



## **NGO Committee on Financing for Development submission to the 2020 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 2020 *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 24, 2019, is divided into the following three sections:

1. Social protection systems including floors, as an input to section 5.1 (Expenditure policy frameworks) of Chapter III.A on domestic public resources.
2. Financial inclusion, as an input to section 3.2 (“Inclusive finance”) of the thematic chapter, section 3.3 (“Accelerating financial inclusion”) of Chapter III.B on domestic and international private business and finance and to section 4.1 (“Fintech and financial inclusion”) of Chapter III.G on science, technology, innovation and capacity building.
3. Climate finance, as an input to section 2.2 (“Climate finance”) of Chapter III.C on international development cooperation and section 5.2 (“Financial policies for climate change mitigation”) of Chapter III.F on addressing systemic issues.

### **Section 1. Social protection systems including floors, as an input to section 5.1 (Expenditure policy frameworks) of Chapter III.A on domestic public resources**

Because the NGO Committee on Financing for Development (FfD) is concerned above all with the global eradication of poverty, it strongly encourages 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. We believe it is important to recognize access to social protection as the right of every individual and not just a program contingent upon the availability of funds. This is a matter, first of all, of assuring adequate space in government budgets for SPFs. To help raise awareness and thereby help promote this aim, the Committee calls on the Inter-Agency Task Force (IATF) on FfD to carry forward its analysis of the financing of social protection that it began in 2017. Much has happened in the interim that warrants reflection in the 2020 report, which may help build additional momentum for more far-reaching social protection policies and programs and further international support to developing countries in this regard.

There is little controversy that SPFs are desirable. Indeed, norms for their content and implementation have been agreed at the International Labor Organization (ILO) in recommendation 202 (adopted 2012). Provision of such SPFs, however, depends not only on their appropriate design and effective implementation and monitoring, but also on governments reliably allocating sufficient fiscal resources to their SPFs in good and bad times. It thus 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 as needed in times of strain.

In 2015, the world’s governments committed in the Addis Ababa Action Agenda to a “new social compact,” which included “strong international support” for countries as they “explore coherent funding modalities to mobilize additional resources” to implement the compact, including for social protection (UN General Assembly resolution 69/313, annex, para. 12). Also in 2015, the UN General Assembly adopted the 2030 Agenda for Sustainable Development (resolution 70/1) with its sustainable development goals 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.”

In 2017, the IATF encouraged countries to build political support for SPFs through national social dialogues and by linking political support for additional tax revenue to ameliorating pressing social needs. The Task Force also called for additional international capacity-building support and for an inventory of quick-disbursing financing instruments that might speak to the adequacy of external crisis financing.<sup>1</sup> The FfD Follow-Up Forum reflected these concerns in its Outcome Document where it emphasized that “social protection systems and measures for all, including floors, [should be] consistent with national development strategies, and [be] well designed, efficiently operated, responsive to shocks, and sustainable in the long term” (E/FFDF/2017/3, Section I, para. 7). The IATF followed up by providing that inventory of quick-disbursing funds in its 2018 report,<sup>2</sup> and in 2019 the FfD Outcome Document reemphasized the 2017 conclusion that social protection systems and measures for all, including floors should be “well designed, efficiently operated, responsive to shocks and sustainable in the long term” (E/FFDF/2019/3, Section I, para 9).

### **Recent developments to reflect in the 2020 report:**

We thus recommend that the 2020 report bring recent international policy developments promoting SPFs to the attention of the international development community. A selection of the developments in 2019 is highlighted here:

In 2016, ILO and the World Bank launched a multi-stakeholder Global Partnership on Universal Social Protection (USP2030), which aims to bring together governments, international and regional organizations, civil society organizations, social partners, and other organizations to create a world where anyone who needs social protection can access it at any time. USP2030 partners seek to increase the number of countries that provide universal social protection, supporting countries to

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<sup>1</sup> United Nations (2017). *Financing for Development: Progress and Prospects*, pp. 23-27.

<sup>2</sup> United Nations (2018), *Financing for Development: Progress and Prospects*, pp. 147-152 and annex.

design and implement universal and sustainable social protection systems. Actions include coordinating country support to strengthen national social protection systems, knowledge development to document country experience and providing evidence on financing options and advocacy for integrating universal social protection. In just three years, USP2030 has grown into a significant forum for discussion of universal provision of social protection.<sup>3</sup>

In addition, as part of its centenary celebration, ILO held a number of important forums on social protection in 2019, and launched a number of analytical tools to help plan and cost specific social protection programs, while donor governments have also launched a number of initiatives to boost social protection, including floors. For example, the European Union is initiating an Action Plan called “Synergies in Social Protection and Public Finance Management,” which forms part of its development assistance strategy.<sup>4</sup>

The UN Commission on Social Development stressed the importance of social protection policies in addressing inequalities in its draft resolution submitted at the 57<sup>th</sup> Session of the Commission on Social Development<sup>5</sup>.

The International Monetary Fund (IMF) adopted a new strategy in 2019 to guide its policy advice on social spending both in normal times and regarding the policy conditions required to receive IMF loans in difficult times.<sup>6</sup> The policy applies to spending on social protection, health and education on condition that outlays for each of these programs are “macro-critical”, which is almost always the case given these categories of government spending are fairly universally a large share of the annual government budget. The Fund says that the channels through which these spending categories can become macro-critical pertain to questions about their “fiscal sustainability, spending adequacy, and spending efficiency.” IMF further promises 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.” 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” (pp. 1-2).

As the IMF’s expertise on these categories of budget outlays is limited, the new strategy promises improved collaboration with “international development institutions.”<sup>7</sup> It also promises “There would also be a stronger engagement with other stakeholders, including Civil Society Organizations” (p. 2). This is a key promise, as there is often a gap between IMF policy

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<sup>3</sup> See <https://www.usp2030.org/gimi/USP2030.action>.

<sup>4</sup> Frances Mestrum (2015), “Social Protection in Development Cooperation of the European Union,” Analysis 46, Brot für die Welt, Berlin ([https://www.brot-fuer-die-welt.de/fileadmin/mediapool/2\\_Downloads/Fachinformationen/Analyse/Analysis46\\_Social\\_Protection.pdf](https://www.brot-fuer-die-welt.de/fileadmin/mediapool/2_Downloads/Fachinformationen/Analyse/Analysis46_Social_Protection.pdf)).

<sup>5</sup> <https://undocs.org/E/CN.5/2019/L.6>

<sup>6</sup> 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>).

<sup>7</sup> However, according to the summary of the Executive Board discussion of the new policy, which is included in the above-referenced document, the improved collaboration should be “notably with the World Bank” whose views are not always well aligned with those of ILO, UNICEF and other UN agencies.

commitments made at Headquarters and country programs that are actually adopted.<sup>8</sup> While IMF is preparing a guidance note for how staff should implement the new policy, it is not slated to be completed before the end of 2020. Meanwhile, IMF staff continue to make their annual visits to countries to appraise their macroeconomic situations, including fiscal sustainability, as well as negotiate adjustment programs for countries in difficulty seeking to borrow from IMF.

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<sup>8</sup> See Isabel Ortiz and Matthew Cummins (2019), “Austerity, the new normal: A renewed Washington Consensus, 2010-2024,” Working Paper, Initiative for Policy Dialogue, Columbia University, October (<http://policydialogue.org/files/publications/papers/Austerity-the-New-Normal-Ortiz-Cummins-6-Oct-2019.pdf>).

**Section 2. Financial inclusion, as an input to section 3.2 (“Inclusive finance”) of the thematic chapter, section 3.3 (“Accelerating financial inclusion) of Chapter III.B on Domestic and international private business and finance, and to section 4.1 (“Fintech and financial inclusion”) of Chapter III.G on Science, technology, innovation and capacity building**

The Addis Ababa Action Agenda stresses that “we will work towards full and equal access to formal financial services for all” and that “(we) will consider including financial inclusion as a policy objective in financial regulation” (paragraph 39). Financial inclusion is a prominent enabler for achieving the UN Sustainable Development Goal (SDG) No. 1- No Poverty. Financial Inclusion is also mentioned as a metric to determine the success of 7 other SDGs:

- SDG 2 on zero hunger;
- SDG 3 on Good Health and Well-Being;
- SDG 5 on Gender Equality;
- SDG 8 on Economic Growth and more Jobs;
- SDG 9 on supporting industry, innovation, and infrastructure;
- SDG 10 on reducing inequality; and
- SDG 17 on the means of implementation.

And finally, it is a key agenda item for emerging and developing countries for poverty alleviation, employment generation, wealth creation and improving the welfare and standard of living of people and in turn economic development.

Yet, 2.3 billion people in the world continue to remain “underbanked” (not using financial services beyond a basic bank account) and 1.7 billion people remain “unbanked” (not having any type of account at any financial institution).

If we wish all people, especially the poor, to fully and meaningfully benefit from the formal financial system, including savings accounts, payment facilities, loans and insurance, then we must help them understand the services and appreciate both their advantages and risks, and build their financial acumen through financial literacy and numeracy skills trainings. We must also design financial products that take account of the preferences and unmet needs of low-income households; establish effective regulatory mechanisms to address the unique challenges of this community while proposing innovative financial inclusion strategies through digital finance and blended finance initiatives.

It is also important to point out that while financial inclusion is increasingly mentioned in the context of developing countries, we should not lose sight of the important role it plays in the lives of those in marginalized communities in the developed countries as well. For instance, a study by the Federal Deposit Insurance Corporation (FDIC) of the United States reported that while the share of U.S. households without a bank account continues to drop due to improvements in U.S. household socio-economic conditions, the unbanked and underbanked consumers continued to have limited access to mainstream credit including credit cards and bank loans.<sup>9</sup> As a result, these consumers

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<sup>9</sup> <https://www.fdic.gov/news/news/press/2018/pr18077.html>

may rely on more expensive credit options, such as payday loans and “title loans,” when they are caught in a financial emergency.

## **Toward a strategy for financial inclusion**

As noted, the international community has agreed to seek “full and equal access to formal financial services for all.” National authorities and international institutions have adopted various initiatives to deliver that access. We emphasize here a number of the factors that require further attention.

### **A. Data inconsistency in counting the underbanked and unbanked**

The current data on the unbanked is inflated and there appears to be a lack of consistency between the various data sources. The Global Findex report shared that 69% of adults globally have a bank account, meaning they are technically not unbanked. However, studies showed that more than 80% of the gain is made up of accounts that are inactive for over one year and that the share of banked people grew only from 52% to 53%.<sup>10</sup> Research also shows that the level of the unbanked declined from 50% (2009) to 30% (2019). While 1.2 billion adults gained access, 1.7 billion remain excluded and 20% are inactive or dormant and that 1 in 5 accounts has not been used in the past year (higher for mobile money 65%).<sup>11</sup>

India is frequently pointed out as a country that has made tremendous progress in financial inclusion. However, a recent report from the non-profit Center for Financial Inclusion shared that there are almost 370 million people with dormant bank accounts in India. Further analysis pointed out that while 80% of Indians have an account compared to 53% in 2014, less than half are active. The majority of these accounts are the result of India’s Pradhan Mantri Jan Dhan Yojana Scheme. While it is possible that these dormant accounts would eventually become transaction accounts, to count them as part of the current formal financial system is misleading.

### **B. Bring financial services to the front door of the poor**

Financial inclusion is the bridge between inclusive growth and reduced inequality. If inclusion means access to banking, then all those products and services that stimulate growth – deposit taking, a good return on savings, payment processing, loans, including micro-loans, and insurance – need to be made as accessible to people in rural and poor communities as it is accessible to those in the urban, salaried segment.

### **C. Bring financial services to medium and small enterprises in low-income countries**

Small and medium-sized enterprises (SMEs) and “informal” micro enterprises can be a viable source of income for many, especially where employment opportunities and wages are low. However, SMEs are more prevalent in higher income regions and contribute 51.5% of GDP in those regions but only 15.6% in lower income countries. In the case of lower income countries,

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<sup>10</sup> <https://qz.com/1299292/financial-inclusion-nearly-half-of-the-worlds-population-still-doesnt-use-a-bank-account/>

<sup>11</sup> [https://www.unsgsa.org/files/8215/6942/4860/UNSGSA\\_2019\\_Annual\\_Report.pdf](https://www.unsgsa.org/files/8215/6942/4860/UNSGSA_2019_Annual_Report.pdf)

“informal” micro enterprises are more prevalent and contribute 47.2% of GDP in the region and only 13% of GDP in higher income countries.<sup>1213</sup>

#### D. Gender gap

“The poorest of the poor tend to have a feminine face.” The gender gap in financial inclusion has persisted through the years (58% access for women versus 65% for men in 2014; 65% versus 72% in 2017),<sup>14</sup> and yet a 2017 analysis by Financial Alliance for Women showed that women are strong savers, have a lower loan to deposit ratio than men (66% to 11.5%) and are sensible borrowers, with a non-performing loan share of 2.9% (4.2% men). The gender gap for women in financial inclusion nevertheless persists at 7% in developing economies.

One reason seems to be that without sex-disaggregated demand-side data – clarifying the extent to which banking services match the banking needs of the population – and supply-side data – clarifying which services are provided by the banking sector – it is difficult to understand why the gender gap persists and what actions to take to fill the gap.

According to the G20-commissioned report by IFC and McKinsey, “*Scaling up Access to Finance for Women Entrepreneurs*”, women own one-third of SMEs, which are top drivers of job creation in emerging markets. Evidence further indicates that only 6% of the SME banking portfolio is allocated to women. The report found that women in emerging markets face a global credit gap of \$260-\$320 billion. The top five banks that serve SMEs in each region reach only about 20% of formal SMEs in emerging markets.<sup>15</sup>

A survey conducted by the Alliance of Financial Inclusion reveals that only a few countries had made access to finance for Micro and Small and Medium Enterprises (MSMEs) owned by women and women entrepreneurs a priority — i.e., by including it in their national financial inclusion strategies or other MSME-specific national strategies.<sup>16</sup>

#### E. Financial literacy

Based on the Standard & Poor’s Global FinLit Survey,<sup>17</sup> measuring the four fundamental concepts for financial decision-making—basic numeracy, interest compounding, inflation, and risk diversification—where a person is defined as financially literate when he or she correctly understands at least three out of the four financial concepts, only 33 percent of adults worldwide are financially literate. This means that around 3.5 billion adults globally, most of them in developing economies, lack an understanding of basic financial concepts.

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<sup>12</sup> Ody A. & de Ferranti, D. 2007. “Beyond Microfinance, Getting Capital to Small and Medium Enterprises to Fuel Development”, Policy Brief <https://www.brookings.edu/research/beyond-microfinance-getting-capital-to-small-and-medium-enterprises-to-fuel-faster-development/>

<sup>13</sup> Henrekson, M., & Sanandaji, T. 2017. ‘Small Business Activity Does not Measure Entrepreneurship,’ Proceedings of the Nat’l Acadademy of Science USA. 2014 Feb 4; 111(5): 1760–1765.

<https://www.ncbi.nlm.nih.gov/pmc/articles/PMC3918828/>

<sup>14</sup> <https://globalindex.worldbank.org/index.php/#GF-ReportChapters>

<sup>15</sup> <https://www.weforum.org/agenda/2015/04/why-financial-inclusion-for-women-is-critical-for-shared-prosperity/>

<sup>16</sup> [https://www.afi-global.org/sites/default/files/publications/2017-03/AFI\\_smeF\\_Survey.pdf](https://www.afi-global.org/sites/default/files/publications/2017-03/AFI_smeF_Survey.pdf)

<sup>17</sup> [https://gflec.org/wp-content/uploads/2015/11/3313-Finlit\\_Report\\_FINAL-5.11.16.pdf?x22667Ho](https://gflec.org/wp-content/uploads/2015/11/3313-Finlit_Report_FINAL-5.11.16.pdf?x22667Ho)

## **F. How poverty impedes access to finance**

According to the World Council of Credit Unions the most common reason for not having an account is the lack of money. But issues such as poor infrastructure, a lack of formal<sup>18</sup> identification, and a lack of financial education are all contributing factors to the problem.

In addition, banks spend three times as much on IT security compared to non-financial organizations of the same size. This high cost is translated as high banking fees to consumers which in turn contribute to a preference for cash transactions over transactions through the bank account.<sup>19</sup> Additionally, as often in developing countries a large percentage of people live in the rural areas, the cost of opening a bank account, transaction fees and travel costs are too high and inconvenient for people to use the traditional banks for their regular savings. Mobile-banking is seen as a solution for servicing transactions for the lower income customers. However, the fee structure makes these services too costly for the very poorest.

## **G. Trust building**

Lack of trust in the formal financial service providers' ability to serve as a secure means for keeping money, accruing interest on savings and offering low-income customers medium-term loans and short-term credit make it difficult for private banks to be a vehicle for the financial inclusion of the poor. The disparity between what the consumer is promised and what is actually delivered adversely impacts the customer base of the bank and the ensuing lack of trust in the system's ability to deliver on promises made. This is the basis on which "social finance" institutions, such as state savings banks, postal savings banks, credit unions, etc. have played an important role in inclusive finance since the 19<sup>th</sup> century.

## **H. "Last-mile" connectivity to financial service delivery**

For the rural agricultural worker and the urban informal sector worker the nearest bank branch is often too far and for those with access to insurance coverage, there may be no reliable process for filing an insurance claim. Hence, "access" is a poor indicator of "use" of financial services by the poor. How can there be meaningful financial inclusion without easy access to life, accident and asset insurance, or ability to withdraw from savings deposits to meet immediate needs for food and medicines? Additionally, working in rural areas and urban slums is not seen as an attractive career option for qualified and trained staff. While payments can be taken care of by the general purpose merchant or through mobile banking, savings, credit, insurance and investments require the assistance of trained individuals who can advise the low-income consumer on the type of financial products to buy. The customer also needs sophisticated financial solutions to deal with lifecycle issues such as retirement and unforeseen risks such as flooding and rainfall failure.

## **I. Remittance transfer**

"Financial remittances play an important development role, and financial inclusion is key to realizing that role"<sup>20</sup>. According to the United Nations Conference on Trade and Development (UNCTAD), research shows that a 10 per cent rise in remittances could lead to a 3.1 per cent

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<sup>18</sup> <https://www.jamii-pay.com/problem/lack-of-id>

<sup>19</sup> <https://www.weforum.org/agenda/2017/04/financial-inclusion-south-africa/>

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[https://globalmigrationgroup.org/system/files/GMG\\_Report\\_Remittances\\_and\\_Financial\\_Inclusion\\_updated\\_27\\_July.pdf](https://globalmigrationgroup.org/system/files/GMG_Report_Remittances_and_Financial_Inclusion_updated_27_July.pdf)



reduction in poverty<sup>21</sup>. However saving and financial planning become a challenge for migrant families as they tend to face periods of unemployment. Studies show that there is gender differences in the way saving is accumulated, where men tend to save in the formal sector and use formal financial services such as loans and credit while women tend to save in the informal sector. Discriminatory gender laws and social norms often restrict women's ability to invest in financial markets or obtain credit as she is restricted by her inability to acquire or own property and assets.

The cost of remittance is prohibitive for those who rely on the funds the most. As of Q3 2019, the global average cost for sending remittance stood at 6.84% with little improvements from the previous quarters, but remaining steady below the 7% benchmark<sup>22</sup>, but far from the 2030 Agenda target of less than 3%. According to the World Bank's Remittance Prices Report (September 2019), the global average charge for sending \$200 — a common benchmark used by governments to estimate costs — is about \$14.

## **J. Need for a comprehensive definition**

Without a comprehensive definition of financial inclusion identifying factors contributing to low levels of financial access, setting goals to fulfill the national strategy and mapping out the framework to achieve them would be difficult. A clear and concise definition of what financial inclusion means to countries in their particular national context would provide a basis for a shared vision and a guide to help formulate national strategy.

### **Recommendations:**

- i. Reinventing the way the credit-worthiness of individuals in low-income households best assessed from their credit history is key to ensure services such as loans and insurance are available to those who need it the most.
- ii. Gender disaggregated data from the demand side and supply side is essential to ensure inclusive finance and women's economic empowerment. Such data would provide the necessary information to design products specifically for women clients in the marginalized communities and to monitor policy interventions.
- iii. It is important that all stakeholders, especially those who are most impacted by exclusion, be at the table and have the option to contribute to discussions pertaining to financial inclusion in their respective communities.
- iv. Though the unbanked opt to save with a local savings group or cooperative, their funds eventually land in the formal financial sector. In light of this, the formal financial sector should explore ways to better interact with the informal financial sector.
- v. Offer options to low and moderate income borrowers to get out of debt and enter the financial mainstream. Measures such as the Payday Alternative Loans II rules in the

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<sup>21</sup> UNCTAD (2014). Impact of access to financial services, including by highlighting remittances on development: Economic empowerment of women and youth. Available from: [http://unctad.org/meetings/en/SessionalDocuments/ciem6d2\\_en.pdf](http://unctad.org/meetings/en/SessionalDocuments/ciem6d2_en.pdf)

<sup>22</sup> <https://medium.com/crypterium/behind-remittance-the-business-of-taking-from-those-with-less-6e8f27b9280d>

United States, which give federal credit unions more flexibility to extend small-dollar loans to their members, would be a helpful way to address the issue.

- vi. Put in place regulatory measures for non-banking institutions similar to the ones for banking institutions, thereby ensuring consumer protection from fraudulent and predatory actions.
- vii. There is a need for the right balance between good product design, provider responsibility and customer understanding of what he/she is buying. Financial service providers need to work at building trust with existing and new customers and investing in efficient customer service systems, taking into consideration the diverse literacy levels and cultural peculiarities of their customers.
- viii. Financial literacy and numeracy and digital literacy are essential life-time skills for everybody to be able to live and operate effectively in today's complex economic environment. Training to develop such skills should be part of all financial inclusion initiatives. This can be accomplished by banks located in developing and underdeveloped economies collaborating with fintech firms to upgrade to digital platforms and provide such training, as well as governments collaborating with non-governmental organizations operating on the ground to provide such skills training. Additionally, financial literacy trainings should be incorporated into school curriculums.
- ix. Banks and financial institutions should operate on the basis of responsible banking values, upholding human rights and accepting social and environmental responsibility. As part of the responsible banking initiatives, more credit should be given to the agricultural sector, SMEs and certain classes of the society, especially the poor, those in marginalized and rural communities who have difficulty in arranging collateral. Lender transparency is essential to gaining the trust of clients and move from withdrawal accounts to transaction accounts.
- x. Digitizing social benefit cash transfers would allow for sustainable financial inclusion wherein the benefits are transferred to the recipient's bank account. However, in order for the bank accounts to become transaction accounts and not just remain a withdrawal alone account, it is important to provide improved program and product communication, to invest in bank agents to improve their quality of delivery, to create enabling environments for financial institutions to conduct government-to-person (G2P) payments, and to build an inclusive interoperable national payment system.
- xi. Studies show that even with fintech regulations in place in many countries, there is a need to improve the technical expertise and capacity to supervise digital financial services. Appropriate consumer protection measures need to be in place to ensure that the people who are newly banked through digital financial inclusion strategies are not at a disadvantage compared with those transacting with more traditional institutions.
- xii. Remittance service providers (RSPs) need to be gender responsive and must consider the barriers women face with regard to accessing financial institutions and remittance transfer methods. It is important to help customers keep the remittance costs low by educating them about cheaper options for transferring funds. In addition, more efficient and cheaper ways to transfer funds need to be designed through, fintech and digital currency options.

**Section 3 - Climate finance, as an input to section 2.2 (“Climate finance”) of Chapter III.C. on international development cooperation and section 5.2 (“Financial policies for climate change mitigation”) of Chapter III.F on addressing systemic issues**

The United Nations Framework Convention on Climate Change defines climate finance as “local, national or transnational financing—drawn from public, private and alternative sources of financing—that seeks to support mitigation and adaptation actions that will address climate change.”<sup>23</sup>

The current landscape of climate finance involves a variety of funding methods at the global, national, local, and individual level, derived both from the public and private sector that contribute to mitigation and adaptation projects at various levels of investment.

The members of the NGO Committee on Financing for Development believe that a stable climate is a basic human right. In order to achieve the 2030 Agenda for Sustainable Development, climate conscious financing is crucial. Without a healthy climate, none of the SDGs are attainable.

**Current Mechanisms of Climate Finance**

In 2009, at a UN summit in Copenhagen, wealthy countries resisted calls to directly compensate poorer nations that are harmed by their carbon emissions. The COP 16 Cancun Agreement discussed Fast Track Climate Solutions and the \$100 billion Green Climate Fund, which were affirmed at the Paris Agreement. The pledge, usually described as developed nations mobilizing finance for developing ones, aimed to reach this target by 2020; the Global Climate Fund (GCF) was set up as one of the ways to distribute the money. This gave rise to climate finance largely being funded via multilateral climate funds (i.e. governed by multiple national governments).

The largest multilateral climate funds are:

- ***Climate Investment Funds (CIFs)***. These were designed by developed and developing countries and are implemented with the multilateral development banks. There are two distinct CIFs: the Clean Technology Fund and the Strategic Climate Fund.
- ***Adaptation Fund (AF)***, which was created to finance concrete adaptation projects and programs that reduce the adverse effects of climate change facing communities, countries, and sectors in the developing countries that are parties to the Kyoto Protocol. As of October 2015, the Adaptation Fund had committed US\$331 million in 54 countries.
- ***Global Environment Facility (GEF)***. The GEF unites 183 countries in partnership with international institutions, civil society organizations (CSOs), and the private sector to address global environmental issues while supporting national sustainable development initiatives.
- ***The Green Climate Fund***, which is currently the largest multilateral climate fund, established within the framework of the UNFCCC as an operating entity of the Financial Mechanism to assist developing

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<sup>23</sup> <https://unfccc.int/topics/climate-finance/the-big-picture/introduction-to-climate-finance>

countries in adaptation and mitigation practices to counter climate change. The Fund has set itself a goal of raising \$100 billion a year by 2020, as of May 2017 a total of US\$10.3 billion has been pledged.

Climate financing by the world's six largest multilateral development banks (MDBs) was \$43.1 billion in 2018. However, the UN's Intergovernmental Panel on Climate Change (IPCC) says that an annual investment of \$2.4 trillion is needed in the energy sector alone until 2035 to limit temperature rise to below 1.5 °C from pre-industrial levels.

### **The math just doesn't add up.**

#### Recommendations:

- Inclusion of clearly defined rules of what constitutes climate finance to be accepted and ratified by all member states.
- Enforcement of the rules and money pledges that universally mandated and recognized by a global body.
- A tri-partied formula of agreement between private corporations, public finance bodies and civil society must be the new established norm for every new and existing climate based financial project.

## Climate Finance Sustainable Practices

### Just Transition and Investment

A just transition to climate finance should not put any heavier burden on people living in poverty - the goal of climate finance needs to be to lead the global community to a zero-carbon economy and towards fulfillment of the SDG's. There are some recent guidelines, from educational institutions and NGO's that help guide and educate private and public institutional investments in climate finance for a just transition. These resources provide crucial support for climate finance. As Harvard's Just Transition guide states, "climate change is well understood by investors as a systemic risk to the global economy, undermining the ability of the financial system to deliver long-term returns."<sup>24</sup>

A balance between adaptation and mitigation in climate financing was stated in the Paris Climate Agreement, Article 9. (6). However, current funding data shows that current climate financing is not balanced between these two areas, with climate adaptation receiving \$22 billion, compared to the \$427 billion investment in climate change mitigation.

In order to ensure a successful, just transition away from funding fossil fuels and towards green energy, major global funds need to commit to this shift. The World Bank, chiefly among these institutions, has a muddled history of funding fossil fuel projects in developing countries, despite pledges to be at the forefront of climate finance.<sup>25</sup>

<sup>24</sup> <https://iri.hks.harvard.edu/just-transition-investor-guide>

<sup>25</sup> <https://www.wecaninternational.org/divestment-just-transition>

#### Recommendations:

- Investment should ensure that small island developing nations, poor and socially disadvantaged states are prioritized in the receipt of funding.
- The World Bank should end fossil fuel project funding and devote at least 40% of funding to Just Transition, Adaptation, and Mitigation by the close of 2020.

#### Carbon Tax and Carbon Market-Based Schemes

In accordance with the Paris Climate Agreement, Article 6. (8), effective climate finance requires “the importance of integrated, holistic and balance non-market approaches...”

Carbon emission reductions largely depend on voluntary commitments from nations and private corporations. In 2018 the World Bank reported that: 1) 88 nationally determined contributions (NDCs) to reduce greenhouse gas (GHG) emissions planned or considered using carbon pricing and/or market mechanisms, with 56% of global GHG emissions covered by these NDCs, 2) only 45 national and 25 sub-national entities have published carbon pricing initiatives, and 3) only 1,300 companies are using or planning to use internal carbon pricing in 2018-2019, with 84% of these companies located in jurisdictions with (scheduled) mandatory carbon pricing initiatives.<sup>26</sup>

This math means 46% of GHG emissions have ZERO accountability and no authority is taking responsibility. One can also infer that apart from a decade of commitment, sporadic national action, and a global public movement to address the issue, we are falling short. COP25 in Madrid 2019 attended by 151 ministers plus national delegations, closed with a lack of agreement on the guidelines for a much needed controlled carbon market.

However, it must be mentioned that carbon tax and carbon market based schemes do not keep carbon in the ground and so their negative financial and environmental impacts, particularly on the least developed countries, small island developing States, people living in poverty and environmental justice communities, must be critically assessed and responses made.

#### Recommendations:

- All UN member states must introduce and implement a carbon tax in their next fiscal national budget.
- This tax must be reverse-funneled as a subsidy for a green initiative at public level or tax break at private level.
- Countries not complying should pay a penalty as ratified by their peers via UN resolutions.
- Every fossil fuel market must submit a phasing out plan which is to be monitored by the relevant UN body in conjunction with member state governments.
- Move towards energy sources that keep carbon in the ground.

<sup>26</sup> <http://documents.worldbank.org/curated/en/630671538158537244/The-World-Bank-Annual-Report-2018>

## Nature-based Solutions

Nature-based solutions are defined by the International Union for the Conservation of Nature (IUCN) as “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.”<sup>27</sup>

Nature based solutions (NbS) are centered on the protection, restoration and sustainable management of the world’s ecosystems which play a very important role in addressing both the causes and consequences of climate change. Research shows the NbS could provide around 30% of the cost-effective mitigation that is needed by 2030 to stabilize warming below 2°C, achieving mitigation potential of nature of 10-12 gigatons of CO<sub>2</sub> annually. Furthermore, similar studies also show that NbS can help protect vulnerable communities while providing other benefits to people and other ecosystems against the impact of climate change.

Therefore, NbS are an essential component of the overall global effort to achieve the goals of the Paris Agreement as set by countries. At least 66% of Paris Agreement signatories include NbS in their NDCs in some form to help achieve climate mitigation and adaptation goals. This approach values the harmony between people and nature, as well as ecological development and represents a holistic, people-centered response to climate change<sup>28</sup>.

### Recommendations:

- Generate the shifts needed in both domestic and international governance and finance to value nature and realize the potential of Nature-Based Solutions.
- Ensure finance mechanisms that support NbS with laws and skills transfer.
- Stop funding support for deforestation and other development activities that harm nature and ecosystems.
- Enhance green finance and incentivize measures promoting NbS.

## Social Responsibility

The responsibility of climate finance extends beyond funds and governments. All parties contributing to environmental degradation should play a role in financing efforts to mitigate and adapt to the impacts of climate change. For example, contemporary research draws a direct causal correlation between tax havens, or financial secrecy jurisdictions, and environmental destruction.<sup>29</sup>

Through both an economic and public health perspective, legitimate arguments for subsidizing fossil fuel producers no longer exist, with the Paris Agreement even outlining paths to more sustainable alternatives. However, despite access to multitudes of alternative sustainable energy investment opportunities, “33 global banks financed fossil fuels with \$1.9 trillion since the Paris Agreement. \$600 billion of this went to 100 companies aggressively expanding fossil fuels.” In fact, “bank financing for fossil fuels has

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<sup>27</sup> IUCN Resolution 69

<sup>28</sup> Nature-based Solutions in Nationally Determined Contributions, IUCN: 2019

<sup>29</sup> <https://www.nature.com/articles/s41559-018-0497-3>

increased each year since Paris.” Last year alone, big banks dumped \$654 billion into the industry.<sup>30</sup> UNEP proposes six Principles for Responsible Banking, which provide an industry standard in social responsibility for banks, especially large transnational banks.<sup>31</sup>

Action for climate finance stems from education and awareness within the private sector, as well as within the general public, and the consumer. UNESCO’s latest round of policy prescriptions provides recommendations focused on public awareness campaigns and curriculum development.<sup>32</sup> Climate education is necessary not only to combat the rise of counterintuitive, anti-science denial propaganda, but to correct the collective cultural mindset that climate is something to be considered superfluously, or even secondarily.

#### Recommendations:

- Close and criminalize tax havens, also called financial secrecy jurisdictions.
- End subsidies for fossil fuel producers; redirect funding toward green job retraining.
- Regularize UNEP’s six Principles for Responsible Banking.
- Subsidize climate education from pre-K through high school.
- Ensure the availability of effective climate finance education in the tertiary sector.

#### Conclusion

Humanity’s historic failure to transition to a sustainable planetary co-existence has funneled us towards ever-dire straits. Strategic, multilateral climate financing initiatives are our most influential tool for activating the mechanisms and systemic changes necessary to avert the most severe oncoming consequences of climate change. We believe that in order to ensure the best use of climate finance resources, finance should be directed towards realizing the Paris Agreement goals on the balance between mitigation and adaptation, and even raising the ambition towards programs advocating for social responsibility, as per the recommendations outlined in this document.

#### Resources

- At the United Nations Climate Action Summit in September 2019, Nature based Solutions took center stage with China and New Zealand partnering to launch NbS initiative. See Compendium of Contributions Nature-Based Solutions Compiled by NbS Facilitation Team.
- A good reference tool for member nations on the impacts of carbon tax, carbon trading, carbon offsets, and carbon pricing is from the Climate Justice Alliance. You can find their reports here: <https://climatejusticealliance.org/> and here: <https://co2colonialism.org/>.

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<sup>30</sup>[https://www.banktrack.org/download/banking\\_on\\_climate\\_change\\_2019\\_fossil\\_fuel\\_finance\\_report\\_card/banking\\_on\\_climate\\_change\\_2019.pdf](https://www.banktrack.org/download/banking_on_climate_change_2019_fossil_fuel_finance_report_card/banking_on_climate_change_2019.pdf)

<sup>31</sup> <https://www.unepfi.org/banking/bankingprinciples/>

<sup>32</sup> <https://unesdoc.unesco.org/ark:/48223/pf0000233083>