NGO Committee on Financing for Development submission to the 2021 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 2021 *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 inclusion, and climate finance. Our contribution, prepared in response to the draft outline of the IATF Report dated October 14, 2020 is divided into the following three sections:

1. Social protection systems including floors, as an input to the thematic study in Chapter II and the reporting and policy messages in Chapter III.A on social protection expenditure and domestic taxation in the pandemic, Chapter III.C on ODA, South-South cooperation, MDB lending and humanitarian finance, and Chapter III.D on sovereign debt burdens and debt relief.
2. Financial and digital inclusion as an input to Section 3.2. (Addressing financial constraints) of Chapter III.B. Domestic and international private business and finance, Section 2 (Responding to COVID-19 in the context of weak data infrastructures) of Chapter III.G. Science, technology, innovation, and capacity building, Section 1 (key messages and recommendations) and section 3 of Chapter III.G. Science, technology, innovation, and capacity building and Section 5 (digital finance) Chapter III.F Addressing systemic issues
3. Climate finance, as an input to section, Chapter II (Thematic Chapter) on Financing resilience

Section 1. Social protection systems including floors

The COVID-19 pandemic challenged governments at all levels of development to meet their obligation to provide universal access to essential health care and make adequate cash transfers to mothers and children, people with disabilities, older persons and those unable to sustain themselves through work. Because the NGO Committee on Financing for Development (FfD) is concerned above all with the global eradication of poverty, its members have strongly encouraged all governments to provide an adequate social protection floor (SPF) to all in need at all stages of the life cycle and for the international community to fully support developing countries in those efforts. The experience of the past year assures us our emphasis has been correct. We believe it is important to recognize access to social protection as the right of every individual and not just as a discretionary expenditure program of governments contingent upon the availability of funds.

Indeed, we are not alone, as norms for the content and implementation of SPFs have been agreed at the International Labor Organization (ILO) in recommendation 202.[1] Provision of SPFs, however, depends not only on their appropriate design, effective implementation, and monitoring for accountability, but also on governments committing to reliably allocate enough fiscal resources to their SPFs in good times and seek ways to meet expanded needs in bad times. This requires governments to guarantee or "ring fence" the funds in their budgets to meet SPF entitlement obligations, which requires in turn adequate and sustainable fiscal configurations in the medium run and access to appropriate supplementary financial resources in times of strain.

While SPFs are national responsibilities, the international community as a whole committed to support these efforts when it adopted the 2030 Agenda for Sustainable Development with its sustainable development goals (SDGs) and targets, including target 1.3, which calls upon States to "implement nationally appropriate social protection systems and measure for all, including floors, and by 2030 achieve substantial coverage of the poor and vulnerable."[2] We recognize the value of the policy advice and technical assistance on social protection provided by the IMF, the World Bank and the agencies, funds and programs of the United Nations, including the $102 million mobilized for projects of the Integrated Social Protection window of the Joint SDG Fund;[3] however, our ambitions are higher and we thus seek consideration of the call by over 200 civil society organizations for a Global Fund for Social Protection.[4]

In the spirit of the basic commitment to addressing social needs in the 2030 Agenda and acknowledging that social spending is a "macro-critical" aspect of government budgeting, the International Monetary Fund (IMF) adopted a new strategy in 2019 to guide its policy advice on social spending in normal times and to take account of government social spending obligations during difficult times.[5] IMF further promised that it will more consistently emphasize "mitigating the adverse effects of adjustment on the vulnerable in IMF-supported programs, where this is consistent with the primary goals of helping the member correct its balance of payments problem and achieve external viability." More colloquially, IMF recognizes that adjustment of unsustainable balance-of-payments situations should not be on the backs of the poor. The new strategy helpfully adds that "conditionality can also be instrumental in helping to strengthen tax capacity in support of social spending, improving the quality of social spending, and addressing data and information gaps."

The new IMF policy will be tested by the exigencies of the pandemic, as will the commitment of the entire international community to the SDGs. The policy steps already taken and not taken are well known. The economic collapse that accompanied the spread of the pandemic reduced tax collections just when expenditures—especially public health, other social, and income replacement expenditures—had to increase, leading to substantial borrowing by governments at all stages of

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1 ILO, Social Protection Floors Recommendation, 2012 (No. 202) (https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_ILO_CODE:R202)

2 United Nations, "Transforming our world: the 2030 Agenda for Sustainable Development" (General Assembly resolution 70/1, adopted 25 September 2015).

3 https://www.jointsdgfund.org/integrated-social-protection.

4 http://www.socialprotectionfloorscoalition.org/civil-society-call/.

5 IMF (2019), "A strategy for IMF engagement on social spending" IMF Policy Paper, 14 June (https://www.imf.org/en/Publications/Policy-Papers/Issues/2019/06/10/A-Strategy-for-IMF-Engagement-on-Social-Spending-46975).

development.

According to IMF, the average government deficit of advanced economy countries is estimated to have increased to 14% of gross domestic product (GDP) in 2020 (rising from 3.3% of GDP in 2019), while that of middle-income developing countries will have risen to 10.7% of GDP (from 4.9%) and that of low-income countries would reach 6.2% (up from 4.0%).[6] The differences do not reflect differences in need, but differences in government ability to mobilize borrowed funds. Moreover, while most of the borrowing by developed countries has been from domestic lenders in local currency, most of the borrowing by developing countries is in foreign currency from foreign sources, both private lenders who buy government bonds and international institutions such as IMF and the World Bank. It follows that many developing countries, especially low-income countries, are now expected to face sovereign debt crises in 2021 and beyond. This is the view of Kristalina Georgieva, the Managing Director of IMF:

> "Indeed, about half of low-income countries and several emerging market economies were already in or at high risk of a debt crisis, and the further rise in debt is alarming. Just as they are starting to recover from the pandemic, many of these countries could suffer a second wave of economic distress, triggered by defaults, capital flight, and fiscal austerity. Preventing such a crisis can make the difference between a lost decade and a rapid recovery that puts countries on a sustainable growth trajectory."[7]

She then suggests various reforms to how sovereign debt crises are handled internationally, which is a minimum emergency agenda for reform of the workouts from debt crises. While less ambitious than the reforms that civil society has long advocated,[8] it fully merits implementation.

One further measure that civil society is concerned about is the fiscal austerity that Ms. Georgieva flagged in her blog. Despite the essential need to maintain social spending and prevent another "lost decade" for development, not to mention the likely failure to achieve the SDGs, over 500 civil society organizations have expressed concern that messages in IMF loan agreements reached thus far in the pandemic seem to presage an overly quick return to austerity.[9] We share that concern.

With the benefit of hindsight, **the following policies warrant immediate implementation**:

1. Adequate social protection cash transfers and public health services must reach all corners of every country, which in most developing countries means finding ways to expand the volume and reach of social protection outlays, taking care to stem the leakage of funds through corruption and inefficiency.

2. While most people have been harmed and many sickened by the pandemic, some individuals

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[6] IMF (2020), *Fiscal Monitor: Policies for the Recovery*, October (https://www.imf.org/en/Publications/FM/Issues/2020/09/30/october-2020-fiscal-monitor#Video).

[7] Kristalina Georgieva et al. (2020), "Reform of the International Debt Architecture is Urgently Needed" IMF Blog, 1 October (https://blogs.imf.org/2020/10/01/reform-of-the-international-debt-architecture-is-urgently-needed/).

[8] See, for example, Jürgen Kaiser, "Taking stock of proposals for more ordered workouts," in Barry Herman, José Antonio Ocampo, and Shari Spiegel (eds), *Overcoming Developing Country Debt Crises* (Oxford University Press, 2010), 428-448.

[9] Eurodad, "More than 500 civil society organizations call for immediate debt cancellation to help lower-income countries fight Covid-19" 15 October 2020 (https://www.eurodad.org/global_week_of_action_on_debt_cancellation).

and companies have profited handsomely, especially those involved in on-line services. For this reason, we call on governments to apply supplementary income tax rates to the incomes of high-income earners in order to capture more of their increased incomes for pandemic solidarity enabling those people and firms whose incomes have fallen to pay less taxes in 2020. While this proposal will not eliminate budget deficits, it can help capture more of the income of the high earners whose incomes have increased.

3. The looming developing country debt crises are in part the result of the shortage of non-debt creating support during the pandemic and thus we call on donor governments to boost their official development assistance grants.

4. Similarly, we ask countries with idle and excess holdings of special drawing rights (SDRs) at the IMF to transfer some of them to less fortunate countries and to the IMF and/or the other international development finance institutions that are "prescribed holders" of SDRs for use in debt relief, grants, or technical assistance.

5. We call for a coordinated and coherent international policy that delivers deeper debt relief to a wider array of countries than has been approved by the Group of 20 in its "Common Framework for debt treatment beyond DSSI;"[10] In other words, we call for a system for relief that is both realistic and ambitious enough to deliver a path to debt sustainability for countries in crisis, that maintains expanded social protection expenditures for as long as needed, and that will realize SDG target 1.3 on social protection expenditures.

Finally, <u>we propose that the 2021 Financing for Development Follow-up Forum consider the following topic</u>: The Addis Ababa Action Agenda adopted a "new social compact" in which governments promised "strong international support" for countries as they "explore coherent funding modalities to mobilize additional resources" to implement the compact, including for social protection.[11] It is time for the FfD Forum to elaborate details of that social compact. In addition to mobilization of appropriate forms and amounts of domestic and international financing, the compact should encourage more effective cooperation with and among developing countries to formulate strategies for assuring adequate social protection of their people in good and bad times, which will help them better prepare for the next crisis, whether it is national, regional, or global in scope, or whether environmental, public health or financial in origin.

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[10] Group of 20, "Statement: Extraordinary G20 Finance Ministers and Central Bank Governors' Meeting, 13 November 2020 [Virtual]" and annexes https://www.mof.go.jp/english/international_policy/convention/g20/g20_201113_1.pdf

[11] United Nations, "Addis Ababa Action Agenda of the Third International Conference on Financing for Development (Addis Ababa Action Agenda)" General Assembly resolution 69/313, adopted 27 July 2015, annex, para. 12.

Section 2: Financial and digital inclusion as an input to Section 3.2. (Addressing financial constraints) of Chapter III.B. Domestic and international private business and finance, Section 2 (Responding to COVID-19 in the context of weak data infrastructures) of Chapter III.G. Science, technology, innovation, and capacity building, Section 1 (key messages and recommendations) and section 3 of Chapter III.G. Science, technology, innovation, and capacity building and Section 5 (digital finance) Chapter III.F Addressing systemic issues

The COVID-19 pandemic and growing economic crisis are leading to at least a 5.2 % contraction in global gross domestic product[12] and a six-year reversal in human development.[13] The crisis is further exacerbating the vulnerabilities faced by those in poor and marginalized communities and threatening the livelihood of an estimated 1.6 billion workers in the informal economy[14], especially women, youth, refugees and migrant workers. Many of them, depending on low daily earnings, are struggling to survive as their incomes drop sharply or completely disappear and do not have financial buffers to help them tide over a crisis that is contributing to the first increase in extreme poverty since 1998, pushing an additional 88 million to 115 million people into extreme poverty this year, with the total rising to as many as 150 million by 2021.[15]

The economic side effects of the pandemic including lack or loss of employment, loss of homes, volatility in currency rates, falling oil prices, rising food prices, and falling rate of remittances, present a major risk of reversing the financial inclusion gains made in the past decade. Policy momentum and measures to sustain and advance financial inclusion as a means for those in the marginalized communities to recover from the global crisis, and to build long term resilience is ever more crucial and special attention must be given to the following areas:

Micro, Small and Medium Enterprises

Micro, Small, and Medium Enterprises (MSMEs) are the engine of growth in many emerging economies and collectively represent more than 70% of global employment and 50% of GDP.[16.] Unlike the 2008 financial crisis, which put more stress on the capital markets and macro economy but with smaller impact on small and medium enterprises (SMEs), the impact of COVID-19 is fundamentally different impacting the MSMEs heavily. The situation is even harder for women- run MSME's which are predominantly in the retail sector and require direct engagement with customers.

Prior to the onset of COVID-19, MSME's had an unmet financing need of $5.2 trillion every year with an additional financing demand of $2.9 trillion[17] due to the crisis. Emerging research shows that despite government relief measures, flexible credit terms from the corporate sector to those enterprises in their value chains, and emergency and targeted grant funding from the philanthropy sector, many MSMEs are struggling to meet basic business expenses such as salaries, utilities and rent payments and fear permanent closures. The survival of MSMEs will depend heavily on how well the issue of systemic resilience of MSMEs are dealt with to ensure their capacity and capability to function effectively in a sector that will require major regulatory reforms, shift in business operation

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12 https://www.worldbank.org/en/publication/global-economic-prospects

13 http://hdr.undp.org/en/hdp-covid

14 https://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_743036/lang--en/index.htm

15 https://www.worldbank.org/en/news/press-release/2020/10/07/covid-19-to-add-as-many-as-150-million-extreme-poor-by-2021

16 https://www.ilo.org/empent/whatsnew/WCMS_749275/lang--en/index.htm

17 http://documents1.worldbank.org/curated/en/729451600968236270/pdf/Small-and-Medium-Enterprises-in-the-Pandemic-Impact-Responses-and-the-Role-of-Development-Finance.pdf

models, access to reliable finance and credit, and digital transformation to withstand, and survive future shocks. In this regard, we make the following recommendations:

1. Scale up investments in Microfinance Institutions (MFIs which provide a range of financial services to micro and small enterprises and to poor and underserved segments of society. The fall in earning capacity of their clients is forcing the MFIs to reschedule the repayment of client loans which in turn adversely impacts MFIs liquidity resources, ability to meet their operational expenses, and to continue in business.

2. Small MFIs are normally not as regulated as banks. During the pandemic lockdown, in some countries, they were not considered essential services, resulting in their closures. The higher level of risks of MSMEs could also result in higher interest rates and more stringent conditions. Governments and donors will need to dialogue and work with MFIs to understand the support mechanisms and regulations that are required, especially to protect the more vulnerable clients.[18]

3. Encourage MFIs to digitize payments and partner with fintech firms to help with solutions that might be suitable for them.

4. Microfinance, banking and fintech institutions should collaborate to provide training, resources, digital technology know-how and mentorship to MSMEs to equip them for addressing the fall-out from current and future crises. [19]

5. Access to digital financial services and credit, inclusive insurance schemes and online payment systems and retail platforms are crucial to the survival of MSMEs in the post-COVID era and measures must be taken to ensure this. Collaboration between governments, financial institutions, and fintech firms are necessary to expand provision and access to affordable digital payments platforms for MSMEs. There are several existing platforms available particularly in Africa and Asia that could be expanded to other regions.[20]

Marginalized Groups – Women, youth, refugees, and migrants

As of September 2020, World Bank data indicates that 212 countries have planned, introduced or adapted more than a 1176 safety net payments and other social protection measures for the most vulnerable populations. However, digital exclusion and lack of access to a bank account, whether transactional, savings or a digital wallet, poses great challenge for those in marginalized communities to recoup benefits from government relief measures such as cash transfers and subsidies, the very measures intended to help tide them over, in a quick and timely manner. Without urgent actions to ensure marginalized groups are financially and digitally included, the socio-economic disparities will further exacerbate the gaps that existed long before the onset of COVID-19.

Financial inclusion is ever more critical for women in marginalized and poor communities to recover from the crisis and build resilient and sustainable means to generate an income, grow their MSMEs and continue to provide for their children and families even in the face of crisis. Globally, of the 1.7 billion people that remain unbanked, meaning they do not hold an account at a bank or a

18 https://www.centerforfinancialinclusion.org/global-microscope-2020

19 World Bank Policy Research Working Paper 9414

20 https://www.smefinanceforum.org/post/payments-technology-expanding-access-for-smes-in-africa

mobile bank provider, approximately 1 billion are women and in developing countries, over a decade, the 9% gender gap in accounts held has continued to persist.[21] In this regard, we recommend:

1. Implementing measures to ensure equitable access to an account, whether transactional, savings, electronic wallet, or mobile banking.

2. Designing gender sensitive and solution-oriented financial literacy and numeracy training programs that would equip women with the necessary skill sets to manage their finances effectively and to be better prepared to address the fall-out from current and future crises. Such programs should also be included in the post-pandemic national economic recovery initiatives targeted at MSMEs, which are mostly owned and managed by women.

3. Making available financial services and products designed specifically for women. In addition, women-run MSMEs should be offered digital and technical resources and capacity building training to operate and manage their businesses effectively on digital platforms to ensure profitability and sustainability in the post-COVID scenario.

4. Offering the necessary assistance to women entrepreneurs to put in measures such as key performance indicators to assess the financial health of their MSME.

5. Assessing risks at all levels including risks of gender-based violence as a key barrier to women's financial inclusion. One of the biggest challenges from COVID-19 has been the rising domestic violence against women. Financial control is the impetus, in many cases, for physical violence in a domestic environment. As such, urgent measures to remove barriers, cultural or otherwise, to women controlling and managing their finances, that prevent them from signing contracts, owning property, taking loans, and opening bank accounts must be put in place.

6. Ensuring that women who are facing financial struggles due to domestic abuse have the necessary support systems, including mental health support. Such support measures should be included in the national financial inclusion initiatives and adequate financing should be allocated.

7. Initiating public-private partnership initiatives that support financial inclusion for women in marginalized communities and by ensuring that banks and other private sector entities engaging in such programs report, as one of their key performance indicators, on the impact and progress they are making.

8. Ensuring all policy and regulatory intervention in the post-COVID era are gender sensitive and putting in measures and allocating adequate resources and capacity to collect and act on gender disaggregated data.

Youth face unique challenges, as almost 77 per cent (or 328 million) of the world's young workers are in informal jobs of which 178 million[22] work in hard hit informal sectors such as tourism, agriculture, hospitality, and food services and are largely excluded from the formal financial sector. Prior to COVID-19, of the 1.7 billion people without access to formal financial services, half of them were youth (15-24). Additionally, as digital infrastructure in many developing countries is

21 https://globalfindex.worldbank.org/

22 https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/briefingnote/wcms_745963.pdf

severely lacking, access challenges restrict their continuing education options and adversely impact their future income potential. Therefore, digital infrastructure reforms and measures to ensure youth access to digital financial inclusion is crucial to their future advancement and growth. Digital financial inclusion solutions such as electronic know-your-customer (e-KYC) would be important especially for young women who face cultural mobility restrictions.

Out of the 216 countries affected by COVID-19, 134 host refugees . At the end of 2019, there were nearly 80 million displaced people living in camps and extremely crowded housing situations. As host countries are putting in place relief measures to help their citizens address the economic fall-out from the pandemic, Internally Displaced People (IDP) risk being excluded from government safety nets and emergency plans. The challenges faced by displaced people are many, adversely impacting their ability to be financially or economically included:

- Forcefully Displaced People (FDP)[23] especially have difficulty accessing decent housing or earn a decent income. They predominantly work in the informal sector and the COVID-19 pandemic has severely impacted their health and livelihood. Measures to ensure they are financially included, have access to formal financial services, especially digital financial services, would be important for them to make and receive payments, such as government cash transfers, and to give them the ability to effectively manage their financial resources to withstand the impact of future crises.

- Refugees face major challenges in accessing mobile and digital resources. According to UNHCR, refugees are 50% less likely than the general population to have an Internet-enabled phone, and 29% of refugee households have no phone at all .A recent study[24] from the International Rescue Committee reported that "the mobile and digital access gap between refugees and national populations further inhibits access to digital service". The report further shared that "digital services such as mobile money can in theory be more accessible for refugees than standard bank accounts, in practice refugees continue to face barriers".

- A key barrier to refugees entering the financial sector is the lack of identification documents (IDs). Fintech institutions that outgrow the refugee market and become full-fledged banks are having to comply with government regulations such as Know Your Customer (KYC), need for formal identification makes it difficult for them to continue with those institutions. Governments must partner with fintech firms to develop a digital footprint for their clients that can effectively support digital IDs.

- Financial service institutions are hesitant to offer bank accounts to refugees, as the amount they will hold in the account will be small, there are significant risks to meet the requirements of regulations such as KYC and language barriers make it difficult to educate them on financial products.

  In this regard, we make the following recommendations:

1. Targeted financial inclusion policies and interventions that are holistic in nature, inclusive

[23] Forced Displacement and COVID-19: Why Financial Inclusion Matters | Alliance for Financial Inclusion | Bringing smart policies to life (afi-global.org)
[24] https://www.rescue.org/sites/default/files/document/5433/improvingfinancialhealth-r3.pdf

of all marginalized communities including all displaced people are critical to economic recovery.

2. Countries that have not yet put in place digital identity programs and other digital infrastructure mechanisms such as interoperable payment systems, must invest in them to ensure stimulus packages and government relief measures such as cash transfers can be transmitted effectively to vulnerable population such as FDPs. There are many refugees and other immigrants without IDs preventing their ability to receive social protection assistance. Direct transfer payments enabled by digital ID and transfer could allow for the flexibility needed in crisis situations and foster dignity needed in the case of COVID-19 related lockdowns.

3. FDPs are more vulnerable to fraud, discrimination, and exploitation and as such consumer protection measures must be put in place. Additionally, financial literacy and numeracy trainings must be provided so that they are better equipped to manage their finances and benefit from digital financial services.

Section 2. Financial inclusion, as an input to Section 2 Chapter III.C. (Sources of international development cooperation) and COVID-19of Chapter III.C. International Development Cooperation

- Lack of income remains one of the main reason for financial and digital exclusion (Microscope 2020) Therefore, any economic recovery organized through International Development Cooperation will need to specifically target to build the capacity and income of those most affected - people from low socio-economic background working in the informal sector who would have lost their livelihood as they did not have a the capacity or option to manage their micro and small business online and were not eligible to receive stimulus packages, worker's benefits or insurance.

- Funding should be allocated to assist and regulate financial institutions (microfinance and non-bank institutions) that support the poor. These institutions have been disrupted as many of their clients faced economic challenges due to lockdowns and business closures. Governments will need to work with these institutions to assist with their recovery.

- Official Development Assistance commitments must be met, and foreign direct investments must be continued to ensure austerity measures are not put in place adversely impacting the recovery of Least Developed Countries and the most vulnerable population.

- Access to digital technology is to be viewed as a human right. Through blended finance initiatives governments and technology companies should provide low-cost internet/digital technology targeted at low income, rural, remote, and indigenous communities.

- Governments need to take measures to promote inclusive insurance options for poor and marginalized communities and regulate insurance companies to cover loss and damages from natural disasters (act of God clause) especially for SMEs who can barely afford insurance premium. Provision of low costs loans to small landholding farmers, and MSME owners, to fund business recovery, is also necessary.

Financial inclusion regulatory environment/progress

Financial inclusion pushes the boundaries of traditional banking and creates a wide range of challenges for both the public sector providing the regulatory environment and for the private sector partnerships/investors. The financial inclusion regulatory environment remains dynamic, with a wide range of countries at different levels of regulatory maturity. But there is progress. Over the past decade there has been an increasing number of policies and regulations focused on financial inclusion, including National Financial Inclusion Strategies, SME Finance, Digital Financial Services, Gender Inclusive Finance, and Consumer Empowerment and Market Conduct.

- National Financial Inclusion Strategies
  - There is an emphasis on in-country coordination between public and private sectors during the formulation stage of policy.
  - There is also greater emphasis in public dissemination of financial inclusion development to local market participants.
  - The World Bank uses partnerships as a central instrument in expanding financial inclusion through knowledge generation and sharing, standard setting and policy guidance
- SME Finance
  - Reforms have provided a broader legal framework for SME finance including financing and credit guarantees
- Digital Financial Services
  - There has been an uptick in fintech related policies providing an enabling environment for innovations and fintech solutions. Unfortunately, consumer protections capabilities are likely not consistently keeping pace with growth in this area globally.
- Gender Inclusive Finance
  - There is a notable trend in policy makers emphasizing the development of sex-disaggregated data frameworks to measure and track the success of gender inclusiveness.
- Consumer Empowerment and Market Conduct
  - These are the consumer protection frameworks. There is an emerging trend in implementing financial literacy strategies, many of which have a strong gender focus. Other topics include transparency and disclosure regulations.

We make following additional recommendations to advance financial and digital inclusion in the post COVID-19 economy:

1. Greater collaboration between policy makers and regulators in the post-COVID era to ensure digital inclusion for marginalized communities.

2. Include representatives from marginalized groups to be at the decision-making table while designing and implementing public and private sector interventions focusing on financial and digital inclusion strategies directed at them.

3. Incidence of fraud and breach of cyber security undermines the trust of customers in digital financial services (DFSs). According to research by **ImmuniWeb**, 98 out of the top 100 global fintech firms are vulnerable to cyber security attacks including phishing and mobile and web security breaches. Therefore, DFSs must invest in cyber security measures for theirs's and their customers benefit.

4. Countries must institute regulatory measures to monitor virtual assets with the rise in increased efforts to conceal illicit funds and as consumers are preferring to hold virtual assets such as of crypto currencies.

5. Invest in infrastructure for digital connectivity and electricity capable of ensuring last mile connectivity and universal, sustainable, and affordable access to ICT services for all.

Section 3. Climate finance, as an input to section, Chapter II (Thematic Chapter) on Financing resilience

COVID-19 Pandemic, Inequality/Poverty and Climate Change

The COVID-19 Pandemic exposed myriad weaknesses in the current economic, financial, and political systems. These weaknesses create and perpetuate inequalities in the social and economic well-being of humankind. The same economic system that values exponential linear growth has led to an extractive mentality which is depleting Earth's resources. Further, the system as practiced undermines the health of land and water ecosystems and assaults biodiversity so necessary to human life and well-being.

Natural and extreme climate disasters have compounded the risks of people especially those living in extreme poverty and those who are most marginalized, especially women and girls, older persons, persons with disability and those living in geographic areas affected by slow and sudden impacts of climate change.

According to the World Meteorological Organization (WMO) Provisional Report in 2020, atmospheric concentrations of greenhouse gases continued to rise despite of COVID-19 lockdowns, setting the planet on the path of irreversible warming for generations to come. The figure shows that the average temperature in 2020 is about 1.2 degrees Celsius above the pre-industrial (1850-1900) level. There is at least a 20 percent probability that it will temporarily exceed 1.5 degree Celsius in 2024 explained WMO Secretary-General Petteri Taalas.[25]

Article 17 of the Addis Ababa Action Agenda says, "All of our actions need to be underpinned by our strong commitment to protect and preserve our planet and natural resources, our biodiversity and our climate".

The Secretary General Antonio Guterres said, "COVID recovery and our planet's repair must be the two sides of the same coin."[26] He calls all people on the planet to take a paradigm shift to set a holistic and greener path to post-pandemic recovery.

Risk, Resilience, Adaptation

Resilience is the capacity of social, economic, and environmental systems to cope with a hazardous event or trend or disturbance, responding or reorganizing in ways that maintain their essential function, identity, and structure, while also maintaining the capacity for adaptation, learning and transformation.[27]

Disaster is a serious disruption of the functioning of a community or a society involving widespread human, material, economic or environmental losses and impacts, which exceeds the ability of the affected community or society to cope using its own resources.[28]

Adaptation In human systems, the process of adjustment to actual or expected climate and its effects to moderate harm or exploit beneficial opportunities. In natural systems, the process of adjustment to actual climate and its effects; human intervention may facilitate adjustment to expected climate. [29]

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[25] https://public.wmo.int/en/media/press-release/2020-track-be-one-of-three-warmest-years-record
[26] The UN Secretary General's State of the Planet Speech at Columbia University, 4 December 2020.
[27] UNEP Adaptation Gap Report 2018, p.vii
[28] United Nations International Strategy for Disaster Reduction (UNISDR).
[29] Intergovernmental Panel on Climate Change

The adoption of the Paris Agreement established a global goal on adaptation of "enhancing adaptive capacity, strengthening resilience and reducing vulnerability to climate change, with a view to contributing to sustainable development and ensuring an adequate adaptation response in the context of the temperature goal". [30] Given the continuous rise in greenhouse gas emissions, the cost of adaptation will also increase. Global, national and sector studies show that adaptation costs increase under higher emissions scenarios. Hence, it is vital that deep mitigation actions are the best insurance against rapidly rising adaptation costs and the potential limits of adaptation. [31]

From 2008 to 2014, data showed that some 185 million people were displaced in 173 countries or an average of 26.4 million annually. Of this 185 million, 86 percent are displaced by weather-related hazards such as floods and storms. [32]

Not only has the pandemic affected us globally in 2020, but it is also another year of extraordinary climate impacts. From extreme temperatures on land, sea and especially in the Arctic. Wildfires consumed vast areas in Australia, Siberia, the US West Coast and South America. This year also set a record number of hurricanes in the Atlantic, including unprecedented back-to-back category 4 hurricanes in Central America and South East Asia, and Africa in November causing massive flooding that lead to massive population displacement and undermining food security for hundreds of millions.[33]

Adaptation Finance Gap

There is a considerable adaptation finance gap today, which is estimated to increase significantly as greenhouse gas emissions continue to rise. The annual costs of adaptation could range from US$140 billion to US$300 billion by 2030 and from US$280 billion to US$500 billion by 2050. However, major information gaps continue to persist across sectors and for different impacts, most notably with the omission of adaptation cost estimates for biodiversity and ecosystem services, which are likely to raise the costs of adaptation further. Given the latest estimates of the global investments in new infrastructure, which range from US$57 trillion to US$95 trillion between now and 2030, cost uplifts of this level imply very large global adaptation costs. For international climate finance, the additional 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 need to be included in adaptation cost estimates and financing needs to reflect the realistic costs of delivering adaptation.[34]

Concerningly, much of existing adaptation finance is not targeting the most climate vulnerable countries. For example, countries with high levels of climate vulnerability receive little support from either bilateral or multilateral donors.[35] Ensuring ODA is targeting climate vulnerable countries, providing capacity building for more fragile and vulnerable countries is essential for reaching the goals of the Paris Agreement as well as ensuring that other development investments are not washed away because of climate change.

Adaptation and Green Climate Fund

Adaptation projects receive less funding than mitigation projects. OECD data shows that only one fifth of the GCF funded adaptation, instead of the 50-50 allocation stipulated in the Paris Agreement.

[30] UNEP Adaptation Gap Report 2018.
[31] UNEP Adaptation Gap Report 2014.
[32] Internal Displacement Monitoring Center; IOM,2017. Ionesco, Mokhnacheva, Gemenne
[33] WMO Provisional Report on State of Global Climate 2020
[34]UNEP Adaptation Gap Report 2018.
[35]Zurich Flood Resilience Alliance, At What Cost: How chronic gaps in adaptation finance expose the world's poorest people to climate chaos (2020) and IFRC's World Disaster Report, Chapter 7, Smart Financing (2020)

Added to this, the burden of adaptation for resilience building is passed to the public, while financing for mitigation receives more support from the private investment sector. This imbalance results in lack of support to climate vulnerable areas and Least Developed Countries who needed most climate finance. The Green Climate Fund aims to bridge this funding gap and has secured its second round of funding, this time obtaining 9.78 billion USD in pledges. This amount will define the scope and magnitude of the adaptation and mitigation projects that are to be presented at the coming COP25 Climate Change Conference in Madrid. The Fund will be influenced by the NDCs submitted by countries in 2020. [36]

Adaptation initiatives ordinarily applied at the local levels directly benefit the public sector providing healthcare, infrastructure, ecosystem maintenance etc. The products of adaptation directly benefit the local people, enhancing their capacity and resilience to hazards of climate change.

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".

Nature-based Solutions (NbS) are actions to protect, sustainably manage, and restore natural or modified ecosystems, that address societal challenges effectively and adaptively, simultaneously providing human well-being and biodiversity benefits.[37] According to research NbS could provide around 30% of the cost-effective mitigation needed by 2030 to stabilize warming below 2 degrees Celsius. Sixty-six percent of the Paris Agreement Signatories include NbS to their Nationally Determined Contributions (NDCs). And data suggests that at present, only 17% of NDCs centered on adaptation (ecosystem-based adaptation) are quantifiable, setting the need for evidenced-based targets. To date, there are over 70% of NDCs that include forest sectors, but only 20% have quantifiable targets, and only 8% include targets expressed in tonnes of carbon dioxide equivalent. While more efforts are focused on terrestrial forests and afforestation for climate mitigation, there is a gap in scaling up NbS in carbon rich ecosystems such as grasslands, drylands, coastal and marine ecosystems (e.g., mangroves, sea grass) and other wetlands. [38]

In building-up NbS 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 is Costa Rica, who 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 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.

[36] https://www.climateforesight.eu/jobs-growth/green-climate-fund-adaptation/
[37] IUCN Resolution 69, 2016. Adopted by 1,300+ IUCN State and NGO Members
[38] Seddon, N. Sengupta, S., Garcia-Espinosa, M., Hauler, Il, Herr, D. and Rizvi, A.R. (2019). *Nature Based Solutions in Nationally Determined Contributions: Synthesis and recommendations for enhancing climate ambition and action by 2020. Gland, Switzerland and Oxford, UK:* IUCN and University of Oxford.

Under this mechanism, countries with low emissions would be allowed to sell their excess allowance to larger emitters, with an overall cap of greenhouse gas (GHG) emissions, ensuring their net reduction. Supply and demand for emissions allowances would lead to the establishment of a global carbon price that would tie the negative externalities of GHG emissions to polluters. In other words, by paying a price on carbon, states exceeding their NDCs would bear the costs of global warming. Through this flexible approach, GHG emissions would undergo a strong decline, coupled with stimulation for innovative and cleaner technologies and an overall transition towards a low-carbon economy.[39]

Article 6 is one of the least accessible and most complex concepts of the global accord. The concept was not agreed to until the last morning of the Paris negotiations in 2015 and was left unresolved at the Katowice climate talks of 2019. If properly implemented, Article 6 could help the world avoid dangerous levels of global warming or let countries off the hook from making meaningful emissions cuts. Countries that struggle to meet their emissions-reduction targets under their national climate plans (known as "nationally determined contributions," or NDCs), or want to pursue less expensive emissions cuts, can purchase emissions reductions from other nations that have already cut their emissions more than the amount they had pledged, such as by transitioning to renewable energy. In addition to being a driver for carbon pricing, the successful implementation of Article 6 could create new channels for climate finance and lead to technology transfer and capacity-building. Carbon markets are valuable both in terms of potential emissions reductions and the cost savings they can generate. Half of countries' initial NDCs (constituting 31% of global emissions) include the use of international cooperation through carbon markets. The potential benefits to cooperation under Article 6 include cost savings of $250 billion per year in 2030.[40]

Investing in Blue Carbon is an example of a nature-based solution

Oceans make up 70% of our planet, thus, it is called "The Blue Planet". Oceans and seas play crucial roles in the Earth's carbon cycle, thus important in our climate system. They are not only the world's largest long term carbon sinks, but our oceans store and cycle 93% of the earth's CO2. The world's most crucial climate combating wetland ecosystems: mangroves, saltmarshes, sea grasses are known as "blue carbon" sinks, and estuaries capture and store carbon emissions. There is rapid degradation to these wetland ecosystems. Their destruction will release more carbon dioxide in the atmosphere.

To respond to the need of massive reduction of carbon dioxide emissions in the atmosphere, the international community climate change negotiators have come up with Reducing Emissions from Deforestation and Forest Degradation (REDD) as an international mechanism for developing countries. This mechanism works by providing incentives for developing countries to reduce deforestation and forest degradation by protecting their forests and thereby increasing the carbon storage capacity of terrestrial ecosystems and mitigating further CO2 emissions. The discussion was later amended to broader scope to include conservation, sustainable forest management and reforestation as a means of carbon fixation, thus the term REDD plus (REDD+). Discussions on its concept and design of REDD+ are still ongoing. [41]

To sum up, the objectives of the Blue Carbon Framework are to define the activities and timeline and to increase policy development, management, and planning of blue carbon systems. The framework provides the basis for a coordinated program to support the development and implementation of policy and incentive mechanisms for conservation, restoration, and sustainable use of coastal

[39] https://iccwbo.org/media-wall/news-speeches/article-6-important/
[40]https://www.wri.org/blog/2019/12/article-6-paris-agreement-what-you-need-to-know
[41] Merckx, V. (2012, April). Introduction to REDD+. Retrieved December 5, 2012, from http://www.theredddesk.org/sites/default/files/resources/pdf/2012/4.1.v.merckx.pdf

ecosystems. It defines actions and the related timeline in developing and implementing financial incentives for climate change mitigation, identifying stakeholders, partners, and Blue Carbon advocates.

Climate Finance Working Group's Working Research Study on Adaptation in Jamaica

JAMAICA AND CLIMATE CHANGE

Jamaica is particularly vulnerable to hurricanes, floods, storm surges, droughts, and other climate-related hazards. The Adaptation Fund programme implemented by the Planning Institute Of Jamaica (PIOJ), a National Implementing Entity of the Fund, seeks to protect the livelihoods and food security of people living in seven of the country's 14 parishes by improving water harvesting and management, as well as erosion and flood control. The US$ 9.97 million project is funded through the Direct Access modality, pioneered by the Adaptation Fund.[42] There were three major components: 1) Protect beaches, specifically Negril's from coastal erosions caused by storms and sea-level rise by building breakwater structures, 2) Enhancing climate resilience of the agricultural sector by water and land management, and 3) Capacity building for institutional and local level in coastal and agricultural adaptation.

One example of capacity building for institutions is the development of a Climate Predictability Tool (CPT) for the Meteorological Service of Jamaica (MSJ). Using the tool, MSJ made its first official drought forecast in late 2013, predicting less rainfall in the coming three months and would extend longer. It was said to be Jamaica's worst drought in 30 years. Agricultural data for the period shows that production fell by more than 30 per cent over 2013 and estimates are that losses due to crop failures and wildfires amounted to US$1 billion. The CPT was used by the Ministry of Water, Land, Environment and Climate Change to make the necessary preparation to prepare the whole country for the coming drought. The data was also used by the National Water Commission (NWC) to guide an implementation on water restrictions in the whole island. This innovation was one of the basic steps in Jamaica's resilient building. It was designed specifically for Jamaica's needs, but could be also used in the rest of the Caribbean region. The lessons learned from the Adaptation Fund programme in Jamaica illustrate the following: 1) Effective public-private cooperation; 2) Increased educational and technological capacity on climate change; 3) Develops infrastructure in a developing country.

Conclusion

There is a need for a paradigm shift from the current global economic system to a holistic one that respects nature and protects the well-being of people and the planet. Humans continue to push greenhouse gas emissions to its planetary limit with dire consequences that are drastically affecting those who are most vulnerable and most left behind. Nature-based solutions offer win-win solutions to cut emissions that are natural and beneficial to the planet, its biodiversity, and the people. Climate finance gaps on nature-based adaptations and as well as mitigation must be given priority in the national climate action plans and must be fully funded by internationally agreed climate financing mechanisms.

We make the following policy recommendations:

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[42] https://www.adaptation-fund.org/project/enhancing-the-resilience-of-the-agricultural-sector-and-coastal-areas-to-protect-livelihoods-and-improve-food-security/

1. Nations should set up a structure of validation of nature-based carbon sequestration in their lands and waters. The loss and the value of this nature should be quantified so that financial remuneration can be focused to prevent further loss, restore this carbon capacity, build surplus capacity of nature-based solutions. Finance should have these validated solutions.

2. Stakeholder groups should be expanded alongside the Major Groups and now must include local leaders, scientists, monitoring, and data gathering organizations, to provide most practical input when building cost effective solutions. As local communities must be the main beneficiaries of redesigned global economic and local economic systems, these groups should be part of the fund allocation prioritization process. Such inclusion incentivizes and serves to educate local groups to become better implementers of these solutions. New technologies for gathering, monitoring, and analyzing data must be utilized in ways that promote people, planet, and partnership. New forms of financial tools blockchain, cryptocurrencies, big data sets, machine learning and Artificial Intelligence can help facilitate these systems. These technologies should facilitate in real time transparent and trust building systems which will promote the implementation of nature-based solutions. The international organization and nations should be encouraged to preserve and create space to allow for innovations in both finance and technology. It should not be bureaucratically and highly regulated but that encourages multilateral and holistic projects driven by science, data incentive and risk reward of stakeholder. These new technologies can optimize local and global sustainable use of the natural capital and increase equitable distribution of benefits to allow each human and fellow species dignity and needs to sustain life.

3. Gender mainstreaming especially in leadership sectors on all national and subnational climate adaptation plans and sustainability and sustainable use policy governance must be a priority. Not only gender inclusion but sensitivity training that enables all to act in robust partnership is needed. Gender mainstreaming must include continual monitoring and evaluation for effectiveness.

4. International financial systems must be restricted when they lead to depredation of the environment and drive greater income inequality.   Profit motive must be subordinated to people and planet well-being. All economic systems are based on natural capital and ecosystems that require resource management and redirection of financial flows into regenerative planning. 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.

5. Innovation and technology related to creation of financial systems, tools also must help, sharing of the commons facilitate equality, balance transparency, privacy and security, efficiencies.   We support the implementation of more circular economic[43] approaches over linear approaches based on profit motives.   Circular economic approaches will provide jobs that are more long lasting and satisfying offering more stable environments to governments.

6. The programming and implementation costs of adaptation are significant. For international climate finance, the additional costs of design (including safeguards) and implementation (capacity building, project management, reporting, monitoring and evaluation, and oversight)

[43] https://sustainabilityguide.eu/sustainability/circular-economy/

typically range between 10 and 20 percent of the total costs. These need to be included in adaptation cost estimates and financing needs to reflect the realistic costs of delivering adaptation. [Adapted from Adaptation Gap Report 2018 recommendation]

7. Countries must strengthen the role of NbS in their NDCs by targeted financing to enhance implementation of nature-based solutions, both in forest and marine ecosystems.

8. Indigenous people must be recognized and compensated for their conservation roles in many ecosystems. They have much to offer in relation to care and respect for the earth and need to be at the table when it comes to policy development.

9. Carbon sequestration by NbS must be properly compensated by high emissions countries. Carbon markets must incorporate NbS in their financing scheme.

10. The Green Climate Fund must deliver to the 50-50 allocation to mitigation and adaptation and make it easier for developing and least developed countries to access adaptation funds.