, are frequently interlinked, and corruption plays a significant role in fostering these diverse forms of illicit flows. The United Nations Office of Drugs and Crime ("UNODC") affirmed in 2011 that "there are consistent indications that corruption does play an important role in facilitating and fostering the crime of trafficking in persons." As early as 2008, studies have indicated that not only is there a statistically significant correlation between the presence of corruption and the prevalence of modern slavery in a country, but also that corruption is the only significant correlative cause of slavery compared with poverty-related causes.
- Corruption is connected to all forms of human trafficking. Traffickers bribe public officials to keep silent or facilitate the trafficking from approving falsified documents of migrant workers to turning a "blind eye" to the

[10] https://sdgpulse.unctad.org/illicit-financial-flows

activity which happens in their jurisdictions. Developing countries with rich natural resources and weak rule of law are at the greatest risk of reaching economies of scale by exploiting domestic and migrant workers in "modern slavery" conditions.

- According to the International Labour Organization, this lucrative business has garnered an estimated $150 billion annually.
- While the immediate impact burden of corruption falls most heavily on the most vulnerable and disenfranchised, all of society are victims through lost economic opportunities, lower levels of economic and social efficiency, lower levels of investment and innovation, less productive workforces, smaller tax bases, and general public distrust in public authority and hostility against even legitimate political processes. Corruption is also a root cause of human rights violations. There is an utter lack of accountability to the stakeholders through transparency and public reporting.

We recommend the following:

1. Every country needs to commit to taking steps to prevent, trace and return stolen assets and use their proceeds for investing in SDGs. In its report, the FACTI Panel recommended a proposal for a "Global Pact for Financial Integrity for Sustainable Development" based on countries' priorities, aiming to improve the well-being of people. What has happened to this proposal? What steps has the UN taken to follow up on the Mbeki Panel report, which called for: "Track it. Stop it. Get it. And use it to finance the SDGs"?
2. Create a blueprint for countries to create robust and coordinated mechanisms - legislations to implement all the FACTI Panel recommendations at the earliest.
3. The world needs reliable data to see the outflow and inflow of IFFs and to know which sectors are most prone to illicit finance and take measures to stop flows. Initiate a process to track data from countries, regions, and sectors to track, trace and return assets for investing in human capital, education, and gender equality.
4. Financing and aiding developing countries should take into consideration "at-risk industries" and those countries that systemically undermine human rights. Industries often credited with bolstering developing countries' economies such as agriculture, garment manufacturing; the harvesting of chocolate, marble, granite, and precious stones; fishing; mining; and deforestation, are all industries that are rife with forced and bonded labor. For forced and bonded labor to persist, "employers," sometimes where the employer is the government itself, are effectively slaveholders utilizing corruption to stay in operation.
5. Recommendations to diminish corruption include nations developing legislation requiring accounting regulations and prosecutory powers that mirror the United States Foreign Corrupt Practices Act, including disclosure of beneficial ownership and criminal prosecution for participating in briberies and other forms of corruption. Regulators and law enforcement can utilize "follow the money" techniques in their monitoring and prosecution of crimes. Additionally, countries can license and monitor "at risk" industries and require those industry employers to certify that their total operations, including all of its supply and service chain, are free of forced laborers and/or trafficking victims. Audits could be performed by independent organizations that would validate if the terms of certification have been met.

III.B. Domestic and International Private Business and Finance

3.2.2.2 Solutions: financial outreach to underserved groups, access to climate and sustainable finance, public sector's role in financial inclusion, financial mechanisms etc.

While a great deal of attention has been paid to digital financial technologies to redress gaps in access to finance, they are in the end only tools that will lower the cost of financial transactions. They will not solve structural barriers that prevent marginalized groups from acquiring the competencies needed to reduce risk and ensure their financial success. Politically and economically disenfranchised groups lack the financial and digital literacy, and numeracy skills needed to successfully function in modern financial environments. Increasing access to digital tools without providing them will the skills needed to use them will simply not work.

While different marginalized groups share similar problems, they do not respond to similar solutions. Women, migrants, refugees, and ethnic groups face different challenges and suffer from different forms of discrimination. Therefore, training to enhance financial competencies needs to be customized to best serve different groups. Unfortunately, for better or worse, governments tend to standardize services in the name of assuring equal access for all. The NGO/ Nonprofit sector, which is able to target the needs of specific populations, is better equipped to serve as an incubator of new approaches and solutions.

It should be noted that these organizations do not compete with government agencies as many perceive. They are complementing partners to public sector organizations. NGOs/NPOs can take the risks in program development with different organizations taking different approaches, for different constituencies. Government agencies can then use their capacities to bring the best solutions to scale to a wider range of stakeholders at a regional or national level.

We recommend the following:

1. Encourage and support civil society organizations to develop a range of innovative practices that address different problems in financial literacy, numeracy, and digital literacy across a variety of populations.
2. Limit the public sector's role to setting goals and supporting civil society organizations and not insist on being the primary provider of these services.
3. Address the structural barriers that prevent women and minorities from accessing financial services such as property rights, the right to form businesses, the right to enter into contracts, and the ability to fully participate in the formal economy.
4. Increase physical access to digital technology for marginalized groups.
5. Support financing for historically marginalized communities such as indigenous communities and those discriminated against on work and descent (CDWD) in securing ownership and protection of ancestral lands and the lands upon which they have historically been forced to labor. This will not only provide these communities with a greater degree of economic independence and freedom, but it must also be seen as a means of protection from climate change, as many of these groups are uniquely vulnerable to climate disasters, as well as a means of addressing gender inequalities and gender-based violence (GBV), as women who own land are far less likely to experience GBV than those who do not.

3.2.3 Cost of remittance transfers to meet accepted targets

- Remittances are the lifeline for people living in low-and-middle-income countries. They can determine the housing, food security, nutrition, health, and educational status of families. Remittances help families to withstand disasters and to rebuild their lives – it makes them resilient.
- In 2022, remittances were expected to increase by 5% - $626 billion, far lower than the 10.2% increase in 2021. The current economic crisis – high energy and food prices and changing foreign exchange rates are adversely affecting the real income of migrants. Climate change-induced migration within countries will affect their livelihoods and the poorest will be forced to move beyond their borders. Safe, orderly, and

regular migration avenues are necessary as an adaptation strategy to manage displacement caused by the climate crisis.

- The cost of remittances remains a major concern for the migrant labor force from low-and-middle-income countries. The cost of sending $200 remains at 6% on average, in the second quarter of 2022, according to the Remittances Prices Worldwide Database. Digital technologies allow for faster and cheaper remittance services - it is cheapest to send via mobile operators – 3.5%. But this mode is restricted to new service providers by the Anti-Money Laundering/Combating the Financing of Terrorism regulations and these restrictions affect migrants' access to digital remittance services
- According to World Bank estimates, $69 billion were remitted from the U.S. alone in 2020. At the average global cost of remittances (about 6.5%) the charges would be $4.5 billion; at the typical costs of lowest costs remittance firms (3%) it would come to $2 billion. These comparisons do not take into account days or hours of transfer time.
- The flow of remittances in dollar terms is continuing to grow in the face of economic headwinds, though falling behind inflation in the latest data. In 2022, remittance flows to low- and middle-income countries are on track to reach $626 billion, up from $597 billion in 2021, outpacing the flow of foreign direct investment and exceeding official development aid by three times.
- In 2022, consumers from some of the biggest remittance-sending countries are sending $212 billion to friends and family abroad, but they will have paid nearly $12 billion in fees. Importantly, the friends and family receiving that money could have ended up with $5.3 billion more if countries had already reached the UN SDG of 3% per transfer.
- The average cost of remittances varies by channel and can range from 5.7 percent for payments made through post offices to 10.3 percent for payments made through banks. The wire transfer cost varies based on the financial institution, the amount of money being transferred, and where the money is transferred. In the United States, the wire transfer fee can range from free to $50. Domestic outgoing wire transfer fee typically ranges from $0 to $35, while international outgoing charges stand between $35 – 50.
- New fintech firms are entering the space but there is no evidence that remittance cost is reduced.

We recommend the following:

1. Since migrants are integral to the economy of the host countries, the inclusive social protection policies that were enacted during the COVID-19 pandemic need to be kept in place to allow migrants to support their families through remittances.
2. Implement the commitment to reduce the transaction costs of migrant remittances to less than 3% and eliminate remittance corridors with costs higher than 5%, as committed to in the Global Compact for Migration.
3. Promote faster, safer, and cheaper remittances by removing the roadblocks to digital remittance services.
4. Hold banks and money transfer providers accountable, by making transparency the norm and not hiding fees in terrible exchange rates. Policymakers should find the courage to hold them accountable.
5. Empower consumers by giving them the resources and the tools to shop around for the best deal.

III.F Addressing Systemic Issues

1.Key messages and recommendations

A Climate Finance perspective

Continued failure to empower Indigenous, and youth, and lack of gender-balanced leadership at the center of global governance will continue to inhibit progressive sustainable development and hasten planetary destruction. Two years ago, at COP 25, parties adopted the 5-year Enhanced Lima Work Programme on Gender and its Gender Action Plan (Decision 3/CP.25). Our ability or inability to follow through on those outlined deliverables will have consequential implications, therefore best practices and learned expertise around functionally operationalizing the Enhanced Lima Work Programme on Gender should be shared freely among member states. As before, global gender-related mandates need to maintain clearly articulated, time-conscious goals with transparent budgeting and independent channels for monitoring and reporting. Prioritizing youth, Indigenous, and gender-balanced leadership on all national and subnational climate adaptation plans and sustainable-use policy governance would be both wise and just. As highlighted in the

2. International financial architecture

2.1. Strengthening the global financial safety net

- **SDRs [follow-up and way forward]**
- **IMF financing mechanisms**

"SDRs for climate finance is still a long way from reality"

- Almost all countries are facing high debt loads[11][12]. As added debt burdens prevent poor nations from making climate investments, by 2030, poor nations will need $2.4 trillion per year each year to mitigate and adapt to climate change and maintain biodiversity. While around half of the required financing is expected to come from domestic sources, around $1 trillion per year of external finance will be required to meet the financing needs. The SDR redistributions by developed countries can play a key role to address climate investment challenges but the redistributions have been happening very slowly. [13]
- In November 2022, the Prime Minister of Barbados, Mia Mottley, proposed the mobilizing of climate financing from regular distributions of the International Monetary Fund (IMF)'s Special Drawing Rights (SDRs). She proposed an annual issuance of $500 billion for 20 years that can be applied toward climate finance[14].
- The formula for SDR allocation should be reflective of the needs of countries and use an index other than GDP. There should be flexibility and efficiency in the use of SDR allocations oriented toward meeting the shared goals of all UN parties of the SDGs, the need to address the climate change and biodiversity crisis, and the need for investing in people in the least developed countries so no one is left behind.
- Funds should be allocated toward projects that use nature-based adaptations to sequester carbon and create development resilience because they can help create circular sustainable economies and help stabilize or increase biodiversity. The 30/30 goals of COP15 on Biodiversity should be supported as well as a valid use of these funds. Funds should be restricted from being allocated to nuclear fission technology which also creates long-term waste and security problems. Funds should also not be diverted to mechanical carbon exchange which is not a viable method for reaching net zero by 2030, as it creates a great deal of waste that must be stored

[11] https://www.gfmag.com/topics/news/countries-most-addicted-debt
[12] https://www.minneapolisfed.org/article/2022/at-a-precarious-moment-the-world-is-awash-in-sovereign-debt
[13] https://www.cgdev.org/blog/monthly-sdr-report-august-2022
[14] https://twn.my/title2/resurgence/2021/349/cover03.htm

Integration of Natural Capital Accounting & Financial Accounting as a basis of finance from Macro to Micro.

- Natural capital accounting[15] needs to be applied beyond the pilot countries and streamlined for decision-making by local to national stakeholders and for finance and investment. Natural Capital inventory and accounting must stand side by side with financial accounting and take place on a regular basis. This will allow the understanding of the use of natural capital and identify the flow of natural capital and facilitate its restoration and regeneration instead of negative externalization and exploitation by mostly private entities of national commons. It is the true basis of economies and is needed to avoid environmental collapse
- Monitoring systems need to be put in place so that the state of these natural assets can be tracked on a periodic basis as assets in the financial sector. Nations should gather and make this public data so that there is transparency in this accounting to facilitate decision-making around renewable and non-renewable natural capital and its flows.
- Area-based systems such as Stakeholder based Marine Spatial Planning must be applied to lands as well as the coastal and ocean environments where national governments control most of the area. This can facilitate the large-scale investment that is not happening in small disconnected and charismatic projects favored by the wealthy and funded, which do not maximize impact and further degrade areas inhabited by women, Indigenous, and minorities. Large-scale financing of high-impact projects is lacking and needed, and all types of financial instruments could be applied from the sovereign, municipal and area-based bonds to shorter-term market-driven derivatives such as swaps and forwards.
- Natural Capital Accounting should transparently sit side by side with financial accounting to reflect the sustainability of projects especially those financed by funds that have been created now or in the future by the COPs for Mitigation, Adaptation, and now Loss and Damages and Biodiversity. This accounting system should be used as a basis for finance and investment instead of certifications that obfuscate and facilitate greenwashing and limit the amount and scale of projects that have the greatest impact. Environmental gentrification also forces people out of their lands for carbon credits. Investors and donors must be able to evaluate scenarios, projects, and program implementation so that if the projects do not realize expected values, adjustments and resolutions can be made. This can only happen with transparent integrated natural and financial accounting on a periodic basis.

III.G Science, Technology, Innovation, and Capacity

2.1. "Green" technologies for a sustainable transition and industrialization

- Finance must be made available immediately to phase out fossil fuel systems and leapfrog to cheaper alternative technologies through private finance where possible, blended finance when needed, and by issuing bonds, both sovereign and municipal.
- Derivatives could also be created. Swaps and forwards rather than debt could be used for the change of state from fossil fuel-based systems to alternative systems. Financing mechanisms should be developed according to investment potential to transition energy sources and grids to alternative energy systems.
- Energy system transitions will both make populations and economies healthier as well as contribute positively to net zero.
- Investments in very large-scale centralized alternative energy, such as wind, both onshore and offshore, are suitable for central utilities and large-scale grids. Small-scale alternative energy sources of wind and solar

[15] "Natural Capital Accounting and Valuation of Ecosystem Services" (NCAVES) development of policy-applications of environmental-economic accounting, and in particular for ecosystem accounting https://seea.un.org/home/Natural-Capital-Accounting-Project.

which can be owned by both community and individuals with mini-grids[16] should also be used especially in remote and hard-to-serve areas. This will be an incentive to decrease the pressures to use and export fossil fuels which should be discontinued as soon as possible.

- Developing Countries must be financed in alternative energy generation now, reducing the carbon intensity of economies' industrial and agricultural sectors. A new study by BloombergNEF (BNEF) and Sustainable Energy for All (SEforALL), State of Global Mini-Grids Market Report 2020, highlights a technology that has the potential to be a game-changer for rural communities in particular.

IV. Data, Monitoring, and Follow-up

1. Key messages and recommendations

- Gender disaggregated data is missing for most countries in the UN agency databases.[17] There must be incentives and funding for such data to be integrated beyond the silos of the agencies such as UN Women[18]. The data must not only be gathered but analyzed for positive benefits using such tools as the application of the ecologic model of gender. Scenarios must be developed that extends from health and education to employment for all especially, women, Indigenous, and minority populations as industrial policies are applied, and market solutions are implemented. Monitoring and implementation of the best scenarios must be financed as they can create the biggest impacts on equity, climate change, human and species health, and thriving economies.
- When assessing economic development, the projects gathering data and creating development plans need to include capturing the baseline of this data and then periodic assessment. Social protection should be put into place, and the full range of financial tools such as social bonds and innovative swaps or forwards on positive change can be used to finance human capital and economic development so all can reach their full potential and for the development of more equal, inclusive economies with opportunities for all.

Conclusion:

Achieving the SDGs will require governments to follow through on large-scale multilateral economic commitments, which require shared trust. Shared trust is also ultimately crucial to achieving real human security, regardless of the size of the jurisdiction in question or where on the planet it might be located. In every FfD conversation, ask where fairness and trust are being built. When governments and people foster trust in each other, everyone is safer and more secure. If fairness and trust are not on display or identifiable, then the policy in question is likely more a part of the problem than the solution. Because fairness, equality, and transparency are hallmark tenets of democracy, it serves that policymakers need to approach development and financial resource questions from a democratic framework. Democratizing the ways economic activities are considered and governed calls for open, inclusive, and regular discussion around the balance of private vs. public ownership of cost/risk and profit/benefit. In every discussion, it should be asked, who is doing the labor, who is benefitting, and who will be hurt in a decade or two if this continues. Can the world really afford this product/service/industry if it cannot be designed sustainably?

[16] Off-Grid Electricity Systems | The Alliance for Rural Electrification (ARE)
[17] UNCTADSTAT https://unctadstat.unctad.org/CountryProfile/en-GB/index.html, UNEP Open Data https://open.unep.org/country/
[18] Data Portal https://data.unwomen.org/data-portal