



Climate Action Network

Discussion on Questions related to the Third session of the Intergovernmental Committee of Experts on Sustainable Development Financing (ICESDF)

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Climate Action Network (CAN) is the world's largest network of civil society organizations working together to promote government action to address the climate crisis, with more than 850 members in over 100 countries. www.climatenetwork.org

This is not an official submission, but more of discussion paper based on the questions posed to stakeholders by the committee before its third session and the multistakeholder dialogue.

1. Does the effectiveness and sustainability of a sustainable development financing strategy depend on systemic reforms of the international financial architecture? If so, which reforms are needed?

Sustainable development finance needs to address inequalities both between and inside countries. It must also secure global public goods, such as clean air and water, as well as climate change mitigation, adaptation, and protecting biodiversity.

Currently, the financial sector's incentive structures favor short-termism, excessive and often societally harmful speculation, and a disregard for the long-term viability of the real economy and our natural surroundings. The underpricing of environmental assets, risks and externalities has enabled the GDP to grow, but it has also led to us as humanity using up the natural base of our wellbeing. The increasing financialisation of natural goods that has mobilised significant amounts of capital to commodities sectors has thus far only accelerated unsustainable practices.

Several things must change:

- Negative externalities must be priced according to their real-life impacts and the most unsustainable practices must be outright banned. Positive externalities must be given more weight when valuing returns.
- Incentive structures must consider the long-term impacts of investment decisions.
- Rules must be changed so that alongside a narrow "fiduciary duty" towards shareholders, corporations' operations are assessed in light of their broader impacts.
- Countries must be given the right to regulate capital flows when there is a clear social or environmental benefit to doing so, and to change unsustainable laws without fear of multi-

billion dollar dispute settlements.

- International financial institutions have in many places been the drivers of the present unsustainable financial practices and the ideology behind them: they must now be at the forefront of sustainable finance. The mandate of IFIs and national DFIs should be revised so as to put sustainability first - even if this means foregoing short-term financial returns.

2. What forms of international cooperation on tax matters are required to overcome gaps and limitations in equitable domestic fiscal resource mobilization? What international taxes would be desirable and needed?

There are several factors in the international financial system that allow companies and individuals to avoid their tax liabilities. To amend the situation, several changes, including the following, are needed:

- Adopting a system of mandatory automatic exchange of tax information between countries
- Adopting mandatory country by country financial reporting for multinational companies
- Implementing an international financial transaction tax
- Implementing greenhouse gas taxes or emissions trading systems, and changing international trade and investment rules so as to allow border taxes for goods based on their environmental profile
- Implementing taxes for aviation and marine transport, and changing international investment and trade rules so as to allow countries or regions to impose such taxes also on "foreign" actors while in their air space or water areas
- Strengthening the UN Tax Committee to ensure full participation by developing countries in the planning of global tax regulation
- Cutting environmentally harmful subsidies and reallocating the funds to sustainable development goals

3. Which policies, measures and instruments could help overcome the volatility and short-termism of private finance?

The following are some of the first steps that should be taken to stabilise the financial market and redirect financing to sustainable, societally beneficial undertakings:

- Implementing a Financial Transaction Tax: a small tax on international financial transactions would decrease the volatility and speculation on financial markets and provide funding for sustainable development globally. As the example of 11 EU states proves, an FTT can also be implemented unilaterally by a group of like-minded countries and does not have to be global to be functional.
- Curbing excessive speculation, including on financialised natural goods, such as oil, agricultural products, and even soil. This necessitates putting in place position limits, centralised clearing mechanisms, banning the most harmful forms of high-frequency trading and so-called "black pools", and allowing countries to regulate international capital flows.

- At the present, international rules (including Basel 3) assess stability and risk in a very narrow sense. They should be made to incorporate other sustainability criteria and the external impacts of financial decisions.

Is it possible to reconcile the primary profit motive of private investments with all three dimensions of sustainable development?

Companies need to also recognize their social and environmental responsibilities and act transparently. This can be promoted by:

- Binding international corporate accountability norms: companies should be obliged to report on the effects of their activities and investments on development, the environment and human rights. All countries should implement the UN Guiding Principles on Business and Human Rights ("Ruggie Principles") in domestic legislation, and impose high costs (via taxes, sanctions, fees) for unsustainable practices.
- Effective methods of legal protection: those affected by irresponsible corporate behavior need to be provided with legal remedies.
- Changing laws so as to allow replacing a narrowly defined "fiduciary duty" with wider societal functions. The shareholder value theory that has largely driven the investment decisions of listed companies has failed even in its own terms, yet it continues to determine the way investments and companies' performance are assessed.

4. How to make financial governance at national, regional and global levels coherent with, and accountable to sustainable development objectives?

- Countries need to make sure that aid effectiveness principles set out in the Paris Declaration on Aid Effectiveness, Accra Agenda for Action and Busan Partnership Agreement are realized in all sustainable development financing and that investors, companies and financial intermediaries receiving or channelling development finance must follow the same transparency and MRV standards as other actors, including CSOs and donors.
- Climate finance should be implemented using the same effectiveness, evaluation, monitoring and verification measures as development cooperation.
- When allocating public development or climate finance to the private sector, countries need to ensure that 1) development effects are evaluated, 2) democratic ownership and other aid effectiveness principles are adhered to, 3) supporting the development of developing countries' local private sector is considered a primary objective, 4) tax avoidance is prevented, 5) binding corporate social responsibility standards are followed and 6) environmental sustainability is a prerequisite for all public financing.
- Countries also need to assess and evaluate 1) the actual development effects of public finance arrangements aimed at catalyzing private funding and 2) the implementation of aid effectiveness and transparency principles in such arrangements.
- Countries need to stop giving out loans that lead to unsustainable levels of debt or expose the recipient country to considerable market risks. Existing loans to developing countries also need to be evaluated and all debt that is found to be unreasonable or to have been granted on an unjust basis should be canceled.

5. How can the work of the ICESDF help advance and build synergies with the climate finance negotiations taking place under the auspices of the UN Framework Convention on Climate Change (UNFCCC)?

There is a considerable overlap in the discussions between sustainable development finance within the ICESDF, on the one hand, and climate finance under the UNFCCC, on the other. As the ICESDF's mandate is narrower, and its proceedings have progressed in a very cooperative spirit, it has the potential to positively affect the climate finance negotiations.

- The ICESDF could send a strong signal to the UNFCCC process that climate finance should be implemented using the same effectiveness, evaluation, monitoring and verification measures as development cooperation
- If and when the ICESDF promotes sustainable practices regarding the definitions of "private", "public", "leveraged" and "mobilised" and the way financial flows are tracked and measured in these terms, it should communicate this to the UNFCCC negotiating parties.
- AS there is unanimous acceptance of the need to slash harmful subsidies amongst the members of the ICESDF, it could use its leverage to convince UNFCCC parties of the benefits of doing so – this would send a positive signal to the UNFCCC negotiations, too.
- The ICESDF should come up with strong recommendations urging UNFCCC parties to honour the climate finance commitments they have made and to urgently publish their plans for meeting these commitments.