



# FINANCING FOR SUSTAINABLE DEVELOPMENT

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## WWF POSITION PAPER

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# KEY RECOMMENDATIONS

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## International Finance Resource Mobilization

1. All development finance should be climate-sensitive, environmentally sound and respect human rights.
2. Existing financing commitments and resource mobilisation targets for biodiversity and climate under the Convention on Biological Diversity (CBD) and the United Nations Framework Convention on Climate Change (UNFCCC) should be met in full.
3. New and additional public sources of financing are required for the protection and restoration of biodiversity and for tackling climate change. Mechanisms with innovative sources of financing need to be put in place such as financial transaction taxes.
4. Blended finance mechanisms and public-private partnerships should include strict sustainable development criteria, alignment with national development objectives, and local ownership and inclusion.
5. Sustainable development financing will come from international and domestic sources, and include both public and private flows. These various financing streams should complement, and not substitute for each other.
6. Commitments towards the 0.7% GNI ODA target must be fulfilled and binding timetables should be set to that effect.
7. Greater transparency and accountability of private sector finance – including the development of third party certification systems – is needed to ensure adherence of foreign direct investment to international environmental and social best practices.

## Domestic Resource Mobilization

8. Country-led strategies for sustainable development must integrate development, social and environmental objectives and provide the basis for national budgeting.
9. Environmentally harmful subsidies in sectors such as energy, fisheries, and agriculture should be removed. The funds should instead be reallocated toward sustainable practices, while addressing distributive impacts.
10. Illicit financial flows need to be tackled through strengthened national institutions, improved tax transparency, country by country reporting, public registries of company ownership, global systems of automatic tax information exchange and legal sanctions for non-compliance.

## Data and Access to Information

11. More investments are needed in the design of indicators for measuring progress beyond GDP to include equally important measures of progress such as wellbeing and healthy ecosystems.
12. Natural capital accounting and biodiversity data and indicators should be incorporated into national strategies and assessments of national economic performances.
13. The international community should agree on suitable monitoring frameworks that keep track of all financing flows, with transparent and separate reporting for development and climate finance commitments.
14. All international financial institutions should abide by basic transparency standards – as set out in the Transparency Charter for International Financial Institutions – and enact public disclosure policies.

# INTRODUCTION

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All financing sources – public and private; domestic and international – will need to be mobilized to meet the sustainable development challenges ahead. As the Intergovernmental Committee of Experts on Sustainable Development Financing (ICESDF) points out, there are sufficient funds globally to achieve sustainable development but a clear political commitment to structural reforms and systemic changes as well as additional and innovative financing approaches are needed to make real progress. WWF is taking this opportunity to underline some recommendations for the way forward at the Third Conference on Financing for Development (FfD3) to be held in Addis-Ababa in July 2015. The Conference's outcome will constitute an important contribution to the post-2015 sustainable development agenda and critical support to its implementation. We welcome many of the recommendations of the ICESDF report and some of them are reflected herein.

## GUIDING PRINCIPLES

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- **Transparency and Accountability:** Good governance – with particular reference to accountability and responsible and fair use of financial resources – should be at the core of the implementation of the post-2015 sustainable development agenda. Transparency of decision-making, establishing clear roles and responsibilities for different actors, and ensuring the collection and availability of all relevant data at national and international levels will be critical for the success of the agenda. Robust and independent accountability mechanisms will allow countries to be held to account for their responsibilities towards achieving the sustainable development goals and providing the financial and non-financial means of implementation. Global funds should have global and equitable governance mechanisms, including timely opportunities for effective and inclusive multi-stakeholder participation.
- **Policy Coherence for Sustainable Development:** International or domestic policies can have indirect effects that undermine sustainable development and negatively affect people's rights, their development options and the environment. For example, policies on trade, migration, energy, food production systems or natural resource exploitation and consumption can outweigh any benefits of development finance. Policies at all levels and across all sectors should be coherent with delivering and not undermining sustainable and equitable development.
- **Strengthen Social and Environmental Standards through Effective Policy and Practice:** All international public development funding streams should deliver outcomes that contribute to the realization of global social and environmental agreements and other international commitments and support their implementation in an integrated manner. Social and environmental safeguards should meet internationally agreed standards and best practices.
- **Building on existing Principles and Agreements:** International finance for sustainable development should build on existing financing principles and commitments such as the Monterrey Consensus, the Doha Declaration, the Paris Principles on aid effectiveness, the Accra Agenda for Action, the Busan Partnership for Effective Development Cooperation, the Bali Principles and the existing financing agreements under the Rio Conventions. We realise that despite these international commitments being made and reaffirmed, progress is still

limited in their effective implementation. There is a dire need for the majority of actors to 'walk the talk'.

- **Effectiveness and Coordination:** Building on the above mentioned agreements, ensuring country ownership, coherence and complementarity of all funding streams at national level is of paramount importance. Implementation of the sustainable development agenda should rely on inclusive national development strategies which integrate all environmental and developmental objectives (UN Rio Declaration, para 98) and which should be resourced, funded and implemented through country systems with strong participation of all actors, public and civil society, private, national and local. This will avoid the danger of some objectives undermining or counteracting others and ensure that certain areas do not go unfunded.

## INTERNATIONAL FINANCE RESOURCE MOBILISATION

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Sustainable development financing will come from international and domestic sources, and includes both public and private flows. These various financing streams should complement but not substitute for each other as each source of finance has specific functions and objectives. While public finance is necessary to pay for essential public goods and services and to ensure no-one is left behind, private finance should also be an important driver for positive environmental and social change.

### Official Development Assistance (ODA)

Official Development Assistance (ODA) remains a critical source of funding for development. Commitments towards the 0.7% GNI ODA target must be fulfilled and binding timetables should be set to that effect. The needs of least-developed countries and vulnerable communities in other countries should be prioritized as this is where capacities to raise resources (e.g., attracting private sector investments or raising domestic revenue) are the weakest and needs are the greatest (ICESDF, para 61). WWF believes that ODA should not only comply with the principles of development effectiveness but should also deliver *sustainable* development. That is, all development finance should be climate-sensitive, environmentally sound and respect human rights. Ultimately, the goal is for countries to increase their own domestic resources rather than relying on aid.

### New and Additional Resources

New and additional public sources of financing are required for the protection and restoration of biodiversity and ecosystems, combating climate change, and ensuring an equitable and sustainable future for all. These are urgently needed to prevent irreversible loss and damage of property, territory, biodiversity, ecosystems and livelihoods. The conservation and sustainable and equitable management of natural capital is essential as it is the basis for development now and in the future. Climate and Biodiversity financing from international public finance is very important, especially for interventions that are not attractive to the private sector and to fulfil the needs of lower income countries and marginalised communities in particular. However, new actions and new commitments – for example, in the area of climate change adaptation and mitigation – should mobilize resources that are additional to current ODA commitments.

- New Climate Finance

As stressed in the UN Secretary General's Report *A Life of Dignity for All*, new climate finance should be additional to existing ODA commitments. Since the estimated costs of addressing climate change are so high, the existing target of \$100 billion annually by 2020 should be met primarily through international public finance. This will allow for leveraging the much greater financial flows required in clean and sustainable technologies and to support essential climate adaptation activities in the poorest and most vulnerable communities hit hardest by current and future impacts of climate change. At least 50% of this international public climate finance should be allocated for adaptation activities, which should be supported through grants, not loans in the poorest and most vulnerable countries which have marginally contributed to the climate problem but are bearing the costs. An international mechanism, including insurance measures and right and fair processes are required under the UNFCCC to address compensation, rehabilitation, costs of migration, displacement and relocation. Except for some mitigation activities such as renewable energy and efficiency, for the most part, the for-profit nature of the private sector is not suitable for adaptation activities in least developed countries because at present there are no financial returns to incentivize investment.

- Additional Finance for Biodiversity and Ecosystems must be part of the equation

Healthy natural ecosystems and biodiversity underpin development through the essential services they provide to humanity. In line with commitments to mobilize resources for the Convention on Biological Diversity, the value of biodiversity and of ecosystem services should be integrated into national and local development and reporting systems. Future resource mobilization commitments for biodiversity, ecosystems and their services as decided under the Convention on Biological Diversity (CBD) must be supported and fulfilled to achieve the Strategic Plan for Biodiversity 2011-2020. This should include the commitment to double international financial resource flows for biodiversity conservation from developed to developing countries by 2015 against the 2006-2010 baseline and to at least maintain this level until 2020.

## Role of Private Finance and the Private Sector

International private finance contains a wide range of flows, including foreign direct investment (FDI), portfolio flows and private resources blended with public finance. Greater private sector accountability, policy clarity and consistency, and an enabling environment for investment are essential for promoting the role of the private sector in financing sustainable development.

- Responsible Private Finance

Private financial flows can be an important driver for positive environmental and social change. Private investors such as pension funds and private enterprises will be the main source of long term investments in sustainable production, green businesses, and infrastructures. FDI is a significant source of private foreign finance flowing to the developing world and is particularly well-suited to investments in long-term productive activities. Yet, as noted by the ICESDF report, the quality of FDI matters (i.e. creation of decent jobs, extent of linkages to local enterprises, promotion of skills and technology transfers, and upholding of high environmental and social standards). The share of investments incorporating environmental, social, and corporate governance (ESG) considerations remains small. WWF calls for greater transparency and accountability from the private sector, greater cooperation across sectors and the development of third party certification systems that would enable tracking and



monitoring to ensure adherence to international environmental and social best practices. These should build upon voluntary international initiatives such as: UNEP's Principles for Responsible Investment, the OECD guidelines for Multinational Enterprises, the International Labour Organization (ILO) standards, the UN Framework and Guiding Principles on Business and Human Rights, the International Finance Corporation's (IFC)'s performance standards, the Equator Principles for banks, and the International Integrated Reporting Council proposals for integrated reporting frameworks. The role and visibility of these various initiatives should be strengthened for greater uptake of responsible business practices. While standards and certification are important tools, there is also an important role for governments to incentivize the private sector through adopting legislation and creating a stable and predictable policy framework that encourages long term for-profit investment in sustainable development. Governments can help set the necessary framework conditions through taking a long term view and setting up safeguards, risk-sharing mechanisms, and appropriate tax incentives for the private sector.

- Blended Finance

As noted in the ICESDF report, blended finance – that pools public and private resources and expertise to make risky projects financially viable – has gained increased interest from policymakers and development financiers, especially in the context of infrastructure projects. A number of new instruments and facilities such as the Global Infrastructure Facility (GIF) and the Africa 50 Infrastructure Fund just to name a couple are under development to mobilise investors and governments to meet development needs. Private-Public Partnerships (PPPs) have become an increasingly popular strategy among donors and public sector institutions. Yet evidence of the development outcomes of these projects has been sparse so far, thus raising the spectre of tied-aid under another guise. It is essential to ensure that development effectiveness principles apply to these mechanisms and initiatives and that they do not undermine developing country ownership, which is vital for the success of any development effort. Using public finance to leverage private sector investment for development outcomes should include strict sustainable development criteria, alignment with national development objectives, and local ownership through participation of local businesses and communities. Greater transparency and accountability in the design and governance of these mechanisms and the selection of projects is critical to see real sustainable development impacts and ensure social, economic and environmental benefits. In particular, WWF calls for the following recommendations for good practice:

- Ensure integration into national development strategies, local ownership and participation. For example, PPPs should involve and respond to the needs of local actors to increase likelihood of long term sustainability.
- Blended finance should demonstrate added value in terms of generating resources, pooling knowledge and stimulating innovation. It should not be seen as a substitute for but rather as an addition to national public sector investment in key sectors (e.g. health, education or infrastructure).
- Procurement should be based on competitive bidding and ensure a level playing field for national and international companies.
- Strong regulatory frameworks will ensure quality contributions and adherence to social and environmental safeguards and avoid the risk of corruption.

- Donors and different levels of government should coordinate to pool knowledge and funding and avoid multiplicity of individual overlapping initiatives.
- Ensure a transparent process including in decision making and management of resources. Information should be in public domain so that it can be independently monitored including by civil society and eventually available to others for replication. Commitments from all parties should be made public to citizens in an accessible way (e.g. a summary).

## Innovative Financing Mechanisms

Additional financial mechanisms from innovative sources are important avenues to explore for new and predictable resources for sustainable development. However, as with any financing source, transparency, accountability and safeguards should also be in place. Innovative financing mechanisms are being explored including by the Leading Group on Innovative Financing for Development such as taxes on various sectors, levies, lotteries, financial transaction tax, voluntary contributions just to name a few. In particular, a financial transaction tax with a significant proportion of the revenues allocated to sustainable development, climate change actions and global public goods is one such source governments should be encouraged to pursue; national applications of the same have shown both their acceptance locally and worth.

## DOMESTIC RESOURCE MOBILISATION

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Domestic revenue from improved and strengthened tax systems and collection will be key in the medium to longer term to weaken dependency on donors. Significant progress has been made in developing countries' ability to effectively raise public and private financial resources. Ultimately, domestic resources should represent the bulk of funding for national sustainable development. Strengthening governance and accountability will play a major part in long-term income generation and reduce the risk of corruption.

### Tax Reforms

To make the most of scarce resources, fiscal reform can be one part of the solution that integrates good science, good governance and equitable social policy. Tax systems should be fair, efficient and transparent (ICESDF, para 65) and put in place revenue streams and incentives that deliver social and environmental benefits and long term sustainable development. Properly designed subsidies can play an important role in stimulating the transition to sustainable natural resources management and healthy communities and ecosystems. Removing environmentally harmful subsidies which encourage unsustainable practices in sectors such as energy, fisheries, and agriculture while addressing distributive impacts can deliver large benefits for sustainable development directly. According to UNEP, global fossil fuel subsidies amount to more than half a trillion dollars per year – dwarfing subsidies for renewable energy. G20 and APEC countries have committed to phase out inefficient fossil fuel subsidies.

Where countries seek to strengthen their domestic industries, it is critically important to link subsidies and government expenditures in developing their sustainable resource management and economic development strategies. National governments will benefit from a careful review of their subsidies programs with the view to guarantee that they produce real and tangible and fair benefits for their citizens and the environment. This would entail not just examining the subsidies themselves, but also the surrounding resource management and economic content. Much remains

to be done on strengthening country systems, environmental governance and fiscal management capacity. Sharing best practices at the global level in the field of optimal tax designs and subsidy reforms will be a good start. Restructuring taxation to reflect the correct environmental and social impact of economic activities (both negative and positive) will create positive incentives for the conservation and sustainable use of ecosystems and generate additional domestic resources.

We call on the G20 group to deliver on their commitments and set up a concrete and time framed process to phase out inefficient fossil fuel subsidies that encourage wasteful consumption while ensuring proper pro-poor measures to offset the short-term negative impact on most vulnerable social groups. For example, agricultural subsidies and other trade distortions by developed countries have severely harmed the agricultural sector in developing countries, limiting the ability of this key sector to contribute meaningfully to poverty eradication, rural development and sustainable, sustained, inclusive and equitable economic growth. Elimination of such subsidies is a fundamental part of the global effort to promote agriculture, rural development and eradicate poverty and hunger.

## Tackling Illicit Financial Flows

While attracting foreign direct investment can play an important role in generating economic growth, creating jobs and promoting skills and technology upgrading at the national level, private companies need to be held accountable to national laws and taxation in the countries they operate in. Tackling domestic tax evasion and tax avoidance through profit shifting remains one of the biggest challenges in mobilizing domestic revenues which could be used to finance sustainable development, especially in the developing world. Tax avoidance and evasion drain foreign exchange reserves, reduce domestic tax revenues and cancel out the benefits from inflows of investment (ICESDF, para 40). This significantly reduces the positive contribution of foreign direct investment to local development and impacts negatively on the availability of domestic financial resources.

As declared by the G20, profits should be taxed where economic activities generating profits are performed and where value is created. Economic activities often involve natural resource extraction and exploitation. To this end, improved tax transparency, country by country reporting, public registries of ownership, global systems of automatic information exchange and legal sanctions for non-compliance should be put in place (ICESDF, para 164). WWF supports existing efforts to fight illicit financial flows. Widening the tax base in developing countries will be instrumental in generating increased levels of public revenue which can then be allocated to sustainable development.

## Streamline resources to finance Integrated National Sustainable Development Strategies

To deliver effectively and coherently on development and environmental outcomes, environmental and development objectives should be agreed through national dialogues that are inclusive, participatory and engrained in society. These objectives should adequately respond to international commitments such as the Rio Conventions and their associated action plans. They should also support and be supported by decentralized objectives-setting processes through relevant economic and social systems.

This will avoid the danger of some objectives undermining or counteracting others, ensure that important national commitments under multilateral treaties do not go unfunded and maximize



efficient delivery through national systems at the national level and further. Governments should take the lead in convening multi-sectoral dialogues, involving parliaments and civil society, translating these into long term spending plans and annual budgets. As stated in the Johannesburg 2002 Plan of Implementation, States should “take immediate steps to make progress in the formulation and elaboration of national strategies for sustainable development [...] Such strategies, which, where applicable, could be formulated as poverty reduction strategies that integrate economic, social and environmental aspects of sustainable development, should be pursued in accordance with each country’s national priorities” (para 162.b).

Developing countries in receipt of the development cooperation efforts should be in the driving seat to ensure alignment with country (or regional) priorities and country systems and complementarity with domestic financing and other financing streams. All countries should take responsibility to ensure that funded programs and plans contribute to sustainable development, effectively integrate environmental and social considerations and adhere to national laws and regulations. WWF particularly calls for the following recommendations:

- Incorporate sustainable development criteria into financial strategies and national budgeting process and private investment decisions as appropriate. This will also facilitate transparency and monitoring progress towards agreed social and environment outcomes.
- At the institutional level, the UN agencies would also need to demonstrate how they are developing policies, planning and delivering “as one” on sustainable development especially within Country Assistance Frameworks.

## DATA AND ACCESS TO INFORMATION

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### Right to Information & Data Revolution

The data revolution presents an opportunity to realign accountability towards citizens and offers the potential to giving access to information and empowering marginalized people around the world. Indeed, by changing power dynamics, access to information facilitates improved accountability and improved ownership of the post-2015 agenda by citizens. The right to access to information held by public bodies is a fundamental human right, as enshrined in Article 19 of the UN Universal Declaration on Human Rights. Local governments and global institutions should support the collection of meaningful data and ensure its accessibility and transparency and develop and implement participatory methodologies for evaluation. All international financial institutions should abide by basic transparency standards, as set out in the Transparency Charter for International Financial Institutions and enact public disclosure policies, which is not respected by many global institutions at present.

### Monitoring & Reporting

WWF calls for the international community to agree on suitable monitoring frameworks for the post-2015 development agenda that keep track of financing flows from all sources, with transparent and separate reporting for sustainable development and climate finance commitments, as pointed out by the Intergovernmental Committee of Experts on Sustainable Development Financing (ICESDF). Complementary measures looking at well-being and incorporating the real value of human capital and natural ecosystems should be used to measure progress. The principle of well-being as a measure of progress has the advantage of being a composite indicator encompassing a number of different aspects which span

the three dimensions of sustainable development and governance such as access to adequate food, shelter, quality of basic services, healthy life expectancy, income security, decent work, physical security or integrity and clean environment. WWF calls for the following recommendations:

- Improve transparency, ensure better measurement, and promote better implementation of the International Aid Transparency Initiative (IATI) so that we move towards “publish what you commit and actually disburse”.
- Invest into the design of indicators for measuring progress beyond GDP to include equally important measures of progress such as social well-being and healthy ecosystems.
- Strengthen the capacity of national statistical systems e.g., through ensuring the setting up of relevant satellite accounts and inventories. Indeed, currently the weakness with suggested alternatives for GDP such as the Genuine Progress Indicator (GPI), the Index of Sustainable Economic Welfare (ISEW), and the Human Development Indicator (HDI) stem from the lack of availability of adequate environmental and social data.
- Incorporate natural capital accounting and biodiversity data into the development of national strategies and assessments of national economic performances. In general, accounting for environmental and social costs will contribute to support and reward conservation, sustainable resource management, more social equity, greater resource efficiency and innovation.
- Encourage further the corporate sector to develop and adopt integrated reporting frameworks as a tool to improve value creation and sustainability as under development by the International Integrated Reporting Council (IIRC).

This paper was prepared by a Task Team established under the WWF Post 2015 Steering group and led by the Public Sector Partnership team, in close consultation with the Global Regional Policy, Private Sector Finance and Climate and Energy teams.

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