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## Ensuring that Sustainable Development Financing Mechanisms serve the benefit of all life on Earth

The need for significant mobilization of resources from a variety of sources and the effective use of financing has been recognized worldwide. However, **developing financial mechanism to deliver sustainable development is a big challenge ahead and requires policy coherence and greater synergies of policies.** CEEweb for Biodiversity prepared its position for the upcoming Third session of the Intergovernmental Committee of Experts on Sustainable Development Financing. We would like to ask participants of the session to consider our points while discussing *Institutional arrangements, policy coherence, synergies and governance issues.*

Regardless the nature or the type of the financial mechanism, it must be consistent with the holistic approach of the **Sustainable Development Goals (SDGs) and the delivery of each of them.** Furthermore, it must avoid any direct or indirect negative effect either on nature or societies. In the light of these principles as well as of the framing questions for the Committee and outside institutions for cluster 3, CEEweb would like to provide the following recommendations as well as **present innovative tools for development finance:**

1. **“Sustainability check”** should be carried out for each financial mechanism targeting sustainable development. Such assessment will include consideration of:
  - a. How the finances are generated (having negative impact elsewhere)?
  - b. Does the use of the finances contribute directly or indirectly to nature distraction? (Increased exploitation, movement of goods and people, etc.)
  - c. How long is the mobilized resource available - what does the availability in time depends on – and how does it relate to the biological cycles it is supposed to have a positive impact on? How sustainable and self-generating is the mechanism?
  - d. How vulnerable is the mechanism in question to market forces?
2. The needs for new and additional resources must be scrutinized – primarily assessing the **national sustainable development strategies and action plans.** It should be avoided that while a country / region is directly or indirectly increasing the pressure on nature or on society on the one hand, it would indicate and spend ever increasing resources for the protection of nature and the promotion of well-being of society on the other hand. This spiral needs to be broken down.
3. Safeguards need to be in place prior to the implementation of any sustainable development financing mechanism – and this should include **social, economic but governance measures** as well.
4. The trend of increasing environmental as well as social pressures is on the rise. Thus, it is predictable that in order to compensate them, increasing resources will be needed. In order to move ahead with the effective and predictable implementation of the SDGs, an **early phasing-out strategy of resources** (instead of ever increasing demand) would need to be in place as a guarantee for sustainability.
5. Donor countries and communities must have the security from the recipient constituency when considering the implementation of various financial schemes, that the **sustainability assessment** has been carried out and appropriate governance structure, and last but not least the absorption capacity are in place.
6. The mechanism are being developed need to be scrutinized both by the national and international community in order to understand its functioning in different environments and to **develop appropriate safeguards prior its eventual implementation.** For this, implementation guidelines would give a helping hand.
7. The various financial mechanisms should be **treated systemically** – they should not only address specific problems but also overarching issues which lead to biodiversity decline and thus decline in human well-being. Thus they should eventually regulate the

resource use and in effect decrease the pressure on ecosystem services. The mechanisms should also pre-empt eventual and arising problems.

8. Financial resources always – directly or indirectly – lead to utilisation of resources and energy, which are contributing to environmental pressures. Thus, when designing the financial mechanisms for SDGs they should be only active until the objectives are reached and negative **environmental and social pressures is not shifting towards more pressures and less environmental and social benefits.**

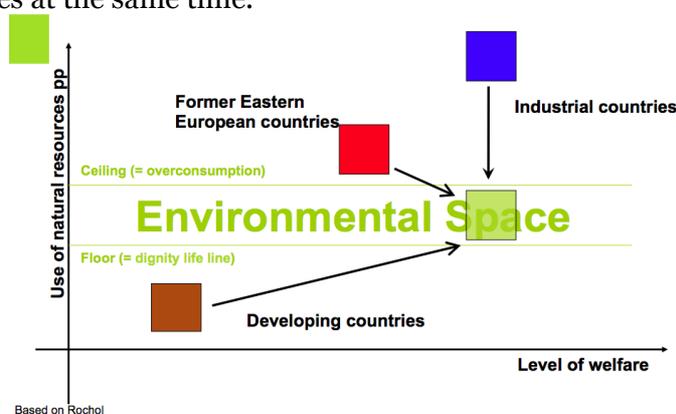
## INNOVATIVE SOURCES FOR DEVELOPMENT FINANCE

**Holistic resource and land use policies** have the potential to

- overcome main shortcomings and fill gaps in financing for sustainable development,
- achieve greater coherence and synergies in policies targeting development and the protection of global commons,
- **significantly increase sustainable development financing.**

The mobilisation of these resources would provide additional funding for environmental protection as well as for the enhancement of human well-being through addressing the drivers behind social and environmental challenges at the same time.

In order to develop and implement proper resource use policies, we need to effectively bring down their consumption around the globe and refit our economy inside its environmental space. First we need to set a cap on the use of fossil energy resources with a view to ensure social justice and sufficient energy for all. A tool to achieve this goal has been already developed.



**The Energy entitlement scheme** aims to reduce non-renewable energy consumption, facilitate the shifting to renewable energy sources and higher efficiency, as well as **provide incentives and financial support for this necessary shift** at the same time. The proposed regulatory system is based on 3 + 1 pillars and has plenty economic, social and environmental benefits (see more in Annex I.).

The **land use scheme** addresses our other resource in extreme danger – land. The system would ensure the functioning of ecosystem services, implement sustainable land use at national and global level, contribute to social justice by sharing benefits and burdens, and internalize negative external costs also at international level. The system sets certain requirements (e.g. no fertilizers, certain percentage of area for conservation, green corridors, etc.) for all land use types (urbanization, industry, infrastructure, agriculture, forestry, recreation), which are to be fulfilled within a set of time.

**Both schemes favour consumers** (nations, households, industries), **which consume less than their fair share and thus promote social as well as environmental justice.** Integrating the land use right trading system with the energy entitlement scheme, and thus establishing a secondary market of environmentally and socially certified products and services, as well as a **revolving fund** to provide a financing mechanism for investments needed for more sustainable land and energy resource use, could provide the **basis for a transition to sustainability.**

We sincerely hope that our thoughts and ideas contribute to the extremely important negotiation on developing financial mechanisms for achieving SDGs. Therefore, CEEweb is asking the participants of the Third session of the Intergovernmental Committee of Experts on Sustainable Development Financing to integrate our views, while discussing *Institutional arrangements, policy coherence, synergies and governance issues, and thus maximize the protection of nature and people's livelihoods.*

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## Annex I. - Energy entitlement scheme

### **Pillar 1: The Energy entitlement**

Energy consumption entitlements of annually decreasing quantities would be allocated among the individual consumers (on an equal per capita basis) and public and private consumer groups. Those, who save a part of their allocated entitlements, can sell their remaining entitlements through a quota manager organization to those, who consume more than their allocated consumption entitlement. The quota manager organization sells the quota in the national currency, and buys the remaining quota in “quota money”. International trade among countries is realised based on the same principles.

### **Pillar 2: Market for Environmental Goods and Services**

The market for environmental goods and services is an open market operating according to pre-defined environmental and ethical rules including aspects of sustainability and market considerations. The “quota money” received from selling energy consumption entitlements could be exchanged to certified products and services (e.g. organic food, insulation of buildings for energy saving, renewable energy investments) in this ‘eco-labeled’ secondary market.

### **Pillar 3: The Revolving Fund**

The Revolving Fund provides the opportunity for everyone, both energy producers and consumers, to achieve savings through energy efficiency and renewable energy investments. The Revolving Fund provides interest free loan in “quota money” with a payback period adjusted to the energy savings or income generation realized through the investment.

### **Pillar +1: Support Service**

The Support Service aims to provide advice on lifestyle, planning, social and environmental issues, as well.

### **Economic benefits of the energy quota scheme:**

- Reducing the dependency on non-renewable energy through the reduction of their use,
- Increasing the competitiveness of businesses, as on one hand they become more efficient in the operation, and on the other hand they can develop more resource and energy efficient products for the global market,
- Providing the necessary investment capital also for SMEs to invest in energy efficient operation, as well as to develop goods and services with high energy efficiency,
- Providing the necessary investment capital for households to realize energy efficiency investments,
- Boosting the demand for energy efficient goods and services as a result of the quotas,
- Boosting the demand of environmentally friendly goods (e.g. organic products) and services through the use of quota money on the secondary market,
- Freeing up funds from the state and the international budgets for other social purposes, as after the kick-off stage the revolving fund and the scheme itself is fully maintained by the public and private consumers directly (no need for continuous expensive investments for energy efficiency from state budgets).

### **Social benefits of the energy quota scheme:**

- Creating green jobs directly (in renewable energy and housing sectors, R&D, etc.)
- Creating jobs indirectly in the more labour intensive sectors through the need to reduce non-renewable energy use (as a substitution of human labour in production)
- Reducing the expenses of households, especially of the poor (those consuming less energy),
- Transforming values and consumer behavior through creating personal interests with the quotas
- Greater access of consumers to environmentally friendly goods and services with the use of quota money, which contributes to wellbeing (in)directly.

### **Environmental benefits of the energy quota scheme:**

- Radically reducing non-renewable (also fossil) energy use at a scale necessary to limit global warming to 2°,
- Effectively mitigating climate change with the use of an input side regulatory tool (covering all sectors in the economy preventing carbon leakage),
- Indirectly reducing resource use through the reduction non-renewable energy use, a main environmental pressure leading ecosystem degradation and biodiversity loss.

The detailed version of the scheme can be found at [www.ceeweb.org/rcc](http://www.ceeweb.org/rcc)

## Annex II. - Land use right trading system for restoring ecosystem services

The system aims to ensure that different land uses support an **optimal mix of ecosystem services at national and international levels**. The regulatory system integrates all land use types related to urbanization, industry, infrastructure, agriculture, forestry, recreation and nature conservation. The regulatory system sets requirements to all land use types and groups them under A, B, C categories. The „A” category is the highest achievable category under which optimal ecosystem services are maintained in the different land use types, „B” is an intermediate status, while „C” category includes intensive land use practices, where ecosystem services are being heavily degraded. All existing commitments from multilateral international agreements and EU legislation can be incorporated into the criteria of the different land use categories. A controlling institution is responsible to develop a regulatory framework for sustainable use in each land use type.

**Land users receive land use entitlements** (land use rights) according to the land use category (A, B or C) they fall into, for instance 2 or 1 or 0 per hectares or square meters. One land user could fall under more categories at the same time for the different parts of their land and thus receive a mix of entitlements. Every year the controlling institution (e.g. the state) sets a national target (measured in terms of average entitlements for the whole national territory) that has to be achieved as a minimum by all land users in that year (e.g. 1.2 per hectare or square meter). This target is increased annually by the controlling institution in order to **gradually shift the land use towards sustainable use** in the whole area, i.e. when each land user achieves the maximum 2 per hectare or square meter and fall into category A.

The land users could carry on their activities legally as long as they do meet the national target with their received entitlements. In case they do not possess enough entitlements to carry out their activities (i.e. their land use intensity is higher than the national target), they either change their land use practice partially or entirely; or they buy additional entitlements. Those land users, who perform better than the national target could sell their remaining entitlements for those who could not fulfil the national target. If there are not enough entitlements on the market, additional ones can be bought from the controlling institution. **Land users, who have performed over the national target, can sell their entitlements** to the controlling institution, which can be considered as an incentive (and a form of payment for ecosystem services) acknowledging that they produce positive externalities for the society above what is legally required. At the same time, **those who could not meet the national target have to pay for the negative externalities** produced by them by buying the necessary additional entitlements, if available. In case land users underperform on national level on average relative to the national target, an extra amount from the trade of land use entitlements is accumulated at the controlling institution. This amount can be used for capacity-building of land users to improve land use practices. The system transaction cost is covered by the 0.5 % fee from entitlement selling and purchasing.

As the national target would increase gradually, **after a certain period every land user meets the requirements of sustainability in the system**. Namely if they would not change their land use practices, they would face an ever increasing financial burden due to the increasing national target and the need to buy the missing entitlements. When all land users realise sustainable land use, the regulation system reaches its goal, and **no further fiscal transfer is necessary**. However, if the category A requirements would prove insufficient for achieving sustainable land use after all (or if due to the advancement of knowledge or technology further improvements are necessary in land use practices), the system could be reloaded, meaning that all land users (now in category A) would get into category C again, facing a new set of criteria to meet the renewed national targets.

This regulatory system can be also applied at **international level** among states. Countries applying the system at national level possess already an actual ecosystem services level. Assigning an international target the trade of entitlements can be introduced among the participating states.

**CEEweb for Biodiversity is a network of non-governmental organizations in the Central and Eastern European region. Our mission is the conservation of biodiversity through the promotion of sustainable development.**