CIDSE Recommendations

The FTT for people and the planet

Financing climate justice

Managed by:
The UN Green Climate Fund

Implemented through:
Coordinated action across sectors

Targeting:
Vulnerable communities, respecting their social and environmental rights

CIDSE
together for global justice

In this **paper**

This document presents CIDSE's views on the Financial Transaction Tax (FTT) and how part of its proceeds could be used to finance climate justice.

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Introduction

More than a decade after the Millennium Declaration and the officially agreed Millennium Development Goals (MDGs), the world should have looked profoundly better for at least half of the women, men and children in the world living in extreme poverty. Unfortunately, a fatal combination of the lack of political commitment, a global economic downturn and, most crucially, climate change has endangered whatever little progress has been made to secure even the minimalist MDGs by 2015.

Recognising that climate change is not only an environmental injustice, but also a humanitarian and development emergency of global proportions, governments have sought ways to mitigate and adapt to the impact of climate change for over a decade. Finance, or rather the lack of it, has proven to be one of the stumbling blocks in these negotiations.

Nevertheless, the single biggest outcome of the December 2010 climate negotiations in Cancun was the creation of a new Green Climate Fund. The Fund is to receive and distribute up to US$100 billion a year from 2020. However, an estimate from the World Bank puts costs for adaption in the range of US$ 75-100 billion per year alone. NGOs point out that more than US$200 billion per year in public finance, new and additional to existing development aid targets, are needed to adequately finance adaptation and mitigation needs.[1]

In the midst of an economic downturn in many OECD countries, the burning question is where this money will come from. Many see private finance as the only alternative. When fully transparent and properly regulated,[2] private finance can indeed contribute to serving this need but its final objective remains maximising profit and not the common good. From a justice and development perspective there is an indisputable need for public money, which must be invested to serve the common good and hence pay a significant part of the climate change bill.

Act now, introduce the Financial Transaction Tax

There is no shortage of proposals for new mechanisms that could raise new public money to pay this bill. The UN's High Level Advisory Group on Climate Change Financing has reviewed some of these proposals in its report.[3] CIDSE believes that the scale and nature of tackling the climate change challenges calls for the adoption of a number of innovative mechanisms which are public money, can generate adequate finance and follow the 'polluter pays' principle. CIDSE has long advocated for the proceeds of a Financial Transaction Tax to be used for development and climate change. This paper discusses how they should be governed and allocated; with a particular emphasis on the need for strong social and environmental safeguards.

CIDSE promotes a Financial Transaction Tax (FTT), for three main reasons:

- **Raising urgently needed money:** The FTT is an innovative mechanism which has the potential to raise approximately 1.21% of world GDP or US$ 661.1 billion,[4] if introduced at an average rate of 0.05%.[5] It could generate sufficient money needed to tackle global climate and development challenges.

- **Stabilising financial markets:** If properly designed, the FTT would have the greatest impact on those categories of trading on financial markets that have no clear added value for the real economy. It would reduce speculation and contribute to stabilising financial markets.

- **Sharing the burden, protecting the common good:** The FTT comes at no extra cost for the average tax payer, who is shouldering the cost of responses to global crises. The financial sector has hugely profited from globalisation. Through the FTT it could contribute to tackling global challenges, share the financial burden of global crises and contribute to assuring a safe and healthy future for people and the planet.

Introducing the **Financial Transaction Tax is feasible**

Studies by the International Monetary Fund[6] and the European Commission[7] in 2010 acknowledged the feasibility of an FTT. Political support of the FTT is also progressively growing. At the MDG Summit in September 2010, the French President Sarkozy and the Spanish Prime Minister Zapatero publicly called for an FTT. Subsequently, presenting the G20 French Presidency's priorities, President Sarkozy once again emphasised the need for an FTT to finance development and climate change. In March 2011 the German and Austrian Chancellors stated their intention to ask the group of countries that use the Euro currency to accept the tax.[8] In various national parliaments, most notably in the US and Canada, elected representatives have taken the initiative to introduce draft FTT legislation. The European Parliament has consistently called upon the EU to seriously consider implementing an FTT. In March 2011, it went a step further calling for an EU-FTT in the case of the G20 failing to reach an agreement on FTT implementation.[9] The European Commission is currently examining an FTT as a potential new source of revenue in view of its forthcoming (June 2011) proposal for the 2014-20 EU multiannual budgetary framework.[10]

Collecting the FTT in practice: centralised or decentralised?

Centralised collection: the tax is collected at the point of settlement, either from the electronic systems at exchanges, or from Central Counterparty Platforms (CCPs) or Central Securities Depositories (CSDs) in the case of Over-the-Counter (OTC) transactions. While the centralised approach would be the most effective, it would require all important countries in a trading time zone to introduce an FTT and to force all OTC-transactions to be settled via CCPs.

Decentralised collection: any resident of an FTT jurisdiction who orders a transaction to be carried out at home or abroad is legally the debtor of the FTT ('personal principle').[11] The tax is charged to the account of the tax debtor and transferred to the tax authorities by the banker or broker which places the respective order to the exchange ('taxing at source'). The decentralised approach would enable single countries or a group of countries to implement a FTT as 'pioneers' piloting a FTT that could then be systematically broadened in scope to other countries.

Using the Financial Transaction Tax for the **well-being of people and the planet**

With its feasibility acknowledged and political support for the tax increasing, CIDSE believes that the time is right to launch a discussion on the use of FTT revenues. Given the urgent need to find the first US$100 billion for the new UN Green Climate Fund CIDSE argues the FTT could be used to finance it. This chapter sets out which criteria must be respected by decision-makers on how to use this money; it analyses what conditions are crucial to ensure the use of these revenues will have a positive impact on the lives of people living in developing countries.

Overall principles of governance and decision-making

To have a positive and lasting impact on the lives of the final beneficiaries of the resources and on the overall well-being of the planet, CIDSE believes that the following criteria must be respected in allocating finance for climate justice from FTT revenues:

Joint ownership: All country ownership, not just government ownership, is important. In other words representatives of all stakeholders, including civil society, need to participate fully in all stages of scoping, discussing and decision-making.

Accountability: Governments need to be accountable to their citizens. This 'downward accountability' is even more important than the 'mutual accountability' through which funders provide predictability and certainty, while recipients agree to transparent and responsible spending.

Responsibility: Ensuring that the money is used for the intended purposes and benefits those who need it most. The best way to ensure that is full transparency on funding decisions and disbursements and the reasons behind them, and opportunities for civil society groups to participate in and scrutinise official processes.

Representative, multilateral, democratic governance: This requires a balance of northern and southern representatives on the board of any institution handing FTT revenues and the inclusion of a wide range of stakeholders who should be able to inform and challenge decisions, including through complaints mechanisms.

Empowerment: While it is important for finance to secure clear and visible results, the way these results are achieved is equally crucial in the development process. Empowerment whereby rights are strengthened, the most vulnerable are paid special attention to, and capacity is built are important indicators that need to be included in any resource allocation process. For this gender and human rights perspectives need to be systematised within the allocation mechanism.

Addressing vulnerability in all its aspects: Vulnerability to climate change is not an isolated problem. It is usually compounded by exclusion from access to decision-making on issues which are important for a community's well-being, the lack of infrastructure to access finance, local markets, the lack of social support systems and bargaining-power. The structural causes of exclusion and vulnerability need to be taken into account with regards to developing and implementing social and environmental safeguards.

How to govern and allocate the money?

Equity and effectiveness are crucial to ensure the legitimacy of the governing body deciding on allocation, making sure the financial transfer are a matter of rights, rather than a matter of charity. Climate finance derived from FTT revenues should be governed by the UN Green Climate Fund.

Currently development money is provided either to support specified projects or to support sectoral or broader programmes.

Programmatic funding channeled via government mechanisms is growing. In 2008 US$3.2 billion approximately flowed as general budget support.[12] The remaining US$119 billion approximately flowed as sector support or to discrete projects. The programme, or budget support approach allows the national authority to determine their own priorities, and to build their systems by paring for staff training, institutional strengthening and salaries. Yet budget support is controversial. Donors have mainly raised corruption concerns. Civil society groups have raised concerns about the lack of government transparency and consultation in their use of budget support.

Supporting Country systems: Providing funds through national systems without earmarking for specific projects or spending lines can work well under certain conditions. For climate change mitigation and adaptation, there is a strong push to support government systems, not just projects. According to the Commission on Climate Change and Development "adaptation covers virtually all elements of national government activity finance, planning, agriculture, water management, health, safety, disasters, infrastructure, food security, and so on. Effective action requires coordination between these sectors, something that will only be achieved if all areas of government dealing with adaptation are led and coordinated from the highest political and organisational level."[13]

Direct access: However, developing countries and civil society have gone a step further. Since many developing countries see climate finance as compensation payments by developed countries they are calling for direct access to new climate finance mechanisms, as for example in the Adaptation Fund. The direct access approach emphasises that countries must have substantial, obligatory and automatic funding available and is increasingly referred to as the right for recipients to have 'direct access' to funding from the international level, without intermediation by international institutions.[14]

Irrespective of the allocation mechanism, participation and empowerment of civil society are crucial to ensure that those facing the highest risks from climate change are able to hold those implementing climate action to account. All stakeholders including civil society and national parliaments need to provide insights from on the ground and to perform checks and balances on government decisions. In order to effectively perform this function, full transparency of criteria and measurements following the 'Publish What You Fund' principles is needed. Multi-stakeholder participation can also ensure the appropriate design and effective delivery of climate action, which is essential to meet urgent needs in developing countries.[15]

The Publish What You Fund principles specify that aid information should:[16]

- be detailed about objectives and focus areas.
- be comprehensive – covering all aid.
- be budget compatible – aid information presented in-line with recipient-country budget cycle and recipient budget classifications.
- be traceable – capturing the full 'supply-chain' of aid, through re-granting/ subcontracting.
- include information on conditions, terms, etc – not just financial information.
- be timely – that information is current.
- be included in medium-term forward plans – estimates of spending that allow for 3-5 year planning.

Meaningful stakeholder participation: Climate investments need to be made in virtually every sector of an economy, covering areas such as agriculture, forest management, energy supply, transport and housing for mitigation, and, similarly for adaptation in coastal management, agriculture, health and housing.

Each of these areas will have different stakeholders, other vulnerable groups likely to be affected, and will take place in different natural environments.

Drawbacks in participatory processes in drawing up Poverty Reduction Strategy Papers (PRSP)[17] and National Adaptation Programmes of Action (NAPAs) show that clear international safeguards on stakeholder participation, with special attention to ensure the participation of women and other groups particularly vulnerable to climate change impacts, are essential.

Social and environmental safeguards: it is unlikely that participatory planning and implementation alone will be sufficient to avoid negative impacts on vulnerable communities. Additionally, social and environmental safeguards will need to be put in place. Given the widely varying approaches to safeguards in current climate funds, it may be appealing to rely on existing institutional safeguard procedures. Those of the International Financial Institutions (IFIs) are currently the most comprehensive. However, the World Bank's safeguard approach does not encompass internationally binding agreements on human and labour rights, its gender assessment component is weak and it requires Indigenous People 'consultation' instead of Free Prior and Informed Consent (FPIC).[18]

The above-mentioned call for direct access to climate finance means that the challenges of the responsibility for social and environmental due-diligence shifts to country governments that may or may not have the effective and comprehensive procedures needed.

SOCIAL AND ENVIRONMENTAL SAFEGUARDS[19] – *definition*

Principles, criteria and indicators which define the necessary conditions to ensure (climate) funding makes a positive impact on people lives as well as avoiding harm to communities. They provide a framework for assessment of social and environmental performance using a multi-stakeholder process; supporting the design, implementation and evaluation of the social and environmental impacts of government-led programs. Social and environmental safeguards thus enable consistent assessment, irrespective of funding sources.

Some fear that developing countries will consider any international checks and balances on climate finance, beyond basic financial accounting requirements, an attack on their sovereignty. However, in reality the situation is likely to be more nuanced, also considering the fact that it is in the interest of developing countries that mechanisms with direct access modalities are perceived as achieving high standards of responsible financing, ensuring that further political and financial support is directed towards these funds instead of away from them.

Rather than taking over incomplete and unsatisfactory safeguard policies just because they are the only ones currently available, lessons learned from the IFI safeguards experience should be used to inform a new, internationally agreed safeguards framework for climate finance. With climate finance likely to increasingly allow for direct access of governments to climate funding, there is an even greater need for strong social and environmental safeguards.

All climate finance must respect social and environmental safeguards which:

- are comprehensive and reflect international commitments;
- are responsive to changing investment landscapes though based on a core of fixed social and environmental protections;
- guarantee meaningful and effective consultation with communities;
- are accompanied by strong monitoring mechanisms and supervision;
- ensure there is the capacity to implement safeguards, including of communities to understand regulations and seek access to justice;

Overruling safeguards in hydropower

Using climate imperatives as a justification, the World Bank is committed to increase dramatically its lending for large scale hydropower projects, despite its own acknowledgement that hydropower 'is and remains risky and sometimes controversial'.[20] The World Commission on Dams (WCD) voiced heavy criticism of the Bank's involvement in large scale dams, but the Bank refused to sign up to the guidelines it produced. Since 2003, lending to large projects supplying over 10 megawatts increased from US$23 million to over US$1 billion in 2008.[21] The Bank argues that its new approach internalises social and environmental concerns through a range of procedures, but civil society commentators are wary that local communities have not been involved in decision-making, impacts on ecosystems have been downplayed, and many of the Bank's own social and environmental safeguards have been broken, but not acknowledged or repaired, on many previous occasions. For example, the Bank has supported the controversial Nam Theun 2 hydropower project in Lao PDR since 2005, but the project has been heavily criticised for the violation of legal agreements and for breaking social and environmental agreements. An International Rivers paper reported in 2008 that rice paddy fields and other land from close to 2,000 villagers were taken by the project almost two years before, but still hadn't been replaced. In total, the dam has displaced more than 6000 people without ensuring that their needs and those of communities downstream were fully addressed.[22]

- guarantee transparency and access to information;
- require as a basic condition an effective and independent accountability mechanism and grievance system.

- **The UN Conference of the Parties** should explore different possibilities for the allocation of climate funding, agreeing as a minimum on the floors and ceilings for country allocations.

- To be effective climate finance modalities must serve to strengthen **coordination across sectors** in a country.

- Clear **international guidelines** on stakeholder participation, with special attention to ensure the participation of women and other groups particularly vulnerable to climate change impacts, are essential.

- **Lessons learned from existing safeguards** should be used to inform a new, internationally agreed safeguards framework for climate finance.

Direct access to fight coastal erosion

In November 2010, Senegal's Centre de Suivi Écologique (CSE) became the first organisation with 'direct access' to adaptation funding when its proposal for US$8 million of funding to combat coastal erosion, exacerbated by climate change and rising sea levels, was approved by the UN Adaptation Fund.[23]

The CSE-led project aims at protecting houses and economic infrastructures threatened by erosion, including fish processing areas, fishing docks, tourism or cultural infrastructures, and restore lost or threatened activities. It will also fight the salinisation of agricultural lands used to grow rice, through construction of anti-salt dikes. The project will assist local communities of the coastal area, especially women, in handling solid wastes and fish processing. It will also sensitise and train local people on climate change adaptation techniques in coastal areas.

The Senegalese project stands out in terms of transparency and participation of local, vulnerable people in the decision-making. For instance, in contrast with other projects, the CSE proposal not only mentions the numbers of consultations, but also explicitly indicates which inputs arose from which communities and associations. Furthermore, the list of all relevant decisions taken and people involved are publicly available.

There is broad ownership of the initiative, as the CSE will implement the project in collaboration with a number of organisations with diverse backgrounds, which will closely work with the local communities, undertaking several tasks in the execution of the project depending on their capacities.

Conclusions and recommendations

The Financial Transaction Tax offers a timely opportunity to increase the amount of funding to tackle climate change and fill the Green Climate Fund. The Copenhagen pledge to deliver US$100 billion a year in climate finance by 2020, the majority of which should flow through this fund, is likely to substantially alter the investment landscape in developing countries.

Climate investments will need to be ambitious, innovative and transform societies and economies to stabilise rapidly increasing emissions and strengthen resilience to climate change effectively.

The UN Green Climate Fund is accepted as legitimate and is best placed to govern climate funds. Its governance will have to be effective and equitable for climate investments to fulfil these needs. Another primary condition for climate investment to have the transformational effect desired is when it supports country systems. Civil society has gone further, calling developing countries for direct access to be the modality for climate finance transfers.

It is also crucial to recognise that there is a flip-side to ambitious and transformational climate investment. It has already been well documented that climate finance has the potential to increase the burden on vulnerable communities. Impacts such as forced relocation, land insecurity and loss of livelihoods have been associated with mitigation finance for hydropower and biofuel plantations, but similar risks exist with adaptation finance too.

The proliferation of climate funds, as well as the increasing demands for direct access, also poses challenges to the protection of social and environmental rights. None of the funds have established a safeguards framework that comprehensively reflects all countries' international legal commitments, such as those on human rights, biodiversity, Indigenous People and women's rights. A single well-financed fund governed by the UN Green Climate Fund with strong environmental and social safeguards built in would reduce some risk of entities 'shopping around' for the least due-diligence requirements and the resultant race to the bottom. Additionally, it will also be essential to have a coordinated approach with other funds such as those governed by the IFIs, etc.

Overall, the aim of social and environmental safeguard policies should be that national systems and regulations guarantee universally agreed protections for communities and their environment, and ensure that sustainable benefits result from financial investments.

- FTT revenues meant for climate change spending should be made available via the proposed UN Green Climate Fund.

- Strengthening coordination across sectors should be an important principle of the mechanism which will allocate climate funding.

- All climate investment funding must respect social and environmental safeguards.

References

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15 Ibid.

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18 See: Protect, Respect and Remedy – Keys for implementation and follow-up of the mandate, submission to the UN Special Representative on Business and Human Rights, CIDSE, October 2010 (www.cidse.org/resources).

19 http://www.careclimatechange.org/files/presentations/REDD+SES.pdf.

20 Bretton Woods Project, July 2009.

21 Ibid. Though initially the CTF was also thought to have a big focus on large hydropower, no such investments have currently been made.

22 International Rivers, 2008.

23 http://www.germanwatch.org/klima/afnl-no1.pdf or http://adaptation-fund.org/node/1005.

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